



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

GERARD LOMBARDO,

Plaintiff,

v.

C.A. No. _____

HUDSON CITY BANCORP, INC., RONALD
E. HERMANCE, JR., DENIS J. SALAMONE,
WILLIAM G. BARDEL, DONALD O. QUEST,
MICHAEL W. AZZARA, VICTORIA H.
BRUNI, SCOTT A. BELAIR, CORNELIUS E.
GOLDING, JOSEPH G. SPONHOLZ, M&T
BANK CORPORATION, and WILMINGTON
TRUST CORPORATION,

Defendants.

VERIFIED CLASS ACTION COMPLAINT

Plaintiff, by his undersigned attorneys, for his class complaint against defendants, alleges upon knowledge as to his own acts and upon information and belief as to all other matters as follows:

NATURE OF THE ACTION

1. This is a shareholder class action brought by plaintiff on behalf of himself and the other public shareholders of Hudson City Bancorp, Inc. ("Hudson City" or the "Company") against Hudson City, members of its Board of Directors (the "Board"), and M&T Bank Corporation ("M&T") arising out of the agreement and plan of merger by and among Hudson City, M&T, and Wilmington Trust Corporation ("Wilmington Trust"), whereby M&T will acquire Hudson City in a cash and stock transaction valued at approximately \$3.7 billion (the "Proposed Transaction").

2. On August 27, 2012, Hudson City announced that it had entered into a definitive agreement under which Hudson City will merge into a subsidiary of M&T. Pursuant to the agreement and plan of merger filed by Hudson City with the SEC on August 31, 2012 (the “Merger Agreement”), Hudson City will merge with and into Wilmington Trust, a wholly owned subsidiary of M&T (collectively, the “Buyer”), with Wilmington Trust continuing as the surviving entity.¹

3. Under the terms of the Merger Agreement, upon consummation of the Proposed Transaction, Hudson City shareholders will receive consideration valued at 0.08403 of a M&T share in the form of either cash or M&T common stock, at par value \$0.50 per share, for each share of Hudson City common stock owned (the “Offer Price”), based upon the election of each Hudson City shareholder. In either the case of electing to receive cash or M&T common stock, the value received by Hudson City shareholders will have a value equal to the product of 0.08403 multiplied by the average closing price of M&T common stock for the ten trading days immediately prior to completion of the Proposed Transaction. However, the elections of Hudson City shareholders are subject to a proration that requires the split of the total consideration provided to Hudson City shareholders to be 40% in cash and 60% in M&T common stock.

4. The Board has unanimously approved the Offer Price as being fair to and in the best interests of Hudson City’s shareholders and has resolved to recommend that the Company’s shareholders adopt the Merger Agreement and approve the Proposed Transaction. Subject to

¹ Pursuant to the Merger Agreement, Hudson City Savings Bank, a wholly owned subsidiary of Hudson City, will also merge with and into Manufactures and Traders Trust Company (“M&T Bank”), a wholly owned subsidiary of M&T. Upon closing of this merger (which will take place immediately following closing of the Proposed Transaction), M&T Bank will continue as the surviving bank under the M&T Bank name and the existence of Hudson City Savings Bank will cease. Hudson City operates as the holding company of Hudson City Savings Bank and M&T operates as the holding company for M&T Bank.

approval by the Company's shareholders at a Company shareholder meeting to be convened by Hudson City and approval by Federal Reserve and bank regulators in New York and New Jersey, the Proposed Transaction is expected to close in the second quarter of 2013.

5. The Proposed Transaction is the product of a flawed process designed to ensure the sale of Hudson City to the Buyer at a price substantially below the fair and inherent value of Hudson City under terms and conditions preferential to the Buyer and members of the Board, but detrimental to Hudson City's shareholders.

6. In approving the Proposed Transaction and resolving to recommend that Hudson City's shareholders approve the Proposed Transaction, each of the defendants has violated applicable law by directly breaching and/or aiding breaches of fiduciary duties of loyalty and due care owed to plaintiff and the proposed class. Plaintiff seeks injunctive relief herein, *inter alia*, to enjoin consummation of the Proposed Transaction.

PARTIES

7. Plaintiff Gerard Lombardo ("Plaintiff") is the owner of Hudson City common stock, which he has held at all times relevant hereto.

8. Defendant Hudson City is a corporation organized under the laws of Delaware with its corporate headquarters located at West 80 Century Road, Paramus, New Jersey 07652. Founded in 1868 in the City of Hudson, Hudson City is the holding company for Hudson City Savings Bank. Hudson City's deposit products include passbook and statement savings accounts, interest-bearing transaction accounts, checking accounts, money market accounts, and time deposits, as well as individual retirement accounts and qualified retirement plans. As of April 25, 2012, Hudson city operated 135 branch offices located in Fairfield, Westchester,

Putnam, and Rockland counties, as well as in Long Island, and the New Jersey suburbs of Philadelphia.

9. Hudson City's common stock trades on The NASDAQ Global Select Market under the symbol "HCBK."

10. Defendant Ronald E. Hermance, Jr. ("Hermance") is a member of the Board and has served as Chief Executive Officer of the Company since January 1, 2012 and as Chairman of the Board since January 1, 2005. Defendant Hermance also served as President of the Company from January 1, 2002 until December 2010 and as Chief Operating Officer from 1999 until December 2010.

11. According to the proxy statement filed on Schedule 14A by the Company with the SEC on March 19, 2012, in his dual role as both Chairman and Chief Executive Officer:

Mr. Hermance has general charge, supervision and control of the business and affairs of Hudson City Bancorp, and is responsible generally for assuring that policy decisions of the Board are implemented as adopted. As part of his duties, Mr. Hermance is also responsible for planning Hudson City Bancorp's growth, for shareholder relations and relations with investment bankers and other similar financial institutions and financial advisors, for exploring opportunities for mergers, acquisitions and new business, and for performing such other duties as the Board may from time to time assign.

12. Defendant Denis J. Salamone ("Salamone") is a member of the Board and has served as a director since October 2001. Defendant Salamone has also served as President and Chief Operating Officer of Hudson City since December 2010. He served in the positions of acting Chairman and Chief Executive Officer of the Company, and assumed the responsibilities of such positions, between February 10, 2012 and August 1, 2012, during which time Defendant Hermance was on a temporary medical leave of absence from the Company.

13. Defendant William G. Bardel (“Bardel”) is a member of the Board and has served as a director since April 1, 2012. Defendant Bardel also currently serves as the Company’s Audit Committee financial expert.

14. Defendant Donald O. Quest (“Quest”) is a member of the Board and has served as a director since 1983.

15. Defendant Michael W. Azzara (“Azzara”) is a member of the Board and has served as a director since 2002.

16. Defendant Victoria H. Bruni (“Bruni”) is a member of the Board and has served as a director since 1996.

17. Defendant Scott A. Belair (“Belair”) is a member of the Board and has served as a director since 2004.

18. Defendant Cornelius E. Golding (“Golding”) is a member of the Board and has served as a director since 2010.

19. Defendant Joseph G. Sponholz (“Sponholz”) is a member of the Board and has served as a director since 2002.

20. Defendants Hermance, Salamone, Bardel, Quest, Azzara, Bruni, Belair, Golding, and Sponholz are collectively referred to herein as the “Individual Defendants.”

21. The Individual Defendants, as officers and/or directors of the Company, owe fiduciary duties to its public shareholders. As alleged herein, they have breached their fiduciary duties by failing to act in the best interests of Hudson City’s shareholders.

22. Defendant M&T is a corporation organized under the laws of New York with its headquarters located at One M&T Plaza, Buffalo, New York 14203. Established in 1856, M&T provides commercial and retail banking services to individuals, corporations and other

businesses, and institutions. M&T operates approximately 780 retail and commercial branches and 2,000 ATMs with its business concentrated in New York State and the mid-Atlantic states of Virginia, Maryland, Delaware, and Pennsylvania.

23. Defendant Wilmington Trust is a Delaware corporation and wholly owned subsidiary of M&T. M&T acquired Wilmington Trust on May 16, 2011.

CLASS ACTION ALLEGATIONS

24. Plaintiff brings this action on his own behalf and as a class action pursuant to Delaware Court of Chancery Rule 23, on behalf of all holders of Hudson City stock who are being and will be harmed by defendants' actions described herein (the "Class"). Excluded from the Class are the defendants named herein and any person, firm, trust, corporation or other entity related to or affiliated with any defendant.

25. This action is properly maintainable as a class action.

26. The Class is so numerous that joinder of all members is impracticable. At the close of business on August 3, 2012, there were 528,132,975 shares of Hudson City common stock outstanding and entitled to vote at the Company's annual shareholder meeting, likely owned by hundreds or thousands of shareholders. The disposition of their claims in a class action will be of benefit to the parties and the Court.

27. There are questions of law and fact that are common to the Class and predominate over questions affecting any individual Class member. The common questions include, *inter alia*, the following:

(a) Whether defendants have breached, or aided and abetted, any breach of fiduciary duties to Plaintiff and the other members of the Class in connection with the Proposed Transaction, including the duties of loyalty and care;

(b) Whether the Offer Price is unfair, inadequate, and provides value to Plaintiff and the other members of the Class below the fair and inherent value of the Company; and

(c) Whether Plaintiff and the other members of the Class will be irreparably harmed if the Proposed Transaction complained of herein is consummated.

28. Plaintiff's claims are typical of the claims of the other members of the Class and plaintiffs do not have any interests adverse to the Class.

29. Plaintiff is an adequate representative of the Class. Plaintiff has retained competent counsel experienced in litigation of this nature and will fairly and adequately protect the interests of the Class.

30. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for the party opposing the Class.

31. Defendants have acted on grounds generally applicable to the Class with respect to the matters complained of herein, thereby making appropriate the relief sought herein with respect to the Class as a whole.

SUBSTANTIVE ALLEGATIONS

32. The Board has unanimously approved the Offer Price as being fair to and in the best interests of Hudson City's shareholders, has unanimously approved the terms and conditions contained in the Merger Agreement as being fair and advisable, and has unanimously resolved to recommend that Hudson City's shareholders vote to approve the Proposed Transaction.

33. As discussed herein, the Proposed Transaction is the product of a flawed process designed to ensure the sale of Hudson City to the Buyer at a price substantially below the true value of Hudson City under terms and conditions preferential to the Buyer and members of the Board, but detrimental to Hudson City's shareholders.

The Offer Price is Grossly Inadequate and Provides Value to Hudson City Shareholders Substantially Below the Fair and Inherent Value of Hudson City

34. Hudson City's voluminous awards and accomplishments have been well-documented. In addition to being the largest savings bank headquartered in New Jersey, Hudson City is among the top twenty-five banks and the largest thrift in the country. As a measure of its success, Hudson City has consistently been named "The Most Efficient Bank in America," as well as being ranked among the top ten banks in the Mid-Atlantic Region and ranked among the top three lenders, nationwide, for conservative mortgage underwriting standards.

35. As Hudson City proclaims on its corporate website, "Hudson City's performance has not gone unnoticed by Wall Street." Indeed, Hudson City's success has been acknowledged nationally by such publications as *Forbes*, *The New York Times*, *BusinessWeek*, and *American Banker*. Since joining the ranks of the S&P 500 in early 2007, Hudson City was named to the *Forbes* Platinum 400 list of "America's Best Big Companies" and selected by *Forbes* as being among the "Best" banks in America.

36. As an August 27, 2012 *CNNMoney* article, titled "Why News Jersey's largest bank was forced to sell now," pointed out, Hudson City was "one of the few banks in the nation to make money during the financial crisis." The article noted that Hudson City has been "praised for not lowering its standards during the mid-2000s credit bubble. The bank never made a single

sub-prime, option-ARM or any other risky home loan that got so many other banks into trouble. Very few of Hudson's mortgages ever ended up in default."

37. As part of the Proposed Transaction, M&T will acquire Hudson City's 135 branch offices located throughout New Jersey, New York, and Connecticut. M&T expects to gain approximately \$25 billion in deposits and \$28 billion in loans from the Proposed Transaction. The \$25 billion in deposits will increase M&T's total deposits by approximately 40% and the \$28 billion in additional loans will increase M&T's total loan portfolio by approximately 44%.

38. Under the Proposed Transaction, regardless of whether Hudson City shareholders elect to receive cash or M&T common stock, the value received by Hudson City shareholders will have a value equal to the product of 0.08403 multiplied by the average closing price of M&T common stock for the ten trading days immediately prior to completion of the Proposed Transaction. However, a maximum of only 40% of the outstanding shares of Hudson City common stock may be converted into the right to receive cash by Hudson City shareholders. Thus, the remainder of the outstanding shares of Hudson City common stock (the other 60%) must be converted into the right to receive shares of M&T common stock, par value \$0.50 per share, having an equal value to the Offer Price. According to the Merger Agreement, should Hudson City's shareholders collectively elect to receive over 40% of their aggregate shares of Hudson City stock in cash, Hudson City shall select from among those shareholders, by a pro rata selection process, and compel them to receive M&T stock as consideration for the Proposed Transaction instead of their requested cash.

39. On August 24, 2012, the day before the Proposed Transaction was announced, M&T common stock closed at \$85.87 per share. As such, the Board unanimously approved an Offer Price that at the time of the Proposed Transaction's announcement would generate

shareholder value equivalent to only \$7.22 per share for each share of Hudson City common stock owned. However, Hudson City common stock has traded at above that Offer Price as recently as April 4, 2012 when it traded at \$7.27 per share and has reached a 52-week trading high of \$7.62 per share on March 21, 2012.

40. Tellingly, Hudson City has a tangible book value of \$4.2 billion, \$500 million more than the \$3.7 billion that M&T is paying to acquire Hudson City.² In its most recently filed Quarterly Report on Form 10-Q with the SEC on August 8, 2012 announcing its financial results for the first quarter of 2012, Hudson City reported that its book value per share was \$9.39 at June 30, 2012 and its tangible book value per share was \$9.08 at June 30, 2012. Accordingly, the Offer Price grossly undervalues Hudson City's fair and inherent per share value for shareholders by as much as 30%.

41. In fact, at no time during the last five years would the Offer Price be considered fair and reasonable value, when compared to Hudson City's book value. Hudson City's book value per share was \$9.20 at the year ended December 31 for 2011, \$11.16 for 2010, \$10.85 for 2009, and \$10.10 for 2008. Hudson City's tangible book value per share was \$8.89 at the year ended December 31 for 2011, \$10.85 for 2010, \$10.53 for 2009, and \$9.77 for 2008. Including the reported values on June 30, 2012, Hudson City's 5-year average book value is \$10.14 per share and tangible book value is \$9.82 per share, well above the \$7.22 per share value provided by the Offer Price.

42. The inadequacy of the Offer Price in relation to Hudson City's tangible book value is further evident when considering the average price to the target company's book value

² Tangible book value represents the portion of tangible assets on a company's balance sheet attributable to each share of the company's common stock.

in similar merger deals involving banks. As reported in a July 24, 2012 article by *The Wall Street Journal*, titled “Small Bank Deals Coming at Higher Prices,” there were 108 whole bank sales and an additional 48 branch deals in the first half of 2012, with a total of 230 branches changing hands. According to data provider SNL Financial, “the bank deals are coming at higher valuations than any year since 2008.” In fact, “[t]he average price to the sellers tangible book value has been 120.8%, compared to 104.9% last year.” In stark contrast, however, the Offer Price provides an abnormally low 80% of Hudson City’s reported June 30, 2012 tangible book value and only 74% of Hudson City’s 5-year average tangible book value.

43. Throughout 2012, Hudson City’s management has conveyed positive unwavering belief that the impact of the recent financial crisis on Hudson City business and stock value is only temporary and business prospects are poised to improve this year and beyond. In a 2012 statement by the Office of the Chairman of the Board issued on Hudson City’s corporate website, Defendant Hermance announced:

As we look back at the past year, it is difficult to find the silver lining in the clouds that overshadowed our industry and economy in 2011. Unemployment remained high, economic growth was anemic, the housing markets were weak and economic conditions in Europe threatened the economic recovery in the United States. While these factors have continued into 2012, we know that at some point the clouds will clear and *we believe the prospects for Hudson City will improve.*

* * *

Our actions during the past year were designed to strengthen our balance sheet for the future and improve our net interest margins.

* * *

We believe that our balance sheet, while smaller, is stronger as a result of the actions we took in 2011. Economic conditions appear to be improving although at a very slow pace and housing markets seem to be stabilizing. However, the economy has a long road to recovery as economic growth is weak and jobs creation is lackluster. Significant forces such as inventory levels and foreclosures in process continue to weigh on the housing markets.

Despite all of this, we believe that the future holds opportunities for Hudson City to grow and therefore we will continue to prepare our Company for the eventual economic recovery. While we remain a residential real estate lender, the “new normal” will require us to diversify our asset base and develop additional mortgage lending distribution channels.

* * *

We made great strides in 2011 to meet the challenges of 2012 head-on. We decreased the size of our balance sheet, reduced our levels of interest rate risk, increased our Tier 1 leverage capital ratio, increased staffing levels and created an Enterprise Risk Management department. All of these steps should prepare us to grow our business when economic conditions make growth both prudent and profitable. While it is difficult to find the silver lining in a cloudy 2011, *we are starting 2012 with a stronger balance sheet, enhanced risk management capabilities, strong regulatory capital and the focus to meet the challenges of the “new normal.”* We believe that to see the silver lining requires a longer-term view in order to discern the possibilities for Hudson City. It is this long-term perspective that saw Hudson City through the many economic cycles and challenges over the past 144 years and which we believe will benefit Hudson City’s customers and shareholders when the clouds finally clear.

(Emphasis added).

44. In order to overcome the recent challenges that Hudson City’s business has faced as a result of changing market conditions during the recent economic downturn, Hudson City developed a transformation strategy to diversify its business and to “build shareholder value.”

45. In a press release issued by Hudson City on July 25, 2012 announcing its financial results for the second quarter of 2012, Defendant Salamone, serving in the capacity of Acting Chairman and Chief Executive Officer, detailed the variety of strategies Hudson City had developed:

One of those strategies is to extend our core mortgage lending business by diversifying our loan production channels and revenue sources. We have been a residential mortgage lender since our inception in 1868. Historically, we have kept all of our loans on our balance sheet. While we will continue to offer loans to keep in our portfolio, we will also begin to offer residential mortgage loans that are eligible for sale in the secondary market. We may either retain or release servicing on these loans. ***This will enable us to offer rates that are typically lower than we can offer for a portfolio product and capture more customer relationships.***

We will also enter the commercial real estate market in our existing market footprint. Our retail branch network and residential mortgage relationships provides us with a valuable opportunity to offer these products. Initially, we will participate in syndicated commercial real estate and multi-family mortgage loan deals as we build capacity to grow organically in this market through originations. These types of loans are typically shorter-term than our residential mortgages and therefore help to balance our risk profile. In addition, we can offer commercial real estate customers deposit products that ***we believe will strengthen relationships and increase the amount and types of deposit accounts on our balance sheet.***

The initiatives to originate to sell residential loans and enter the commercial real estate market are a natural extension of our business and ***we expect to implement such initiatives in 2013. The new products and services should provide additional revenues and a more diversified customer base and balance sheet.*** While our primary business will always be residential lending, in order to move our Company forward in the “new normal” we must take advantage of the opportunities in our exceptional market areas and leverage our well-known and respected franchise to reach our full potential. ***We will continue to examine and evaluate additional strategies to further diversify our business and build shareholder value.***

(Emphasis Added).

46. On August 27, 2012, Hudson City and M&T hosted a joint conference call to discuss the Proposed Transaction. During the call, Defendant Hermance stated that the past financial crisis had challenged the Company's business model, and in turn, the Company developed a transformation strategy to combat those challenges. This included, for example, management's presentations to the Board of a staffing plan that called for approximately 230 people to be hired over the next couple of years to "ramp up" business.

47. However, should the Proposed Transaction be consummated, Hudson City's shareholders will not share in the proportionate value that these strategies would have generated for Hudson City and its shareholders in the immediate future.

48. As demonstrated by the recent trading prices of Hudson City common stock, the book values per share of Hudson City common stock, and statements issued by management regarding Hudson City's financial enhancements and business prospects for 2012, Hudson City is recognized as one of the top banks in the nation and is poised for upcoming financial success and business growth.

49. According to Christopher Whalen, senior managing director at Tangent Capital Partners, "[i]f HCBK's credit book is all that the public data suggests, then [M&T] is walking away with one of the lowest loss-rate portfolios in the Northeast US and at a discount to book." Indeed, the aforementioned August 27, 2012 *CNNMoney* article observed that "many analysts and investors appeared to think M&T got a bargain."

50. To the benefit of the Buyer but detriment to Hudson City's shareholders, the Individual Defendants agreed to an Offer Price that was timed to sell Hudson City at a price materially below the intrinsic value of Hudson City's equity and tangible book value. Despite

the Offer Price being far below the fair value of Hudson City and its common stock, the Individual Defendants, in breach of their fiduciary duties, have unanimously approved the Proposed Transaction.

51. Consequently, should the Proposed Transaction be consummated, it will deny Hudson City's shareholders their right to receive fair value for their shares of Hudson City stock proportionate to Hudson City's current value as well as their ability to share in any of future growth anticipated by Hudson City's management.

"It was not a bidding process at all"

52. To the detriment of Hudson City's shareholders, Defendant Hermance has made it abundantly clear that the Board accepted the Buyer's offer without conducting a reasonably-informed evaluation of whether the Proposed Transaction was in the best interests of Hudson City's shareholders and without taking the necessary reasonable steps to determine whether there were alternative opportunities available to Hudson City which would offer its shareholders greater value than the Offer Price.

53. Indeed, during Hudson City's August 27 conference call with analysts to discuss the Proposed Transaction, an analyst asked the question, "I was hoping you could talk a little bit about the process, who approached who and was it a competitive process with other parties involved." In response, Defendant Hermance plainly admitted that, "*[a]ctually, it wasn't a competitive process . . . No, it was – it was not a bidding process at all.* It was one where we were pleased to be contacted by M&T and we took it further as time went along." (Emphasis added).

54. Commenting on the Board's decision to abandon its aforementioned strategies and abruptly sell the Company, Defendant Hermance explained that the Proposed Transaction

forms a strategic alliance that would expand M&T's "premier community banking franchise in the eastern United States." Defendant Hermance further explained the Board's decision to accept the Buyer's offer by stating that "[m]aking a deal with the bank from Buffalo just felt right . . . "My mother worked at M&T bank as an assistant . . . My first car loan, my first checking account, my student loan, were all at M&T . . . We have a summer home in that neck of the woods as well."

55. To that end, Defendant Hermance and the rest of the Board pursued a strategic alliance with M&T which dominated the Board's decision-making.

56. In addition, numerous analysts have indicated that the age and health of Defendant Hermance was a contributing factor in the Board's swift and unexpected decision to sell the Company to M&T without conducting any bidding process. From February 10, 2012 until August 1, 2012, Defendant Hermance was forced to take a medical leave of absence from the Company to undergo a bone marrow transplant.

57. As Kevin Reynolds, an analyst for Wunderlich Securities, explained that "[i]f you have a small bank, with a CEO say 63 years old and you are looking at a slow growth economy to continue for at least the next two years. He is going to be at retirement age before it gets any better." In other words, rather than carry out Hudson City's transformation strategies over the next few years, Defendant Hermance instead saw the Proposed Transaction as a way to "accelerate[] that transformation." However, such acceleration was done to the benefit of M&T and Defendant Hermance rather than in the best interests of Hudson City's shareholders.

58. The Board accepted the Buyer's offer in haste and without consideration of potential alternative bidders and opportunities that would have been in the best interests of Hudson City's shareholders. The Board also accepted the Buyer's offer without having taken the

reasonable steps necessary to ensure that its decision not to negotiate with potential bidders was an informed decision that was made in the best interests of Hudson City's shareholders.

The Merger Agreement Contains Terms and Conditions That are not in the Best Interests of Hudson City's Shareholders

59. Not only did the Board fail to engage in any type of bidding or competitive process before accepting the Offer Price, but the Merger Agreement also contains a number of restrictive provisions limiting the Board's ability to actively solicit alternative acquisition proposals, or provide information to and engage in discussions with third party bidders. To the benefit of the Buyer, but detriment of Hudson City's shareholders, these provisions are designed to deter potential third party bidders from coming forward with a competitive offer and to deter the Board from accepting any such competitive offer that is made.

60. Namely, the "No Solicitation" provision of Section 6.8 of the Merger Agreement states that Hudson City shall not, directly or indirectly "initiate, solicit, knowingly encourage or knowingly facilitate inquiries or proposals with respect to, or engage or participate in any negotiations concerning, or provide any confidential or nonpublic information or data to, or have any discussions with, any person relating to, any Acquisition Proposal."³

61. Thus, rather than provide the Board with a limited Go-Shop period during which time the Board could actively solicit and negotiate competing bids, the Merger Agreement

³ The Merger Agreement defines an "Acquisition Proposal" as "a tender or exchange offer, proposal for a merger, consolidation or other business combination involving Hudson or any of its Significant Subsidiaries or any proposal or offer to acquire in any manner more than 20% of the voting power in, or more than 20% of the fair market value of the business, assets or deposits of, Hudson or any of its Significant Subsidiaries, other than the transactions contemplated by this Agreement, any sale of whole loans and securitizations in the ordinary course and any *bona fide* internal reorganization."

prohibits the Board from taking any action with respect to inquiries, proposals or offers made by a third party bidder, regardless of the bid's offer price.

62. Although Section 6.8 of the Merger Agreement provides a limited exception to this No Solicitation constraint, that exception only permits the Board to take any action with respect to a competing offer if that offer constitutes a "Superior Proposal."⁴ Even if a competing offer does constitute a "Superior Proposal," the Merger Agreement still prohibits the Board from participating in discussions or negotiations with that bidder and furnish any information to that bidder unless the Board:

will promptly (and in any event within 24 hours) advise M&T of any inquiries, proposals or offers with respect to an Acquisition Proposal or any request for nonpublic information or inquiry that would reasonably be expected to lead to any Acquisition Proposal and the material terms thereof (including the identity of the person making such Acquisition Proposal, and, if applicable, copies of any written requests, proposals or offers, including proposed contracts), and will keep M&T promptly apprised of any related developments, discussions and negotiations (including the terms and conditions of any such request, inquiry or Acquisition Proposal or any material changes or developments in the status or terms thereof) on a current basis. Hudson agrees that it shall simultaneously provide to M&T any confidential or nonpublic information concerning Hudson or any of its Subsidiaries that may be provided to any other person in connection with any Acquisition Proposal which has not previously been provided to M&T.

63. As such, to the detriment of all potential bidders and Hudson City's shareholders, the Board is precluded from discussing or negotiating with potential bidders without first

⁴ The Merger Agreement defines a "Superior Proposal" as "an unsolicited *bona fide* written Acquisition Proposal (with the percentages set forth in the definition of such term changed from 20% to 50%) that the Board of Directors of Hudson concludes in good faith to be more favorable from a financial point of view to its shareholders than the Merger and the other transactions contemplated hereby, (i) *after receiving the advice of its financial advisors...*" (Emphasis added).

providing the Buyer with copies of all correspondence and written material used during those discussions. In order to discuss or negotiate with potential bidders, the Board is also required to give the Buyer real-time updates of every step of the negotiation process taken by the Board. A potential bidder is therefore put at an inherent disadvantage in attempting to negotiate a competing offer with the Board, as the Buyer will essentially be in the negotiation room with the potential bidder able to see every card dealt. Consequently, the No Solicitation provision substantially undermines Hudson City's ability to obtain a topping bid.

64. Moreover, even if a potential bidder offers a Superior Proposal that provides Hudson City shareholders with much greater value for their shares of Hudson City stock than the Offer Price, the Merger Agreement still dissuades the Board from accepting that Superior Proposal by subjecting Hudson City to a preclusive termination fee. The Merger Agreement requires Hudson City to pay the Buyer a fee of \$125 million, as well as reimbursement of expenses, if the Proposed Transaction is not consummated due to several specified circumstances (the "Termination Fee").

65. Pursuant to the Merger Agreement, Hudson City will be required to pay the Buyer the Termination Fee if the Board withdraws or modifies its recommendation to Hudson City shareholders that they approve the Proposed Transaction, the Board recommends that its shareholders approve an Acquisition Proposal other than the Proposed Transaction, or Hudson City enters into any definitive agreement with respect to an Acquisition Proposal other than the Proposed Transaction.

66. The Termination Fee of \$125 million represents 3.4% of the approximate equity value of the Proposed Transaction, not including the additional expenses Hudson City would be required to pay the Buyer. When considered collectively with the No Solicitation provision and

provision requiring J.P. Morgan's consent to consider a Superior Proposal, as detailed below, a mandatory termination fee in this amount is unreasonable and preclusive.

67. The terms and conditions of the Merger Agreement are collectively designed to ensure that the Buyer acquires Hudson City at the Offer Price, while improperly restraining the Board's exercise of its unremitting fiduciary duty to obtain the best possible price that is in the best interests of Hudson City's shareholders.

68. By approving the Proposed Transaction at the Offer Price and recommending that Hudson City shareholders approve the Proposed Transaction despite the Merger Agreement's restrictions on the Board's ability to consider alternative offers, the Board is acting in the best interests of the Buyer at the expense of the best interests of Hudson City's shareholders.

Hudson City's Financial Advisor Suffers from a Conflict of Interest

69. The Board's approval of the Proposed Transaction and recommendation to Hudson City's shareholders that they approve the Proposed Transaction is compromised by a conflict-of-interest with Hudson City's financial advisor J.P. Morgan Chase Securities LLC ("J.P. Morgan").

70. J.P. Morgan acted as financial advisor to Hudson City and rendered a fairness opinion in connection with the Proposed Transaction advising the Board that "the Merger Consideration to be paid to the holders of the Hudson Common Stock in the Merger is fair, from a financial point of view, to such holders." In consideration for issuing its fairness opinion, J.P. Morgan received a broker's fee pursuant to a letter agreement by Hudson City, a copy of which had been delivered to M&T before the parties agreed to the Proposed Transaction.

71. However, J.P. Morgan is a wholly owned subsidiary of J.P. Morgan Chase & Co. (a publicly traded financial holding company), which is one of the largest institutional

shareholders of M&T, holding 3,495,521 shares of M&T common stock as of June 30, 2012. Thus, J.P. Morgan suffered a conflict of interest in rendering its opinion about the fairness of the Offer Price to Hudson City's shareholders.

72. The acquisition of Hudson City will undeniably create tremendous opportunities for M&T, as it will gain approximately \$25 billion in deposits and \$28 billion in loans and will acquire Hudson City's network of 135 branch offices, 97 of which are in New Jersey and 29 in New York. As Joseph French, an analyst at Sandler O'Neill & Partners, noted, "[i]t's a very attractive transaction for M&T right off the bat. If you look up and down the M&T franchise from upstate New York to Virginia, two of the holes were Long Island and New Jersey."

73. While M&T may have determined that the Offer Price is in the best interests of M&T and its shareholders, the determination of whether the Offer Price is fair and in the best interests of Hudson City's shareholders should not have been made by one of M&T's largest institutional shareholders that has as a substantial economic interest in ensuring that the Proposed Transaction is closed for as low an offer price as possible.

74. In addition, as detailed above, the Merger Agreement precludes the Board from actively soliciting alternative acquisition proposals or engaging in discussions with third party bidders unless the Board deems that proposal to constitute a Superior Proposal. Under the Merger Agreement, however, an alternative offer can only be considered a Superior Proposal after the Board concludes that the offer is more favorable from a financial point of view to Hudson City's shareholders "after receiving the advice of its financial advisors." Thus, the Board is prohibited from even considering an alternative offer made by a third party bidder without the advice of one of the Buyer's largest shareholders.

75. Consequently, there is no basis upon which Hudson City's shareholders can independently determine the reliability and impartiality of J.P. Morgan's fairness opinion or J.P. Morgan's opinion with respect to any potential Superior Proposal received by the Board.

Individual Defendants will Receive Personal Financial Benefits upon Consummation of the Proposed Transaction

76. The Board's unanimous decisions to approve the Proposed Transaction and to recommend to Hudson City shareholders that they approve the Proposed Transaction are compromised by conflicts of interest among Individual Defendants.

77. Should the Proposed Transaction be consummated, Defendants Hermance and Salamone will receive personal monetary benefits not shared by Hudson City's shareholders.

78. According to the Schedule 14A filed by the Company with the SEC on March 19, 2012, in 2011, Hudson City utilized a performance-based equity compensation system designed to grant its executive officers various performance-based stock options "to reward holders for future value of [Hudson City] stock." These stock options were scheduled to vest 100% on March 15, 2014 if certain performance measurements are satisfied.

79. Defendants Hermance and Salamone both stand to receive substantial compensation as a result of vesting of their performance-based stock options. Pursuant to the Company's Equity Incentive Plan Award, Defendant Hermance currently holds 1,687,500 unexercised stock options and Defendant Salamone holds 570,100 unexercised, unearned stock options which have yet to vest. In addition, Defendant Hermance will receive an additional \$2,766,250 in stock-based awards and Defendant Salamone will receive an additional \$1,172,813 in stock-based awards at the time that such stock awards become 100% vested.

80. Pursuant to the Merger Agreement, all outstanding and unexercised officer and director stock-based awards stock options to purchase shares of Hudson City common stock which are subject to performance-based vesting conditions, will be deemed “to have been satisfied or to have been achieved at target level” at the time of the Proposed Transaction’s closing.

81. Accordingly, Defendants Hermance and Salamone, as well as other executive officers, stand to receive substantial financial incentives from the accelerated vesting of their stock-based awards and performance-based stock options should the Proposed Transaction be consummated, regardless of the adequacy and fairness of the Offer Price to Hudson City’s shareholders.

82. At the same time, pursuant to the Merger Agreement, Defendant Hermance has personally negotiated for himself to be appointed of the boards of directors of M&T and M&T Bank upon closing of the Proposed Transaction.

FIRST CAUSE OF ACTION

Breach of Fiduciary Duties of Loyalty and Care (Against the Individual Defendants)

83. Plaintiff repeats and re-alleges each allegation set forth herein.

84. The Individual Defendants have violated their fiduciary duties of care and loyalty owed to the public shareholders of Hudson City. By the acts, transactions, and courses of conduct alleged herein, the Individual Defendants are attempting to unfairly deprive Plaintiff and other members of the Class of the true value of their investment in Hudson City.

85. As demonstrated by the allegations above, the Individual Defendants have breached their duties of loyalty and care owed to Plaintiff and the other shareholders of Hudson City by, among other things:

(a) Accepting, and advising the Company's shareholders to accept, an Offer Price that provides value to the Company's shareholders substantially below the fair and inherent value of the Company;

(b) Failing to conduct a reasonably informed evaluation of whether the Proposed Transaction was in the best interests of Hudson City's shareholders;

(c) Failing to take all reasonable steps necessary to maximize the value received by the Company's shareholders for their shares of Hudson City stock; and

(c) Agreeing to terms and conditions contained in the Merger Agreement that are designed to ensure the Company's sale to the Buyer at the Offer Price while deterring other potential buyers from making alternative bids to acquire the Company.

86. As a result of the actions of the Individual Defendants, Plaintiff and the other members of the Class are, and will be, prevented from obtaining the highest value reasonably available for their shares of Hudson City common stock.

87. Unless enjoined by this Court, the Individual Defendants will continue to breach their fiduciary duties owed to Plaintiff and the other members of the Class, and may consummate the Proposed Transaction, which will deprive the Class of its fair proportionate share of the Company's valuable assets and businesses, to the irreparable harm of the Class.

88. Plaintiff and the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiff and the Class be fully protected from the irreparable injury which the defendants' actions threaten to inflict.

SECOND CAUSE OF ACTION

Aiding and Abetting Breach of Fiduciary Duties (Against the Buyer defendants)

89. Plaintiff repeats and re-alleges each allegation set forth herein.

90. The Buyer defendants, by reason of their status as parties to the Merger Agreement, and their possession of material, non-public information, have aided and abetted the Individual Defendants in the aforementioned breach of fiduciary duties.

91. The breaches of fiduciary duties by the Individual Defendants could not and would not have occurred but for the conduct of the Buyer defendants who have aided and abetted such breaches in connection with the Proposed Transaction.

92. In negotiating and gaining Board approval of the Proposed Transaction at the Offer Price and under certain terms and conditions contained in the Merger Agreement which, as discussed above were not in the best interests of Hudson City's shareholders, the Buyer defendants exploited and took advantage of conflicts of interest in the Board and J.P. Morgan. The Buyer defendants knowingly participated in the Individual Defendants' breaches of fiduciary duty by approving of the Proposed Transaction under terms and conditions which require the Board to prefer the interests of the Buyer defendants and the Individual Defendants at the expense off the best interests of Hudson City's shareholders.

93. Unless enjoined by this Court, the Buyer defendants will continue to aid and abet the Individual Defendants' breaches of their fiduciary duties owed to Plaintiff and the other members of the Class, and may consummate the Proposed Transaction, which will cause irreparable harm of the Class.

94. Plaintiff and the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiff and the Class be fully protected from the immediate and irreparable injury which the defendants' actions threaten to inflict.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment and relief as follows:

A. Declaring that this lawsuit is properly maintainable as a class action and certifying Plaintiff as a representative of the Class;

B. Declaring that the Individual Defendants have breached their fiduciary duties owed to Plaintiff and the other members of the Class;

C. Permanently enjoining defendants, their agents, counsel, employees and all persons acting in concert with them from consummating the Proposed Transaction;

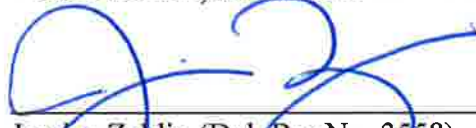
D. In the event the Proposed Transaction is consummated, rescinding it and setting it aside;

E. Awarding compensatory damages against defendants, jointly and severally, in an amount to be determined at trial, together with prejudgment interest at the maximum rate allowable by law;

F. Awarding Plaintiff and the Class their costs and disbursements and reasonable allowances for Plaintiff's counsel and experts' fees and expenses; and

G. Granting such other and further relief as may be just and proper.

ROSENTHAL, MONHAIT & GODDESS, P.A.



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