# FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1999-09-10** | Period of Report: **1999-06-30**
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## FILER

**HUDSON UNITED BANCORP**

CIK:**703559**| IRS No.: **222405746** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **001-08660** | Film No.: **99709869**
SIC: **6022** State commercial banks

Mailing Address
*1000 MACARTHUR BLVD*
*MAHWAH NJ 07430*

Business Address
*1000 MACARTHUR BLVD*
*MAHWAH NJ 07430*
*2012362600*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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FORM 10-Q-A

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

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 0-010699

HUDSON UNITED BANCORP
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| NEW JERSEY | 22-2405746 |
| (State of other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 1000 MACARTHUR BLVD, MAHWAH, NJ | 07430 |
| (Address of principal executive office) | (Zip Code) |

(201)-236-2600
(Registrant's telephone number, including area code)

Not Applicable
Former name, former address, and former fiscal year, if changed since last report.

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 [X] No [_].

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each, of the issuer's classes of common stock, as of the last practicable date: 38,924,413 shares, no par value, outstanding as of August 13, 1999.

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HUDSON UNITED BANCORP

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PART I. FINANCIAL INFORMATION



<TABLE>

<CAPTION>

HUDSON UNITED BANCORP

CONSOLIDATED BALANCE SHEETS (Unaudited)

| (in thousands, except share data) | JUNE 30, 1999 | December 31, 1998 |
|---|---|---|
| <S> | <C> | <C> |
| ASSETS | | |
| Cash and due from banks ............................................................. | $ 192,918 | $ 217,954 |
| Federal funds sold .................................................................. | 8,201 | 17,697 |
| TOTAL CASH AND CASH EQUIVALENTS ................................ | 201,119 | 235,651 |
| Investment securities available for sale, at market value ..................... | 2,580,667 | 2,260,625 |

| | | |
|---|---|---|
| Investment securities held to maturity, at cost (market value of $613,543 and $638,564 for 1999 and 1998, respectively) | 629,133 | 634,971 |
| Assets held for sale | -- | 14,147 |
| Loans: | | |
| Residential mortgages | 1,594,005 | 1,601,957 |
| Commercial real estate mortgages | 664,591 | 675,366 |
| Commercial and financial | 713,284 | 656,553 |
| Consumer credit | 395,616 | 370,353 |
| Credit card | 170,296 | 82,581 |
| TOTAL LOANS | 3,537,792 | 3,386,810 |
| Less: Allowance for possible loan losses | (55,680) | (53,499) |
| NET LOANS | 3,482,112 | 3,333,311 |
| Premises and equipment, net | 82,994 | 83,525 |
| Other real estate owned | 1,629 | 103 |
| Intangibles, net of amortization | 105,904 | 78,990 |
| Other assets | 142,530 | 137,338 |
| TOTAL ASSETS | $7,226,088 | $6,778,661 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest bearing | $ 918,210 | $ 941,253 |
| Interest bearing | 4,079,626 | 4,110,137 |
| TOTAL DEPOSITS | 4,997,836 | 5,051,390 |
| Borrowings | 1,504,399 | 821,593 |
| Other liabilities | 100,864 | 248,863 |
| | 6,603,099 | 6,121,846 |
| Subordinated debt | 100,000 | 100,000 |
| Company-obligated mandatorily redeemable preferred series B capital securities of two subsidiary trusts holding solely junior subordinated debentures of the Company | 100,000 | 100,000 |
| TOTAL LIABILITIES | 6,803,099 | 6,321,846 |
| Stockholders' Equity: | | |
| Convertible preferred stock - Series B, no par value; authorized 25,000,000 shares; 500 shares issued and outstanding in 1998 | -- | 50 |
| Common stock, no par value; authorized 100,000,000 shares; 40,633,204 shares issued and 39,531,898 shares outstanding in 1999 and 40,633,204 shares issued and 40,411,521 shares Outstanding in 1998 | 72,246 | 72,246 |
| Additional paid-in capital | 264,468 | 269,264 |
| Retained earnings | 144,176 | 113,787 |
| Treasury stock, at cost, 1,101,306 shares in 1999 and 221,683 shares in 1998 | (36,504) | (5,980) |
| Employee stock awards and unallocated shares held in ESOP, at cost | (3,387) | (2,368) |
| Accumulated other comprehensive income/(loss) | (18,010) | 9,816 |
| TOTAL STOCKHOLDERS' EQUITY | 422,989 | 456,815 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $7,226,088 | $6,778,661 |

</TABLE>

See notes to consolidated financial statements.



HUDSON UNITED BANCORP

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

For the Three-Months Ended June 30,

| (in thousands, except share data) | 1999 | 1998 |
|---|---|---|
| INTEREST AND FEE INCOME: | | |
| Loans | $ 73,946 | $ 75,257 |
| Investment securities | 47,079 | 41,289 |
| Other | 202 | 1,849 |
| TOTAL INTEREST AND FEE INCOME | 121,227 | 118,395 |
| INTEREST EXPENSE: | | |
| Deposits | 32,202 | 41,227 |
| Borrowings | 17,104 | 9,978 |
| Subordinated and other debt | 4,168 | 3,327 |
| TOTAL INTEREST EXPENSE | 53,474 | 54,532 |
| NET INTEREST INCOME | 67,753 | 63,863 |
| PROVISION FOR POSSIBLE LOAN LOSSES | 2,500 | 2,821 |
| NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN LOSSES | 65,253 | 61,042 |
| NONINTEREST INCOME: | | |
| Trust department income | 894 | 865 |
| Service charges on deposit accounts | 4,980 | 5,298 |
| Securities gains | 1,070 | 784 |
| Shoppers Charge fees | 4,931 | 3,291 |
| Other income | 5,166 | 4,843 |
| TOTAL NONINTEREST INCOME | 17,041 | 15,081 |
| NONINTEREST EXPENSE: | | |
| Salaries | 14,504 | 14,409 |
| Pension and other employee benefits | 3,569 | 5,343 |
| Occupancy expense | 4,481 | 4,250 |
| Equipment expense | 2,775 | 2,637 |
| Deposit and other insurance | 431 | 437 |
| Outside services | 10,084 | 6,520 |
| Amortization of intangibles | 3,470 | 2,413 |
| Other expense | 3,814 | 5,926 |
| Merger related and restructuring costs | -- | 25,217 |
| TOTAL NONINTEREST EXPENSE | 43,128 | 67,152 |
| INCOME BEFORE INCOME TAXES | 39,166 | 8,971 |
| PROVISION FOR INCOME TAXES | 13,704 | 4,421 |
| NET INCOME | $ 25,462 | $ 4,550 |
| EARNINGS PER SHARE: | | |
| Basic | $ 0.64 | $ 0.11 |
| Diluted | $ 0.63 | $ 0.11 |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | |
| Basic | 39,677 | 40,808 |
| Diluted | 40,192 | 42,112 |

See notes to consolidated financial statements.



HUDSON UNITED BANCORP

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| For the Six-Months Ended June 30, (in thousands, except share data) | 1999 | 1998 |
|---|---|---|
| INTEREST AND FEE INCOME: | | |
| Loans | $142,808 | $151,565 |
| Investment securities | 89,035 | 77,795 |
| Other | 526 | 4,017 |
| TOTAL INTEREST AND FEE INCOME | 232,369 | 233,377 |
| INTEREST EXPENSE: | | |
| Deposits | 64,185 | 84,470 |
| Borrowings | 29,547 | 15,977 |
| Subordinated and other debt | 8,337 | 6,527 |
| TOTAL INTEREST EXPENSE | 102,069 | 106,974 |
| NET INTEREST INCOME | 130,300 | 126,403 |
| PROVISION FOR POSSIBLE LOAN LOSSES | 5,000 | 9,099 |
| NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN LOSSES | 125,300 | 117,304 |
| NONINTEREST INCOME: | | |
| Trust department income | 1,839 | 1,729 |
| Service charges on deposit accounts | 10,403 | 10,536 |
| Securities gains | 1,984 | 3,171 |
| Shoppers Charge fees | 8,894 | 5,562 |
| Other income | 11,400 | 7,963 |
| TOTAL NONINTEREST INCOME | 34,520 | 28,961 |
| NONINTEREST EXPENSE: | | |
| Salaries | 27,859 | 29,870 |
| Pension and other employee benefits | 6,338 | 11,418 |
| Occupancy expense | 9,170 | 8,346 |
| Equipment expense | 5,212 | 5,454 |
| Deposit and other insurance | 958 | 1,214 |
| Outside services | 17,841 | 13,302 |
| Amortization of intangibles | 6,615 | 4,834 |
| Other expense | 8,814 | 11,719 |
| Merger related and restructuring costs | -- | 27,847 |
| TOTAL NONINTEREST EXPENSE | 82,807 | 114,004 |
| INCOME BEFORE INCOME TAXES | 77,013 | 32,261 |
| PROVISION FOR INCOME TAXES | 26,950 | 12,777 |
| NET INCOME | $ 50,063 | $ 19,484 |
| EARNINGS PER SHARE: | | |
| Basic | $ 1.26 | $ 0.48 |
| Diluted | $ 1.24 | $ 0.46 |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | |
| Basic | 39,829 | 40,912 |
| Diluted | 40,380 | 42,234 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (In thousands) | THREE MONTHS ENDED JUNE 30, 1999 | THREE MONTHS ENDED JUNE 30, 1998 |
|---|---|---|
| NET INCOME | $ 25,462 | $ 4,550 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | |
| Unrealized holding gains/(losses) arising during period | $(18,080) | $ 1,166 |
| Less: reclassification adjustment for gains included in net income | (695) | (482) |
| Other comprehensive income (loss) | (18,775) | 684 |
| COMPREHENSIVE INCOME | $ 6,687 | $ 5,234 |

| (In thousands) | SIX MONTHS ENDED JUNE 30, 1999 | SIX MONTHS ENDED JUNE 30, 1998 |
|---|---|---|
| NET INCOME | $ 50,063 | $ 19,484 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | |
| Unrealized holding gains/(losses) arising during period | $(26,537) | $ 975 |
| Less: reclassification adjustment for gains included in net income | (1,289) | (1,915) |
| Other comprehensive income (loss) | (27,826) | (940) |
| COMPREHENSIVE INCOME | $ 22,237 | $ 18,544 |

See notes to consolidated financial statements.



<TABLE>
<CAPTION>

HUDSON UNITED BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
(in thousands)

| | Convertible Preferred Stock Shares | Convertible Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Additional Paid-in-Capital | Retained Earnings |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1997.... | 1,250 | $ 125 | 41,208,974 | $73,269 | $292,198 | $164,612 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income | -- | -- | -- | -- | -- | 23,151 |
| Cash dividends -- common | -- | -- | -- | -- | -- | (34,718) |
| 3% Stock dividend | -- | -- | 40,213 | 72 | (709) | (40,797) |
| Shares issued for: | | | | | | |
| Stock options exercised | -- | -- | 330,684 | 588 | (8,410) | -- |
| Warrants exercised | -- | -- | 7,158 | 13 | (97) | -- |
| Preferred stock conversion | (750) | (75) | 16,608 | 30 | (130) | -- |
| Cash in lieu of fractional shares | -- | -- | -- | -- | (212) | -- |
| Other transactions | -- | -- | 3,750 | 7 | (7) | -- |
| IBS fiscal year adjustment | -- | -- | -- | -- | -- | 1,539 |
| Purchase of treasury stock | -- | -- | -- | -- | -- | -- |
| Issuance and retirement of treasury stock | -- | -- | (989,058) | (1,759) | (18,930) | -- |
| Effect of compensation plans | -- | -- | 14,875 | 26 | 5,561 | -- |
| Other comprehensive income | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 1998 | 500 | 50 | 40,633,204 | 72,246 | 269,264 | 113,787 |
| Net income | -- | -- | -- | -- | -- | 50,063 |
| Cash dividends -- common | -- | -- | -- | -- | -- | (19,674) |
| Shares issued for: | | | | | | |
| Stock options exercised | -- | -- | -- | -- | (8,443) | -- |
| Warrants exercised | -- | -- | -- | -- | (182) | -- |
| Preferred stock conversion | (500) | (50) | -- | -- | (478) | -- |
| Acquisition of Little Falls Bancorp | -- | -- | -- | -- | -- | -- |
| Cash in lieu of fractional shares | -- | -- | -- | -- | (12) | -- |
| Purchase of treasury stock | -- | -- | -- | -- | -- | -- |
| Effect of compensation plans | -- | -- | -- | -- | 4,319 | -- |
| Other comprehensive income (loss) | -- | -- | -- | -- | -- | -- |
| Balance at June 30, 1999 | -- | $ -- | 40,633,204 | $72,246 | $264,468 | $144,176 |

<CAPTION>

| | Treasury Stock | Employee Stock Awards and Unallocated Shares Held in ESOP, at Cost | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1997 | $(19,133) | $(9,609) | $ 5,639 | $507,101 |
| Net income | -- | -- | -- | 23,151 |
| Cash dividends -- common | -- | -- | -- | (34,718) |
| 3% Stock dividend | 41,434 | -- | -- | -- |
| Shares issued for: | | | | |
| Stock options exercised | 18,373 | -- | -- | 10,551 |
| Warrants exercised | 173 | -- | -- | 89 |
| Preferred stock conversion | 175 | -- | -- | -- |
| Cash in lieu of fractional shares | -- | -- | -- | (212) |
| Other transactions | -- | -- | -- | -- |
| IBS fiscal year adjustment | -- | -- | -- | 1,539 |
| Purchase of treasury stock | (69,880) | -- | -- | (69,880) |
| Issuance and retirement of treasury stock | 20,689 | -- | -- | -- |
| Effect of compensation plans | 2,189 | 7,241 | -- | 15,017 |
| Other comprehensive income (loss) | -- | -- | 4,177 | 4,177 |
| Balance at December 31, 1998 | (5,980) | (2,368) | 9,816 | 456,815 |
| Net income | -- | -- | -- | 50,063 |

| | | | | |
|---|---|---|---|---|
| Cash dividends -- common ....... | -- | -- | -- | (19,674) |
| Shares issued for: | | | | |
| Stock options exercised ...... | 15,837 | -- | -- | 7,394 |
| Warrants exercised ........... | 236 | -- | -- | 54 |
| Preferred stock conversion | 528 | -- | -- | -- |
| Acquisition of Little Falls Bancorp ............. | 26,563 | -- | -- | 26,563 |
| Cash in lieu of fractional shares ...................... | -- | -- | -- | (12) |
| Purchase of treasury stock ..... | (74,949) | -- | -- | (74,949) |
| Effect of compensation plans.... | 1,261 | (1,019) | -- | 4,561 |
| Other comprehensive loss ....... | -- | -- | (27,826) | (27,826) |
| Balance at June 30, 1999 ....... | $(36,504) | $(3,387) | $(18,010) | $422,989 |

</TABLE>

See notes to consolidated financial statements.



<TABLE>
<CAPTION>

HUDSON UNITED BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

| <S> | SIX MONTHS ENDED JUNE 30, 1999 <C> | 1998 <C> |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income ........................................................ | 50,063 | 19,484 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for possible loan losses .......................... | 5,000 | 9,099 |
| Provision for depreciation and amortization ................. | 10,980 | 9,227 |
| Amortization of security premiums, net ...................... | 687 | 413 |
| Securities gains ............................................ | (1,984) | (3,171) |
| (Gain) loss on sale of premises and equipment ............... | (114) | 510 |
| Gain on sale of loans ....................................... | (3,164) | (974) |
| Market adjustment on ESOP ................................... | -- | 728 |
| MRP earned .................................................. | -- | 909 |
| IBS fiscal year adjustment .................................. | -- | 1,539 |
| Net change in assets held for sale .......................... | 14,147 | -- |
| Decrease (increase) in other assets ......................... | 7,599 | (24,474) |
| Increase in other liabilities ............................... | 2,103 | 14,157 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES ............................... | 85,317 | 27,447 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of investment securities: | | |
| Available for sale .............................................. | 220,096 | 180,589 |
| Proceeds from repayments and maturities of investment securities: | | |
| Available for sale .............................................. | 592,482 | 395,914 |
| Held to maturity ................................................ | 65,228 | 217,951 |
| Purchase of investment securities: | | |
| Available for sale .............................................. | (1,163,673) | (1,086,331) |
| Held to maturity ................................................ | (59,704) | (281,759) |
| Net cash acquired through acquisitions .............................. | 132,446 | 209,498 |
| Net decrease in loans other than purchases and sales ................ | 47,594 | 42,755 |
| Proceeds from sales of loans ........................................ | 71,576 | 73,838 |
| Purchase of loans ................................................... | (114,273) | -- |
| Proceeds from sales of premises and equipment ....................... | 5,351 | 25 |
| Purchases of premises and equipment ................................. | (6,177) | (3,586) |

| | | |
|---|---|---|
| (Increase) decrease in other real estate | (1,229) | 1,685 |
| NET CASH USED IN INVESTING ACTIVITIES | (210,283) | (249,421) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net decrease in demand deposits, NOW accounts, and savings accounts | (190,703) | (45,153) |
| Net decrease in certificates of deposit | (257,664) | (85,419) |
| Net increase in borrowed funds | 623,992 | 185,394 |
| Reduction of ESOP loan | 1,983 | 709 |
| Net proceeds from issuance of debt securities | -- | 48,737 |
| Proceeds from issuance of common stock | 7,448 | 3,472 |
| Cash dividends | (19,673) | (15,418) |
| Acquisition of treasury stock | (74,949) | (38,530) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 90,434 | 53,792 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (34,532) | (168,182) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 235,651 | 518,159 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 201,119 | 349,977 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for- | | |
| Interest | 93,663 | 111,618 |
| Income Taxes | 21,108 | 16,828 |

</TABLE>

See notes to consolidated financial statements.





HUDSON UNITED BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A -- BASIS OF PRESENTATION

The accompanying financial statements of Hudson United Bancorp and Subsidiaries ("the Company") include the accounts of the parent company, Hudson United Bancorp, and its wholly-owned subsidiaries: Hudson United Bank ("Hudson United"), HUBCO Capital Trust I and HUBCO Capital Trust II. All material intercompany balances and transactions have been eliminated in consolidation. In March 1999, the former Lafayette American Bank and Bank of the Hudson, were merged into Hudson United. In addition, the shareholders of the Company on April 21, 1999 approved an amendment to the certificate of incorporation to change the name of the company from HUBCO, Inc. to Hudson United Bancorp. These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information presented includes all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, in all material respects, of the interim period results. The results of operations for periods of less than one year are not necessarily indicative of results for the full year. The consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K filed with the Commission on March 15, 1999, for the year ended December 31, 1998.

NOTE B -- EARNINGS PER SHARE

In the fourth quarter of 1997, the Company adopted SFAS No. 128, "Earnings per Share." This statement establishes standards for computing and presenting earnings per share and requires dual presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income, less dividends on the convertible preferred stock, by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares plus the number of shares issuable upon conversion of the preferred stock (when outstanding) and the incremental number of shares issuable from the exercise of stock options, stock warrants, and includes the impact of the Management Recognition Plan ("MRP"), calculated using the treasury stock method. All per share amounts have been retroactively restated to reflect all stock splits and stock dividends.

A reconciliation of net income to net income available to common stockholders and of weighted average common shares outstanding to weighted average shares outstanding assuming dilution follows (in thousands, except per share data):

| | QUARTER ENDED JUNE 30, | |
|---|---|---|
| | 1999 | 1998 |
| BASIC EARNINGS PER SHARE | | |
| Net Income | $25,462 | $ 4,550 |
| Less Preferred Stock Dividends | -- | -- |
| Net Income Available To Common Stockholders | 25,462 | 4,550 |
| Weighted Average Common Shares Outstanding | 39,677 | 40,808 |
| Basic Earnings Per Share | $ 0.64 | $ 0.11 |
| DILUTED EARNINGS PER SHARE | | |
| Net Income | $25,462 | $ 4,550 |
| Weighted Average Common Shares Outstanding | 39,677 | 40,808 |
| Effect Of Dilutive Securities: | | |
| Convertible Preferred Stock | -- | 23 |
| Warrants | -- | 24 |
| Unearned MRP | -- | 108 |
| Stock Options | 515 | 1,149 |
| Weighted Average Common Shares Outstanding Assuming Dilution | 40,192 | 42,112 |
| Diluted Earnings Per Share | $ 0.63 | $ 0.11 |

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 1999 | 1998 |
| BASIC EARNINGS PER SHARE | | |
| Net Income | $50,063 | $19,484 |
| Less Preferred Stock Dividends | -- | -- |
| Net Income Available To Common Stockholders | 50,063 | 19,484 |
| Weighted Average Common Shares Outstanding | 39,829 | 40,912 |
| Basic Earnings Per Share | $ 1.26 | $ 0.48 |
| DILUTED EARNINGS PER SHARE | | |
| Net Income | $50,063 | $19,484 |
| Weighted Average Common Shares Outstanding | 39,829 | 40,912 |

| | | |
|---|---|---|
| Effect Of Dilutive Securities: | | |
| Convertible Preferred Stock | 1 | 28 |
| Warrants | 2 | 25 |
| Unearned MRP | -- | 117 |
| Stock Options | 548 | 1,152 |
| Weighted Average Common Shares Outstanding Assuming Dilution | 40,380 | 42,234 |
| Diluted Earnings Per Share | $ 1.24 | $ 0.46 |



NOTE C -- ACQUISITIONS

On March 20, 1999, the Company acquired Little Falls Bancorp, Inc. in a combination stock and cash transaction. Little Falls Bancorp, Inc. had assets of approximately $341 million and operated six offices in the New Jersey counties of Hunterdon and Passaic. The merger was accounted for under the purchase method of accounting.

On March 26, 1999, the Company completed its purchase of $151 million in deposits and a retail branch office in Hartford, Connecticut from First International Bank.

On May 11, 1999, the Company announced a purchase and sale agreement in which Hudson United Bank will acquire the loans (approximately $159 million) and other financial assets, as well as assume the deposit liabilities (approximately $154 million) of Advest Bank and Trust. In addition, the Company simultaneously announced it had entered into a strategic alliance agreement in which Hudson United Bank will become the exclusive provider of banking products and services to the clients of Advest, Inc. The purchase and sale transaction is subject to regulatory approval and is expected to close in the fourth quarter.

On June 29, 1999, the Company announced that it had signed a definitive agreement to merge with JeffBanks, Inc., a $1.7 billion bank holding company with 32 branches located throughout the greater Philadelphia area of Pennsylvania and South Jersey. Pending appropriate corporate, shareholder and regulatory approvals, the agreement is expected to be completed by the fourth quarter of 1999 and to be accounted for as a pooling of interests.

On June 29, 1999, the Company announced that it had signed a definitive agreement to merge with Southern Jersey Bancorp, a $470 million asset bank holding company with 17 branches in Southern New Jersey. Pending appropriate corporate, shareholder and regulatory approvals, the agreement is expected to be completed by the fourth quarter of 1999 and to be accounted as a pooling of interests.

NOTE D -- SECURITIES

The following table presents the amortized cost and estimated market value of investment securities available for sale and held to maturity at the dates indicated:

<TABLE>
<CAPTION>

| | June 30, 1999 | | | |
|---|---|---|---|---|
| | | Gross Unrealized | | |
| | Amortized Cost | Gains | (Losses) | Estimated Market Value |
| <S> | <C> | <C> | <C> | <C> |
| AVAILABLE FOR SALE | | | | |
| U.S. Government | $ 81,429 | $ 458 | $ (264) | $ 81,623 |

| | | | | |
|---|---|---|---|---|
| U.S. Government agencies ................. | 256,140 | 466 | (1,706) | 254,900 |
| Mortgage-backed securities ............... | 2,166,044 | 2,920 | (31,750) | 2,137,214 |
| States and political subdivisions ........ | 3,384 | 55 | -- | 3,439 |
| Other debt securities .................... | 15,537 | -- | (151) | 15,386 |
| Equity securities ........................ | 86,319 | 2,533 | (747) | 88,105 |
| | $2,608,853 | $ 6,432 | $(34,618) | $2,580,667 |

<CAPTION>

| | June 30, 1999 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Market Value |
| <S> | <C> | <C> | <C> | <C> |
| HELD TO MATURITY | | | | |
| U.S. Government .......................... | $ 39,163 | $ 84 | $ (247) | $ 39,000 |
| U.S. Government agencies ................. | 65,901 | 394 | (426) | 65,869 |
| Mortgage-backed securities ............... | 508,503 | 369 | (15,816) | 493,056 |
| States and political subdivisions ........ | 15,494 | 90 | (38) | 15,546 |
| Other debt securities .................... | 72 | -- | -- | 72 |
| | $ 629,133 | $ 937 | $(16,527) | $ 613,543 |

</TABLE>



<TABLE>
<CAPTION>

| | December 31, 1998 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Market Value |
| <S> | <C> | <C> | <C> | <C> |
| AVAILABLE FOR SALE | | | | |
| U.S. Government .......................... | $ 84,530 | $ 1,583 | $ -- | $ 86,113 |
| U.S. Government agencies ................. | 369,357 | 3,162 | -- | 372,519 |
| Mortgage-backed securities ............... | 1,688,464 | 13,645 | (4,306) | 1,697,803 |
| States and political subdivisions ........ | 11,219 | 100 | (1) | 11,318 |
| Other debt securities .................... | 4,083 | 5 | (40) | 4,048 |
| Equity securities ........................ | 87,027 | 2,471 | (674) | 88,824 |
| | $2,244,680 | $20,966 | $ (5,021) | $2,260,625 |

<CAPTION>

| | December 31, 1998 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Market Value |
| <S> | <C> | <C> | <C> | <C> |
| HELD TO MATURITY | | | | |
| U.S. Government .......................... | $ 42,373 | $ 393 | $ -- | $ 42,766 |
| U.S. Government agencies ................. | 37,360 | 1,462 | -- | 38,822 |
| States and political subdivisions ........ | 15,513 | 182 | (4) | 15,691 |
| Mortgage-backed securities ............... | 539,725 | 2,277 | (717) | 541,285 |

| | | | |
|---|---|---|---|
| $ 634,971 | $ 4,314 | $ (721) | $ 638,564 |

</TABLE>

NOTE E -- COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SERIES B CAPITAL SECURITIES OF TWO SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY

On January 31, 1997, the Company placed $50.0 million in aggregate liquidation amount of 8.98% Capital Securities due February 2027, using HUBCO Capital Trust I, a statutory business trust formed under the laws of the State of Delaware. The sole asset of the trust, which is the obligor on the Series B Capital Securities, is $51.5 million principal amount of 8.98% Junior Subordinated Debentures due 2027 of Hudson United Bancorp. The net proceeds of the offering are being used for general corporate purposes and to increase capital levels of the Company and its subsidiaries. The securities qualify as Tier I capital under the capital guidelines of the Federal Reserve.

On June 19, 1998, the Company placed $50.0 million in aggregate liquidation amount of 7.65% Capital Securities due June 2028, using HUBCO Capital Trust II, a statutory business trust formed under the laws of the State of Delaware. The sole asset of the trust, which is the obligor on the Series B Capital Securities, is $51.5 million principal amount of 7.65% Junior Subordinated Debentures due 2028 of Hudson United Bancorp. The net proceeds of the offering are being used for general corporate purposes and to increase capital levels of the Company and its subsidiaries. The securities qualify as Tier I capital under the capital guidelines of the Federal Reserve.



NOTE F -- RECENT ACCOUNTING STANDARDS

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for the reporting of comprehensive income and its components in a full set of general purpose financial statements. The Company has elected to display Consolidated Statements of Income and Consolidated Statements of Comprehensive Income separately for the disclosed periods. Comprehensive income is displayed on the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity as a separate item entitled accumulated other comprehensive income (loss). The following is a reconciliation of the tax effect allocated to each component of comprehensive income for the periods presented (in thousands):

| | For the three-months ended June 30, 1999 | | |
|---|---|---|---|
| | Before tax Amount | Tax Benefit (Expense) | Net of Tax Amount |
| Unrealized security gains (losses) arising during the period ............. | $(28,909) | $ 10,829 | $(18,080) |
| Less: reclassification adjustment for gains realized in net income ...... | 1,070 | (375) | 695 |
| Net change during period ................ | $(29,979) | $ 11,204 | $(18,775) |

| | For the three-months ended June 30, 1998 | | |
|---|---|---|---|
| | Before tax | Tax Benefit | Net of Tax |

| | Amount | (Expense) | Amount |
|---|---|---|---|
| Unrealized security gains (losses) arising during the period ............ | $ 1,852 | $ (686) | $ 1,166 |
| Less: reclassification adjustment for gains realized in net income ...... | 784 | (302) | 482 |
| Net change during period ............... | $ 1,068 | $ (384) | $ 684 |

| | For the six-months ended June 30, 1999 | | |
|---|---|---|---|
| | Before tax Amount | Tax Benefit (Expense) | Net of Tax Amount |
| Unrealized security gains (losses) arising during the period ............ | $(42,148) | $ 15,611 | $(26,537) |
| Less: reclassification adjustment for gains realized in net income ...... | 1,983 | (694) | 1,289 |
| Net change during period ............... | $(44,131) | $ 16,305 | $(27,826) |

| | For the six-months ended June 30, 1998 | | |
|---|---|---|---|
| | Before tax Amount | Tax Benefit (Expense) | Net of Tax Amount |
| Unrealized security gains (losses) arising during the period ............ | $ 1,532 | $ (557) | $ 975 |
| Less: reclassification adjustment for gains realized in net income ...... | 3,171 | (1,256) | 1,915 |
| Net change during period ............... | $ (1,639) | $ 699 | $ (940) |

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," establishing standards for the accounting and reporting of derivatives. The statement is effective for fiscal years beginning after June 15, 2000; earlier application is permitted. The Company has elected not to adopt this statement prior to its effective date. The Company does not expect that application of this statement will have a material effect on its financial position or results of operations.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This financial review presents management's discussion and analysis of financial condition and results of operations. It should be read in conjunction with the Company's Consolidated Financial Statements and the accompanying notes. All dollar amounts, other than per share information, are presented in thousands unless otherwise noted.

The financial statements for the comparative periods presented herein have been restated to reflect the acquisitions that have been accounted for on the pooling of interests accounting method during the periods presented herein. The Bank of Southington was acquired on January 8, 1998, Poughkeepsie Financial Corporation was acquired on April 24, 1998, MSB Bancorp was acquired on May 29, 1998, IBS

Financial Corporation was acquired on August 14, 1998, Community Financial Holding Corporation was acquired on August 14, 1998, and Dime Financial Corporation was acquired on August 21, 1998. These acquisitions were accounted for on the pooling of interests method, and accordingly, the consolidated financial statements have been restated to include these institutions for all periods presented. All share data has been retroactively restated to reflect the shares issued in the aforementioned transactions including restatement of all prior periods. In addition, the Company acquired Security National Bank on February 5, 1998, 21 branches of First Union National Bank on June 26, 1998, two branches of First Union National Bank on July 24, 1998, one branch from First International Bank on March 26, 1999, and Little Falls Bancorp, Inc. on May 20, 1999, all of which were accounted for under the purchase method and thus operations and earnings are reflected in the Company's results subsequent to the date of acquisition. The balance sheet and income statement comparisons are influenced by these purchase transactions.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as "believes," "expects" and similar words or variations. Such statements are not historical facts and involve certain risks and uncertainties. Actual results may differ materially from the results discussed in these forward-looking statements. Factors that might cause a difference include, but are not limited to, changes in interest rates, economic conditions, deposit and loan growth, loan loss provisions, customer retention, failure to realize expected cost savings or revenue enhancements from acquisitions, or failure of the Company's Year 2000 compliance program to effectively address year 2000 computer problems. The Company assumes no obligation for updating any such forward-looking statements at any time.

YEAR 2000 COMPLIANCE

Hudson United Bancorp has been involved since 1996 in preparing its computer systems and applications to meet the challenge of the new millennium. The Company has established a "Year 2000 Team" which is responsible for ensuring implementation of the required changes to avoid business disruption. The process involves analyzing and replacing existing computer hardware and software as needed. The Company is in compliance with Y2K readiness through phases I, II, and III. Additionally, the Company is assessing how problems with third party computer systems may impact its business operations. To date, the Company has not identified any material third party problems, but will continue to assess the situation through 1999.

The Company's review of computer and noninformation technology systems was completed by December 31, 1998. The Company is using 1999 for testing and implementation of system changes. Testing has been satisfactory and the Company has met all required dates for completion of system changes on its internal timetable.

The Company's joint venture partner has decided to terminate their interest in a computer processing joint venture. The termination is expected to occur in the fourth quarter of 1999. In addition, the Company has signed a contract with a third-party provider to outsource the Company's internal processing systems. This provider's Y2K implementation and testing continues to proceed satisfactorily and is on schedule.



The estimated total cost to become Year 2000 compliant is $5 million. Substantially all of the costs have been incurred. The total cost has been within budget.

A failure by Hudson United Bancorp or by third parties on whom the Company relies for support to correct Year 2000 issues may cause disruption in the Company's business operations that could result in reduced revenue, increased operating costs and other adverse effects. Additionally, to the extent borrowers' financial positions are weakened as a result of Year 2000 issues, credit quality could be impacted. It is not possible to forecast with a reasonable degree of certainty all the negative impacts that could result from a failure of the Company or third parties to become fully Year 2000-compliant or whether such effect could have a material impact on Hudson United Bancorp. The Company has developed contingency plans to mitigate the disruption to business operations that may occur if Year 2000 compliance is not fully achieved by all parties.

RESULTS OF OPERATIONS

OVERVIEW

Net income for the three-month period ended June 30, 1999 was $25.5 million compared to net income of $4.6 million for the same period in 1998. Fully diluted earnings per share amounted to $0.63 for the 1999 second quarter and $0.11 for the 1998 second quarter. The 1998 quarter included merger-related and restructuring charges that amounted to $16.5 million after-tax. Excluding the charges, net income for the 1998 period was $21.0 million and fully diluted earnings per share was $0.50. The increase in operating earnings was primarly due to higher net interest and noninterest income. Partially offsetting the net revenue increases was an unfavorable variance in noninterest expenses. Growth in commercial lending, consumer lending, and higher sales of investment products, were major factors underlying the 7% increase in net revenue for the second quarter of 1999 compared to the same period in 1998. For the three months ended June 30, 1999, return on average assets was 1.45% and return on average equity was 23.29%. Excluding the merger-related and restructuring charges in the same 1998 period, return on average assets was 1.27% and return on average equity was 16.76%.

Net income for the six-months ended June 30, 1999 was $50.1 million compared to net income of $19.5 million for the same period in 1998. Fully diluted earnings per share amounted to $1.24 and $0.46 for the first half of 1999 and 1998, respectively. The 1998 period included merger-related and restructuring charges that amounted to $18.8 million after-tax. Excluding the charges, operating earnings for the 1998 period were $38.3 million and fully diluted earnings per share amounted to $0.91. The higher operating earnings resulted from improved net revenue, lower noninterest expenses, and a decline in the provision for possible loan losses. As in the second quarter, growth in commercial lending, consumer lending, and strong sales of investment products were main contributors to the higher net revenue. The lower noninterest expenses reflected cost savings achieved from the Company's 1998 acquisitions. Return on average assets was 1.49% and return on average equity was 23.19% for the first half of 1999. Excluding the merger-related and restructuring charges in the corresponding 1998 period, return on average assets was 1.18% and return on average equity was 15.22%.

NET INTEREST INCOME

Net interest income amounted to $67.8 million for three-month period ended June 30, 1999 and $63.9 million for the three-month period ended June 30, 1998. Average interest-earning assets were $338 million higher in the second quarter of 1999 compared to the same period in 1998. The net interest margin was 4.15% and 4.12% for the second quarter of 1999 and 1998, respectively. Interest income increased by $2.8 million in the second quarter of 1999 compared to the second quarter of 1998 due to higher income from investment securities. Interest expense for the three-months ended June 30, 1999 was $1.1 million below the same 1998 period due to a more favorable deposit mix and lower average deposits in 1999 and the impact of the lower rate environment in that period. The average cost of deposits was 2.62% in the second quarter of 1999 compared to 3.20% in the second quarter of 1998. Increased borrowing expense, due to higher average volumes, partially offset the decline in interest expense on deposits.

For six-month period ended June 30, 1999 and 1998, net interest income was $130.3 million and $126.4 million, respectively. Average interest-earning assets were $256 million higher in the 1999 period compared to the same period in 1998. The net interest margin was 4.15% and 4.19% for the first half of 1999 and 1998, respectively. Interest income decreased by $1.0 million for the first half of 1999 compared to the first half of 1998 due to mainly to lower income from loans and short term money market investments, partially offset by higher income from investment securities. Interest expense for the six-months ended June 30, 1999 was $4.9 million below the same 1998 period due, as in the second quarter, to a more favorable deposit mix and lower average deposits in 1999 and the impact of the lower rate environment in that period. For the first six months ended June 30, 1999 and 1998, the average cost of deposits was 2.64% and 3.25%, respectively. Increased borrowing expense, due to higher average volumes, partially offset the decline in interest expense on deposits.

PROVISION FOR POSSIBLE LOAN LOSSES

The provision for possible loan losses was $2.5 million and $2.8 million for the three-month periods ended June 30, 1999 and 1998, respectively. For the six-month periods ended June 30, 1999 and 1998, the provision for possible loan losses was $5.0 million and $9.1 million, respectively. The decline in the provision for the six-month period was primarily due to the inclusion in the 1998 period of a $3.5 million provision taken by the former Poughkeepsie Financial Corporation to bring its reserve policy in line with that of Hudson United Bancorp. The allowance for possible loan losses amounted to $55.7 million at June 30, 1999 compared to $53.5 million at year-end 1998. The allowance represented 1.57% and 1.58% of total loans at June 30, 1999 and December 31, 1998, respectively. The allowance was 289% of non-performing loans at June 30, 1999 and 256% of non-performing loans at December 31, 1998.

The determination of the adequacy of the Allowance for Loan Losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management. The evaluation process is undertaken on a monthly basis, with a fully supported written analysis prepared on a quarterly basis.

Methodology employed for assessing the adequacy of the Allowance consists of the following criteria:

- The establishment of reserve amounts for all specifically identified criticized loans, including those arising from business combinations, that have been designated as requiring attention by management's internal loan review program.

- The establishment of reserves for pools of homogenous types of loans not subject to specific review, including 1-4 family residential mortgages, consumer loans, and credit card accounts, based upon historical loss rates.

- An allocation for the non-criticized loans in each portfolio, and for all Off-Balance Sheet exposures, based upon the historical average loss experience of those portfolios.

Consideration is also given to the changed risk profile brought about by the aforementioned business combinations, customer knowledge, the results of ongoing credit quality monitoring processes, the adequacy and expertise of the Company's lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. A further consideration is the concentration of real estate related loans located in the Northeast part of the United States. Since many of the loans depend upon the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect the Company from loss.

Other evidence used to support the amount of the Allowance and its components are as follows:

- Regulatory and other examinations

- The amount and trend of criticized loans

- Actual losses

- Peer comparisons with other financial institutions

- Economic Data associated with the real estate market in the Company's area of operations

- Opportunities to dispose of marginally performing loans for cash consideration



Based upon the process employed and giving recognition to all attendant factors associated with the loan portfolio, management considers the Allowance for Loan Losses to be adequate at June 30, 1999.

The following table presents the composition of non-performing assets and loans past due 90 days or more and accruing and selected asset quality ratios at the dates indicated:

ASSET QUALITY SCHEDULE

(In Thousands)

| | 6/30/99 | 12/31/98 |
|---|---|---|
| Nonaccrual Loans: | | |
| Commercial | $ 4,407 | $ 4,852 |
| Real Estate | 11,474 | 10,683 |
| Consumer | 1,622 | 2,094 |
| Total Nonaccrual Loans | 17,503 | 17,629 |
| Renegotiated Loans | 1,757 | 3,269 |
| Total Nonperforming Loans | 19,260 | 20,898 |
| Other Real Estate Owned | 1,629 | 3,727 |
| Total Nonperforming Assets | $20,889 | 24,625 |
| Nonaccrual Loans to Total Loans | 0.49% | 0.52% |
| Nonperforming Assets to Total Assets | 0.29% | 0.36% |
| Allowance for Loan Losses to Nonaccrual Loans | 318% | 303% |
| Allowance for Loan Losses to Nonperforming Loans | 289% | 256% |
| Loans Past Due 90 Days or More and Accruing | | |
| Commercial | $ 1,876 | $ 2,340 |
| Real Estate | 10,164 | 5,547 |
| Consumer | 2,007 | 2,470 |
| Credit card | 9,666 | 3,126 |
| Total Past Due Loans | $23,713 | $13,483 |



The following table presents the activity in the allowance for possible loan losses for the periods indicated:

Summary of Activity
in the Allowance

| | Broken Down by Loan Category | |
|---|---|---|
| | Six Months Ended 6/30/99 | Year Ended 12/31/98 |
| | (Dollars in thousands) | |
| Amount of Loans Outstanding at Period End ...... | $3,537,792 | $3,386,810 |
| Daily Average Amount of Loans Outstanding ...... | $3,436,973 | $3,521,561 |
| ALLOWANCE FOR LOAN LOSSES | | |
| Balance at beginning of year .................. | $ 53,499 | $ 65,858 |
| Loans charged off: | | |
| Real estate mortgages ....................... | (1,367) | (8,050) |
| Commercial .................................. | (1,382) | (2,498) |
| Consumer .................................... | (4,498) | (11,457) |
| Write down of Assets held for sale (1) ....... | -- | (9,521) |
| Total loans charged off ................ | (7,247) | (31,526) |
| Recoveries: | | |
| Real estate mortgages ....................... | 790 | 651 |
| Commercial .................................. | 676 | 669 |
| Consumer .................................... | 1,612 | 1,523 |
| Total recoveries ....................... | 3,078 | 2,843 |
| Net loans charged off ......................... | (4,169) | (28,683) |
| Allowance of acquired companies ............... | 1,350 | 1,950 |
| Provision for loan losses ..................... | 5,000 | 14,374 |
| Balance at end of period ...................... | $ 55,680 | $ 53,499 |
| Ratio of Annualized Net Loans Charged Off During Period to Average Loans Outstanding ... | 0.24% | 0.81% |

----------

(1) The writedown of assets held for sale pertained to the planned disposal of $54 million nonaccrual loans.

NONINTEREST INCOME

Noninterest income, excluding security gains, increased to $16.0 million for the second quarter of 1999 compared to $14.3 million in the second quarter of 1998. For the six-months ended June 30, 1999 and 1998, non-interest income, excluding security gains was $32.5 million and $25.8 million, respectively. These increases reflect higher income from the Shoppers Charge and mortgage divisions and increased sales of investment products. Security gains for the three and six month periods ended June 30, 1999 amounted to $1.1 and $2.0 million, respectively. Security gains amounted to $0.8 million for the second quarter of 1998 and $3.2 million for the first six months on 1998.

NONINTEREST EXPENSE

Noninterest expense for the second quarter of 1999 was $43.1 million compared to $67.2 million in the second quarter of 1998. The amount for 1998 includes $25.2 million of merger-related restructuring costs that were recorded in that period. Excluding the 1998 charges, the year to year increase in expenses of $1.1 million reflects several initiatives including the higher cost of supporting our expanding business lines, the successful merger of the 1998 acquisitions, the consolidation of the Company's three banking subsidiaries into a single bank charter and the establishment of a single brand name. These initiatives also include the decision to terminate the Company's interest in a computer processing joint venture and to outsource internal processing systems. The net effect of these initiatives was immaterial and has been provided for within the reserves established for such programs. For the six-months ended June 30, 1999 and 1998, non-interest expenses were $82.8 million and $114.0 million, respectively. Non-interest expenses for the 1998 period included merger-related restructuring costs of $27.8 million. The decline in expenses in the 1999 period compared to 1998 is primarily due to cost savings achieved from the 1998 acquisitions. The



efficiency ratio in the second quarter of 1999 was 47.3%, down from 49.8% in the second quarter of 1998. The efficiency ratio for the first six months of 1999 was 46.7% compared to 52.6% for the same 1998 period.

FINANCIAL CONDITION

Total assets amounted to $7.2 billion at June 30, 1999, an increase of $447 million or 7% from $6.8 billion at December 31, 1998. At June 30, 1999, total loans were $3.5 billion and total investment securities were $3.2 billion. These balances represented increases of $151 million for loans and $314 million for investment securities when compared to year-end 1998. The increase in credit card loans of $88 million and the increase in credit card loans past due 90 days or more and still accruing of $7 million, at June 30, 1999 compared to December 31, 1998, was primarily the result of the purchase of two credit card portfolios. The increase in the investment securities portfolio was due primarily to leveraging employed to utilize the Company's capital position. Intangibles, net of amortization, increased from $79.0 million at December 31, 1998 to $105.9 million at June 30, 1999, due primarily to the addition of the goodwill created from the First International Bank branch and Little Falls Bancorp, Inc. acquisitions.

Deposits were $5.0 billion at June 30, 1999, basically flat with year-end 1998. At June 30, 1999, borrowings amounted to $1.5 billion compared to $822 million at December 31, 1998. The increase in borrowings was mainly the result of the higher asset level at the June 1999 period end. Total stockholders' equity at June 30, 1999 was $423 million compared to $457 million at December 31, 1998. The change in stockholders' equity is primarily attributable to the purchase of $48 million of treasury shares.

The Company is not aware of any current recommendations by the regulatory authorities which would have a material adverse effect on the Company's capital resources or operations. The capital ratios for the Company at June 30, 1999, and the minimum regulatory guidelines for such capital ratios for qualification as a well-capitalized institution are as follows:

| | Ratios at June 30, 1999 | Regulatory Guidelines |
|---|---|---|
| Tier I Risk-Based Capital ........... | 10.95% | 6.0% |
| Total Risk-Based Capital ............ | 14.76% | 10.0% |
| Tier 1 Leverage Ratio ............... | 6.10% | 4.0% |



PART II. OTHER INFORMATION

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

(3)(A) The Certificate of Incorporation of the Company in effect on May 11, 1999.

(3)(B) The By-Laws of the Company. (Incorporated by reference from the

Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, Exhibit (3b)).

(b) Reports on From 8-K

(1) On May 25, 1999, the Company filed a Form 8-K Item 5 (date of earliest event-May 20, 1999), containing the Company's press release announcing the completion of its purchase of Little Falls Bancorp, Inc. and Little Falls wholly owned banking subsidiary, Little Falls Bank.

(2) On June 29, 1999, Hudson United Bancorp filed a Form 8-K Item 5 (date of earliest event-June 29, 1999), to announce the signing of a definitive agreement to acquire JeffBanks, Inc.

(3) On June 29, 1999, Hudson United Bancorp filed a Form 8-K Item 5 (date of earliest event-June 29, 1999), to announce the signing of a definitive agreement to acquire Southern Jersey Bancorp of Delaware, Inc.

(4) On June 30, 1999, Hudson United Bancorp filed a Form 8-K/A Item 5 (date of earliest event-June 28, 1999), amending Form 8-K filed June 29, 1999 to provide the agreement and plan of merger for the announced acquisitions of JeffBanks, Inc. and Southern Jersey Bancorp of Delaware, Inc.

(5) On July 26, 1999, the Company filed a Form 8-K Item 5 (date of earliest event-July 15, 1999), containing the Company's press release reporting earnings for the second quarter of 1999.



SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hudson United Bancorp

| | |
|---|---|
| August 16, 1999 | /s/ KENNETH T. NEILSON |
| Date | Kenneth T. Neilson<br>Chairman, President & Chief Executive Officer |
| August 16, 1999 | /s/ JOSEPH F. HURLEY |
| Date | Joseph F. Hurley<br>Executive Vice President &<br>Chief Financial Officer |

CERTIFICATE OF INCORPORATION

OF

HUDSON UNITED BANCORP

(Restated to Show All Amendments)

ARTICLE I

CORPORATE NAME

The name of the Corporation shall be Hudson United Bancorp (hereinafter the "Corporation").

ARTICLE II

CURRENT REGISTERED OFFICE
AND CURRENT REGISTERED AGENT

The address of the Corporation's initial registered office is 80 Park Plaza, 23rd Floor, Newark, New Jersey 07102. The name of the registered agent at that address is Ronald H. Janis.

ARTICLE III

INITIAL BOARD OF DIRECTORS
AND NUMBER OF DIRECTORS

The number of directors shall be governed by the by-laws of the Corporation. The number of directors constituting the initial Board of Directors shall be twelve. The names and addresses of the initial Board of Directors are as follows:

| Name | Address |
| --- | --- |
| John T. Clark | 3100 Bergenline Avenue<br>Union City, New Jersey 07087 |
| James C. McClave | 3100 Bergenline Avenue<br>Union City, New Jersey 07087 |
| Ronald David | 2 Broadway |

New York, New York 10004

| | |
|---|---|
| Arthur L. Dickson | 51 Newark Street<br>Hoboken, New Jersey 07030 |
| Henry Hugelheim | 752 Greeley Avenue<br>Fairview, New Jersey 07022 |
| Harry J. Leber | 2000 Kennedy Boulevard<br>Union City, New Jersey 07087 |
| George P. Moser, Sr. | 415 32nd Street<br>Union City, New Jersey 07087 |
| Harold J. Olsen | 638 Anderson Avenue<br>Cliffside Park, New Jersey 07010 |
| Charles F.X. Poggi | 15th and Adams Street<br>Hoboken, New Jersey 07030 |
| James E. Schierloh | East 210 Route 4<br>Paramus, New Jersey 07652 |
| Sister Grace<br>Frances Strauber | 308 Willow Avenue<br>Hoboken, New Jersey 07030 |
| Robert J. Burke | Foot of Pershing Road<br>Weehawken, New Jersey 07087 |

Shareholders shall have no right to increase or decrease the number of directors constituting the Board, except by the affirmative vote of at least three-quarters of all of the outstanding shares of common stock entitled to vote thereon, said vote to take place at an annual or special meeting of the Corporation's stockholders called for the purpose of considering such matter. Any director may be removed from office by the stockholders of the Corporation, but only for cause.

Notwithstanding anything else in this Certificate of Incorporation to the contrary (and notwithstanding the fact that a lesser percentage may be permitted by law, this Certificate of Incorporation or the by-laws of the Corporation), the provisions of this Article III may not be amended, altered, changed or repealed in any respect, nor may any provision inconsistent herewith be adopted, unless such action is approved by the affirmative vote of at least three-quarters of all of the outstanding shares of common stock entitled to vote thereon, said vote to take place at an annual or special meeting of the Corporation's stockholders called for the purpose of considering such matter.

# ARTICLE IV

## CORPORATE PURPOSE

The purpose for which the Corporation is organized is to engage in any activities for which corporations may be organized under the New Jersey Business Corporation Act, subject to any restrictions which may be imposed from time to time by the laws of the United States or the State of New Jersey with regard to the activities of a bank holding company.

# ARTICLE V

## CAPITAL STOCK

A. The total authorized capital stock of the Corporation shall be 125,000,000 shares, consisting of 100,000,000 shares of common stock and 25,000,000 shares of preferred stock which may be issued in one or more classes or series. The shares of common stock shall constitute a single class and shall be without nominal or par value. The shares of preferred stock of each class or series shall be without nominal or par value, except that the amendment authorizing the initial issuance of any class or series adopted by the Board of Directors as provided herein, may provide that shares of any class or series shall have a specified par value per share, in which event all of the shares of such class or series shall have the par value per share so specified.

B. The Board of Directors of the Corporation is expressly authorized from time to time to adopt and to cause to be executed and filed without further approval of the shareholders amendments to this Certificate of Incorporation authorizing the issuance of one or more classes or series of Preferred Stock for such consideration as the Board of Directors may fix. In an amendment authorizing any class or series of Preferred Stock, the Board of Directors is expressly authorized to determine:

(a) The distinctive designation of the class or series and the number of shares which will constitute the class or series, which number may be increased or decreased (but not below the number of shares then outstanding in that class or above the total shares authorized herein) from time to time by action of the Board of Directors.

(b) The dividend rate of the shares of the class or series, whether dividends will be cumulative, and, if so, from what date or dates;

(c) The price or prices at which, and the terms and conditions on which, the shares of the class or series may be redeemed at the option of the Corporation;

(d) Whether or not the shares of the class or series will be entitled to the benefit of a retirement of sinking fund to be applied to the purchase or redemption of such shares and, if so entitled, the amount of such fund and the terms and provisions relative to the operation thereof;



(e) Whether or not the shares of the class or series will be convertible into, or exchangeable for, any other shares of stock of the Corporation or other securities, and if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and any adjustments thereof, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;

(f) The rights of the shares of the class or series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(g) Whether or not the shares of the class or series will have priority over, parity with, or be junior to the shares of any other class or series in any respect, whether or not the shares of the class or series will be entitled to the benefit of limitations restricting the issuance of shares of any other class or series having priority over or on parity with the shares of such class or series and whether or not the shares of the class or series are entitled to restrictions on the payment of dividends on, the making of other distributions in respect of, and the purchase or redemption of shares of any other class or series of Preferred Stock or Common Stock ranking junior to the shares of the class or series;

(h) Whether the class or series will have voting rights,, in addition to any voting rights provided by law, and if so, the terms of such voting rights; and

(i) Any other preferences, qualifications, privileges, options and other relative or special rights and limitations of that class or series.

C. The Series A Preferred Stock shall have a stated value of $24.00 per share, and the shares therefore, when issued for such amount, shall be fully paid and non-assessable. The Series A Preferred Stock shall consist of 938,690 shares, which number may be increased (but only in connection with a stock split or stock dividend) or decreased from time to time (but not below the number thereof then outstanding) by the Board of Directors. Upon the reacquisition of any of the Series A Preferred Stock, through redemption, conversion or otherwise, such reacquired Shares shall be canceled and shall become part of the authorized and unissued Preferred Stock, but shall not be authorized and unissued Series A Preferred Stock. The rights, preferences and limitations of the Series A Preferred Stock are as follows:

(a) RANK. The Series A Preferred Stock shall be senior to any other class or series of Preferred Stock in respect of (1) payment of dividends, (2) payment upon dissolution, liquidation or winding up and (3) redemption.

(b) DIVIDENDS. The holders of Series A Preferred Stock, in preference to the holders of the Common Stock and any other class or series of Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefore, cumulative cash dividends at the annual rate per share of $1.44, and no more, payable in quarter-annual installments on the 15th day of February, May, August and November in each year, from the date of issuance. If the dividends on the Series A Preferred Stock for any quarter-annual dividend period shall not have been paid or declared for payment to the holders of Series A Preferred Stock by the last day of such quarter annual dividend period, the aggregate



deficiency shall be cumulative and shall be fully paid or declared and set apart for payment before any cash dividends or other distribution shall be paid or set apart for payment to the holders of the Common Stock or any other class or series of Preferred Stock of the Corporation. Accumulations of dividends on the Series A Preferred Stock shall not bear interest.

(c) LIQUIDATION PREFERENCE. Upon the voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the Corporation, the holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation $24.00 per share, together with cumulative dividends accrued and unpaid to the date of payment of such $24.00 distribution preference, and no more, before any amount shall be paid to, or distributed among the holders of Common Stock or any other class or series of Preferred Stock. For the purpose of this paragraph (c), dividends shall be deemed to accrue on a daily basis. The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to be a dissolution, liquidation or winding up for purposes of this paragraph (c).

(d) REDEMPTION.

(i) OPTION TO REDEEM. The Corporation shall not redeem any other class or series of Preferred Stock unless and until all shares of the Series A Preferred Stock have been redeemed. The Corporation shall not redeem the Series A Preferred Stock without the prior approval of the Board of Governors of the Federal Reserve System. Outstanding shares of Series A Preferred Stock may be redeemed, as a whole (or in part but only with the consent of the holder of the Shares to be redeemed) at the option of the Corporation by vote of its Board of Directors at any time from and after one year from the date of original issuance and after the date on which the market price (as defined in subparagraph (e)(iii)) for the Corporation's Common Stock is $24.00 or more for 20 consecutive business days, or pursuant to paragraph (e)(v) hereof. The $24.00 market price referred to in the previous sentence shall be adjusted appropriately each time the Conversion Ratio is required to be adjusted under subparagraph (e)(iv) and in the same proportion as the Conversion Ratio is adjusted. Without limiting the foregoing, the $24.00 market price of the Common Stock referred to herein will be reduced to reflect stock splits and stock dividends effected with respect to the Common Stock. If less than all the outstanding shares of the Series A Preferred Stock are to be redeemed, the shares to be redeemed shall be determined in such manner as the Board of Directors may prescribe. The redemption price for shares of the Series A Preferred Stock shall be $24.00 per share, plus all accrued and unpaid dividends through the date fixed for redemption. For the purpose of this paragraph (d), dividends shall be deemed to accrue on a daily basis.

(ii) NOTICE. Written notice of redemption shall be given to each holder of record of the shares of Series A Preferred Stock to be redeemed, by mailing a notice of redemption to such holder by first class mail, at such holder's address as it shall appear on the stock books of the Corporation, in each case at least 15 days and not more than 45 days prior to the date fixed for redemption; provided however, if fewer than 25 days prior notice is given to holders, then at least one follow-up written notice must be sent to holders who have not converted by 7 days prior to the redemption date. Each such notice shall specify the shares of



stock to be redeemed, the redemption price, the date fixed for redemption, the place for payment of the redemption price and for surrender of the certificate or certificates representing the shares to be redeemed, and if less than the total number of shares held by such holder are to be redeemed, the number of shares of such holder to be redeemed. No defect in such notice nor any defect in the mailing thereof shall in and of itself affect the validity of the proceedings for redemption, except as to any holder to whom the Corporation has failed to mail such notice, or as to whom the notice was defective.

(iii) DEPOSIT OF REDEMPTION FUNDS. If notice of redemption shall have been given as herein provided and if, on or before the date fixed for redemption, the redemption price shall have been provided and set aside by the Corporation with a bank with trust powers for the pro rata benefit of the holders of the shares so called for redemption, then, from and after the date fixed for redemption, the shares of Series A Preferred Stock called for redemption shall no longer be deemed outstanding, the dividends thereon shall cease to accumulate, and all rights with respect to such shares shall forthwith cease. The only right of the holders of the redeemed shares after such date shall be the right to receive the redemption price for the shares called for redemption, without interest. If the Board of Directors designates a bank with trust powers as a depository of the funds to be used for redemption and as agent of the Corporation for the giving of the notices of redemption, the receipt of the shares and the payment of the redemption price, the acts of such designated agent on behalf of the Corporation shall have the same effect as if all such acts were done by the Corporation.

Any monies deposited by the Corporation with such designated bank which shall not be required for the redemption of shares because of the conversion of such shares subsequent to the date of deposit, shall be promptly repaid to the Corporation. Any other monies so deposited by the Corporation with a designated bank and unclaimed at the end of one year from the date fixed for redemption shall be repaid to the Corporation upon its request, after which the holders of the shares called for redemption shall look only to the Corporation for payment of the redemption price.

The Corporation may use one of its subsidiary banks with trust powers as the depository and agent for such redemption.

(iv) NO SINKING FUND. The Corporation shall not be obligated to make payments into or to maintain any sinking fund for the Series A Preferred Stock.

(e) CONVERSION.

(i) CONVERSION PRIVILEGES. The holder of any shares of Series A Preferred Stock at any time prior to the date fixed for redemption as provided in paragraph (d), shall have the right to surrender the certificates evidencing such shares and receive, in conversion of each share of Series A Preferred Stock, one share (the "Conversion Ratio") of the Common Stock, no par value of the Corporation.

(ii) MANNER OF EXERCISING CONVERSION PRIVILEGE. The conversion privilege may be exercised at any time including from and after the date on which a notice of redemption was given and prior to the close of business on the last day before the date of redemption stated in the notice. To exercise the conversion privilege, the holder of Series A Preferred Stock shall surrender the certificates representing the shares to be converted at the office of the Transfer Agent of the Corporation and shall give written notice to the Corporation at such office that the holder elects to convert such shares. Such certificates shall be duly endorsed or assigned to the Corporation, or in blank. Conversion shall be deemed to have been effected immediately prior to the close of business on the date upon which such surrender is made, and such date is referred to in this paragraph (e) as the "Conversion Date." On the Conversion Date or as promptly thereafter as practicable, the Corporation shall deliver to the holder of the stock surrendered for conversion, or as otherwise directed by him in writing, a certificate for the number of full shares of Common Stock deliverable upon conversion of such Series A Preferred Stock and, if applicable, a check in respect to any fraction of a share as provided in subparagraph (e)(iii).

(iii) CASH ADJUSTMENT FOR FRACTIONAL SHARE UPON CONVERSION. The Corporation shall not deliver fractional shares of Common Stock upon conversation of shares of Series A Preferred Stock. In lieu of any fractional share of Common Stock that would otherwise be deliverable upon conversion, the Corporation shall pay an amount in cash equal to the current market value of the fractional share, computed on the basis of the market price on the last business day before the Conversion Date. For purposes of this section, the "market price" on any business day shall be the closing price per share of Common Stock in the NASDAQ National Market System or, if the shares of Common Stock are listed or admitted to trading on any national securities exchange, the reported closing price per share of Common Stock on such exchange on such day.

(iv) ADJUSTMENT OF CONVERSION RATIO. The Conversion Ratio of the Series A Preferred Stock shall be adjusted from time to time as follows:

(A) If at any time while any of the Series A Preferred Stock is outstanding the Corporation shall (i) pay a dividend on its Common Stock in shares of its capital stock, including Common Stock and Preferred Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine the outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common

Stock any shares of stock of the Corporation, the Conversion Ratio in effect immediately prior thereto shall be adjusted so that the holder of any share of Series A Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other securities of the Corporation which he would have owned or have been entitled to receive after the happening of any of the events described above had such share of Series A Preferred Stock been converted immediately prior to the happening of such event. An adjustment made pursuant to this subparagraph (e)(iv)(A) shall become effective in the case of a dividend immediately after the opening of business on the day following the record date for the determination of shareholders entitled to receive such dividend, and shall become effective in the case of a subdivision, combination or reclassification immediately after the opening of business



on the day following the day when such subdivision, combination, or reclassification becomes effective.

(B) If while any of the Series A Preferred Stock is outstanding, the Corporation shall issue rights or warrants ratably to the holders of shares of its Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the market price per share of Common Stock on the record date for the determination of shareholders entitled to receive such rights and warrants, the Conversion Ratio in effect immediately before that record date shall be adjusted as of the day following that record date so that it shall equal the ratio determined by multiplying the Conversion Ratio in effect immediately before that record date by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on that record date plus the number of shares of Common Stock offered for subscription or purchase and the denominator shall be the number of shares of Common Stock outstanding on that record date plus the number of shares of Common Stock that the aggregate offering price of the total number of shares so offered would purchase at such current market price per share of Common Stock. To the extent that such rights or warrants are not exercised before the expiration thereof, the Conversion Ratio shall be readjusted as of the close of business on the expiration date to the Conversion Ratio that would then be in effect based upon the number of shares of Common Stock actually delivered upon the exercise of such rights or warrants.

(C) If the Corporation shall distribute, to all holders of shares of its Common Stock, evidences of its indebtedness or of its assets (excluding cash distributions made out of current or retained earnings) the Conversion Ratio in effect immediately before the record date for the determination of shareholders entitled to receive such distribution shall be adjusted immediately after the opening of business on the day following that record date so that it shall equal the ratio determined by multiplying the Conversion Ratio in effect immediately thereto by a fraction, of which the numerator shall be the total number of shares of Common Stock outstanding on that record date multiplied by such current market price per share on that record date, and of which one denominator shall be determined by subtracting the aggregate face value of evidences of indebtedness or the aggregate fair market value of evidences of its assets from an amount equal to the total number of shares of Common Stock outstanding on such record date multiplied by the current market price per share of Common Stock on that record date.

(D) For the purpose of any computation under subparagraphs (e)(iv)(B) and (C) above, the current market price per share of Common Stock at any date shall be deemed to be the average of the market prices for the thirty consecutive business days terminating fifteen calendar days before the day in question. The market price for each day shall be determined as provided in subparagraph (e)(iii) hereof.

(E) No adjustment in the Conversion Ratio for the Series A Preferred Stock shall be made if, at the same time that the Corporation takes an action with respect to the Common Stock that would otherwise require adjustment under subparagraphs (A) through (C) above, the Corporation shall take the same action with respect to the Series A Preferred Stock in the same proportion as if each share of Series A Preferred Stock had been



converted into shares of Common Stock at the then applicable conversion Ratio immediately before the record date for the determination of holders of Common Stock entitled to receive the dividends, rights, warrants or distributions.

(F) Except as herein otherwise provided, no adjustment in the Conversion Ratio shall be made by reason of the issuance of shares of Common Stock, or any securities convertible into or exchangeable for shares of Common Stock, or any securities carrying the right to purchase any of the foregoing or for any other reason whatsoever.

(G) No adjustment in the Conversion Ratio shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) of such Ratio; provided, however, that any adjustments which by reason of this subparagraph (e)(iv)(G) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subparagraph (e)(iv) shall be made to the nearest hundredth of a share.

(H) Whenever the Conversion Ratio is adjusted as provided in this subparagraph (e)(iv), the Corporation shall promptly file with the Transfer Agent for the Series A Preferred Stock a statement signed by the Chairman of the Board, President or Vice President of the Corporation and by its Treasurer or its Secretary showing in detail the facts requiring such adjustment and shall exhibit the statement to any holder of Series A Preferred Stock desiring to inspect the statement. In addition, with respect to adjustments made while any Series A Preferred Stock is outstanding, the Corporation shall state to the Transfer Agent and in the next quarterly and annual report that an adjustment has been effected and give the adjusted Conversion Ratio in the Corporation's next quarterly and annual report to shareholders. Such quarterly and annual report shall be mailed to all holders of record of the Series A Preferred Stock on the record date used for mailing such quarterly and annual report to holders of Common Stock.

(v) EFFECT OF CONSOLIDATIONS, Mergers or Sales on Conversion Privilege. If at any time while any shares of the Series A Preferred Stock are outstanding, the Corporation is consolidated or merged with or into any other corporation or sells or conveys all or substantially all of its assets, and pursuant to the provisions of the New Jersey Business Corporation Act or the Corporation's certificate of incorporation the approval of the holders of the Common Stock of the Corporation is required for such transaction, then such transaction shall also require for approval the affirmative vote of a majority of the outstanding Series A Preferred Stock, voting as a separate class. Notwithstanding the foregoing, the Corporation shall be entitled to redeem the Series A Preferred Stock pursuant to the provisions of paragraph (d) prior to or simultaneously with the consummation of any such transaction and if such redemption does take place, the consent of the holders of the Series A Preferred Stock shall not be required and if any vote upon such a transaction by the holders of Series A Preferred Stock has been taken, such vote shall be disregarded.

(vi) NOTICE OF CERTAIN TRANSACTIONS REQUIRED. In addition to any other notice required by this Article V, if at any time while Series A Preferred

Shares are outstanding the Corporation shall (i) declare a dividend (or any other distribution) on its



Common Stock other than a cash dividend out of current retained earnings or surplus; or (ii) authorize the issuance to all holders of its Common Stock of rights or warrants to subscribe for or purchase shares of its Common Stock or of any other subscription rights or warrants; or (iii) reclassify its Common Stock (other than through a subdivision or combination or by changing the par value); or (iv) take any other action which requires the Conversion Ratio to be adjusted under paragraph (e)(iv); or (v) become a party to any consolidation or merger or sell or transfer all or substantially all of the assets of the Corporation, then the Corporation shall notify by regular mail the holders of record of the Series A Preferred Shares at least 15 days prior to the appropriate record date. The notice shall briefly describe the transaction and state (i) the record date which will be used for the purpose of determining which holders will receive such dividend or distribution, or rights or warrants, or (ii) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the record date as of which it will be determined which holders shall be entitled to exchange their Common Stock for securities or other property delivered upon such reclassification, consolidation, merger, sale or transfer. The Corporation shall mail a notice of all meetings of shareholders (and any accompanying proxy statement) to the holders of Series A Preferred Stock at the time the notice (and proxy statement) is mailed to holders of Common Stock and shall mail all other notices and financial statements to the holders of Preferred Stock at the same time such notices and financial statements are mailed to holders of Common Stock. If any action is taken by means of consent, notice of such action by consent shall be sent to the holders of Series A Preferred Stock at least 20 days prior to the effective date of such consent. Failure to give or receive the notice required by this subparagraph (e)(vi) or any defect therein shall not affect the legality or validity or any such dividend, distribution, right or warrant or other action but such failure shall not affect the rights of the holders of Series A Preferred Stock to obtain an appropriate remedy on account of such failure.

(vii) CORPORATION TO RESERVE STOCK FOR CONVERSION. As long as any Series A Preferred Shares remains outstanding, the Corporation shall reserve out of its authorized but unissued Common Stock the full number of shares of Common Stock deliverable upon the conversion of all outstanding Series A Preferred Stock.

(f) VOTING RIGHTS.

(i) Except as otherwise required by the New Jersey Business

Corporation Act and as otherwise provided in subparagraph (e)(v) and in this paragraph (f), the holders of Series A Preferred Stocks shall have no voting rights.

(ii) Any other provisions herein notwithstanding, if at any time the Corporation shall have failed to pay for 2 quarters, whether or not consecutive, the full quarter-annual dividends payable on the Series A Preferred Stock, the holders of the Series A Preferred Stock shall have the right, voting as a separate class, to elect a total of two directors to the class of directors elected at the next annual meeting of shareholders (the "Preferred Directors"). A dividend default with respect to the Series A Preferred Stock, giving rise to the right to elect the Preferred Directors, shall be deemed to continue to exist until all accrued dividends on all outstanding shares of the Series A Preferred Stock shall have been paid to the end of the past preceding quarterly dividend period.



(A) Subject to the limitations set forth in subparagraph (B) below, the Preferred Directors shall be elected to a term of office the same as the term of office of the other directors in the class to which they are elected. At each subsequent annual meeting of shareholders at which directors of such class are elected, until all dividends in default on the Series A Preferred Stock shall have been paid or declared and set apart for payment, the holders of Series A Preferred Stock shall have the right to vote for the election of Preferred Directors in the manner described in this subparagraph (ii).

(B) The Preferred Directors shall hold office only until the first meeting of shareholders following the payment, or the declaration and setting apart for payment, of all dividends in default on the Series A Preferred Stock, notwithstanding that the term of the other directors in the class to which they are a member does not expire at the time of such meeting. The successors to the Preferred Directors shall be elected by the shareholders at such meeting to a term of office which shall expire at the same time as the term of office of the other directors in the class to which they are elected.

(C) At any meeting of shareholders held while holders of Series A Preferred Stock have the voting power to elect Preferred Directors, the holders of a majority of the then outstanding Series A Preferred Stock who are present in person or by proxy shall be sufficient to constitute a quorum for the election of the Preferred Directors as herein provided.

(D) Any vacancy caused by the death, resignation, or removal of a Preferred Director may be filled by the remaining Preferred Director, or if there is no remaining Preferred Director, by a majority of the holders of Series A Preferred Stock. In the event there is no remaining Preferred Director to fill a vacancy, a holder(s) of 10% or more of the outstanding Series A Preferred Stock shall have the right to require the Corporation to hold a meeting of shareholders within 20 days (or such greater time as shall be required by law) to fill the vacancy, unless when so requested a shareholders' meeting is scheduled to occur in 60 days or less. Any Preferred Director so elected shall hold office until the next annual meeting of shareholders, at which time the holders of the Series A Preferred Stock shall elect a Preferred Director to fill the vacancy if the term of office of the Preferred Director who was replaced does not expire at the time of such meeting.

(iii) While any Series A Preferred Stock is outstanding, the amendment of any provision of this Section C of Article V of the Certificate of Incorporation (except amendments relating to a stock split or reduction in the authorized shares of the series that the New Jersey Business Corporation Act authorizes the Board of Directors to adopt without shareholder approval) shall require the affirmative vote of a majority of the outstanding Series A Preferred Stock.

(iv) On any matter on which the holders of Series A Preferred Stock shall be entitled to vote, they shall be entitled to one vote for each share held. The holders of Series A Preferred Stock shall vote only as a separate class; their votes shall not be counted together with the holders of the Common Stock or any other class or series of Preferred Stock as a single class.



## ARTICLE VI

## INDEMNIFICATION

The Corporation shall indemnify its officers, directors, employees, and agents and former officers, directors, employees and agents, and any other persons serving at the request of the Corporation as an officer, director, employee or agent of another corporation, association, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees, judgments, fines, and amounts paid in settlement) incurred in connection with any pending or threatened action, suit, or proceeding, whether civil, criminal, administrative or investigative, with respect to which such officer, director, employee, agent or other person is a party, or is threatened to be made a party, to the full extent permitted by the New Jersey Business Corporation Act. The indemnification provided herein shall not be deemed exclusive of any other right to which any person seeking indemnification may be entitled under any by-law, agreement, or vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity, and shall inure to the benefit of the heirs, executors, and the administrators of any such person. The Corporation shall have this power to purchase and maintain insurance on behalf of any persons enumerated above against any liability asserted against him and incurred by him in any such capacity, arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

ARTICLE VII

NAME AND ADDRESS OF INCORPORATOR

The name and address of the incorporator is: Ronald H. Janis, c/o Clapp & Eisenberg, 80 Park Plaza, 23rd Floor, Newark, New Jersey 07102.

ARTICLE VIII

CLASSIFICATION OF DIRECTORS

The directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the first annual meeting of stockholders following the meeting at which this Article VIII is adopted, the term of office of the second class to expire at the second annual meeting of stockholders following the meeting at which this Article VIII is adopted and the term of office of the third class to expire at the third annual meeting of stockholders following the meeting at which this Article VIII is adopted.

If this Article VIII is adopted at a special meeting of stockholders, directors of the second and third classes shall be elected to their terms at such special meeting, and directors of the first class shall be designated in advance of such special meeting by the Board of Directors from among the directors elected at the preceding annual meeting of stockholders and shall not be



required to stand for election at such special meetings of stockholders. If this Article VIII is adopted at an annual meeting of stockholders, all three classes of directors shall be elected to their terms at such annual meeting. At each annual meeting of stockholders following the initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election or as soon thereafter as their successors have been elected and qualified.

Notwithstanding anything else in this Certificate of Incorporation to the contrary (and notwithstanding the fact that a lesser percentage may be permitted by law, this Certificate of Incorporation or the by-laws of the Corporation), the provisions of this Article VIII may not be amended, altered, changed or repealed in any respect, nor may any provision inconsistent herewith be adopted, unless such action is approved by the affirmative vote of at least three-quarters of all of the outstanding shares of common stock entitled to vote thereon, said vote to take place at an annual or special meeting of the Corporation's stockholders called for the purpose of considering such matter.

ARTICLE IX

MINIMUM PRICE

The stockholder vote required to approve a Business Combination (as hereinafter defined) shall be as set forth in this section.

A. (1) Except as otherwise expressly provided in this section, the affirmative vote of at least three-quarters of all of the outstanding shares of common stock entitled to vote thereon shall be required in order to authorize any of the following:

(a) any merger or consolidation of the Corporation or any subsidiary thereof with a Related Person (as hereinafter defined) or any other corporation which after such merger or consolidation would be a Related Person;

(b) any sale, lease, exchange, transfer or other disposition, including without limitation, a mortgage, or any other security device, of all or any Substantial Part (as hereinafter defined) of the assets of the Corporation (including without limitation any voting securities of subsidiary) or of a subsidiary, to a Related Person;

(c) the issuance or transfer by the Corporation or any subsidiary thereof of any securities of the Corporation or a subsidiary of the Corporation to a Related Person;

(d) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of a Related Person;

(e) any reclassification of securities (including any reverse stock split) or recapitalization of the Corporation, or any merger or consolidation of the Corporation, with any of its Subsidiaries or any other transaction (whether or not with or otherwise involving Related



Person) which has the effect, directly or indirectly, of increasing the proportionate share of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or indirectly beneficially owned by any Related Person;

(f) any agreement, contract or other arrangement providing for any of the transactions described in this section of the Certificate of Incorporation.

(2) Such affirmative vote shall be required notwithstanding any other provision of this Certificate of Incorporation, any provision of law or any agreement with any national securities exchange which might otherwise permit a lesser vote or no vote.

(3) The term "Business Combination" as used in this section shall mean any transaction which is referred to in any one or more of subparagraphs (a) through (f) above.

B. The provisions of Part A of this section shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative shareholder vote and such approval by the Board of Directors as is required by any other provision of this Certificate of Incorporation, any provision of law or any agreement with any national securities exchange, if all of the conditions specified in either of the following subparagraphs (1) or (2) are met:

(1) The Business Combination shall have been approved by a majority of the directors of the Corporation then in office.

(2) All the following conditions have been met:

(a) The aggregate amount of (x) cash and (y) Fair Market Value (as hereinafter defined), as of the date of the consummation of the Business Combination, of consideration other than cash to be received per share by holders of common stock in such Business Combination shall be at least equal to the amount determined under sub-clauses (i) and (ii) below:

(i) if the Related Person has acquired shares of the Corporation's common stock in a tender offer for or has requested or invited the tender of the Corporation's common stock in a transaction subject to the provisions of Section 14(d) of the Securities Exchange Act of 1934, the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Related Person for any share of common stock acquired by it (a) within the one-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (b) in connection with the tender offer or request or invitation of tenders, whichever is higher;

(ii) if the Related Person has not made such a tender offer for or invited or requested the tender of the Corporation's common stock, two time the highest Fair Market Value per share of the Corporation's common stock during the one-year period ending with the Announcement Date.



(b) The consideration to be received by holders of a particular class of outstanding voting stock shall be in cash or in the same form as the Related Person has previously paid for shares of such class of voting stock. If the Related Person has paid for shares of any class of voting stock with varying forms of consideration, the form of consideration such class of voting stock shall be either cash or the form used to acquire the largest number of shares of such class of voting stock previously acquired by it.

C. For the purpose of this section the following definitions apply:

(1) The term "Related Person" shall mean and include (a) any individual, corporation, partnership or other person or entity which together with its "affiliates" (as that term is defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934), is the "beneficial owner" (as that term is defined in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934) in the aggregate of 10 percent or more of the outstanding shares of the common stock of the Corporation; and (b) any "affiliate" (as that term is defined in Rule 12b-2 under the Securities Exchange Act of 1934) of any such individual, corporation, partnership or other person or entity. Without limitation, any shares of the common stock of the Corporation which any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options or otherwise, shall be deemed "beneficially owned" by such Related Person.

(2) The term "Substantial Part" shall mean more than 25 percent of the total assets of the Corporation, as of the end of its most recent fiscal year ending prior to the time the determination is made.

(3) The term "Fair Market Value" shall mean: (a) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question if a specific date for valuation thereof is specified or during the period in question if a period for valuation thereof is specified of a share of such stock on the Composite Tape for American Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the America Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing price or closing bid quotation with respect to a share of such stock during the 30-day period preceding such date in question or during such period in question on the National Association of Securities Dealers, Inc. Automated Quotation System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Board of Directors, in good faith; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board of Directors in good faith.

(4) In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in paragraph (2)(a) of Part B of this Article shall include the shares of common stock and/or the shares of any other class of outstanding voting stock retained by the holders of such shares.



D. Nothing contained in this section shall be construed to relieve any related Party from any fiduciary obligation imposed by law.

E. If any question shall arise as to the applicability of this Article IX or as to the interpretation of any of its provisions, such question shall be resolved by the Board of Directors, and the Board's resolution shall be final and binding.

F. Notwithstanding any other provision of this Certificate of Incorporation (and notwithstanding the fact that a lesser percentage may be permitted by law, this Certificate of Incorporation or the by-laws of the Corporation), the provisions of this Article IX may not be amended, altered, changed or repealed in any respect, nor may any provision inconsistent herewith be adopted, unless such action is approved by the affirmative vote of the holders of at least three-quarters of all of the outstanding shares of common stock entitled to vote thereon, said vote to take place at an annual or special meeting of the

Corporation's stockholders called for the purpose of considering such matter.

## ARTICLE X

## LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS

A director or officer of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for breach of any duty owed to the Corporation or its shareholders, except that such provision shall not relieve a director or officer from liability for ant breach of duty based upon an act or omission (i) in breach of such person's duty of loyalty to the Corporation or its shareholders, (ii) not in good faith or involving a knowing violation of law, or (iii) resulting in receipt by such person of an improper personal benefit. If the New Jersey Business Corporation Act is amended after approval by the shareholders of this provision to authorize corporate action further eliminating or limiting the personal liability of directors officers, then the liability of a director and/or officer of the Corporation shall be eliminated or limited to the fullest extent permitted by the New Jersey Business Corporation Act as so amended.

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