

R&G FINANCIAL CORP
Form 8-K
September 18, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): September 18, 2008 (September 16, 2008)

R&G Financial Corporation

(Exact name of registrant as specified in its charter)

Puerto Rico
(State or other jurisdiction

of incorporation)

001-31381
(Commission File Number)

290 Jesús T. Piñero Ave.

Hato Rey, San Juan, Puerto Rico 00918

66-0532217
(I.R.S. Employer

Identification No.)

Edgar Filing: R&G FINANCIAL CORP - Form 8-K

(Address of principal executive offices and zip code)

(787) 758-2424

(Registrant's telephone number, including area code)

Not applicable.

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry Into a Material Definitive Agreement.

On September 17, 2008, R&G Financial Corporation (the Company) announced in a press release that the Company, R&G Mortgage Corporation, the Company's wholly-owned Puerto Rico mortgage subsidiary (R&G Mortgage), and Banco Popular de Puerto Rico (Banco Popular), entered into a Servicing Rights Purchase and Transfer Agreement (the Purchase Agreement), dated as of September 16, 2008, pursuant to which Banco Popular agreed to purchase substantially all of R&G Mortgage's servicing rights and advances related to mortgage loans owned by the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae). As of August 31, 2008, the unpaid principal balance of the Freddie Mac and Ginnie Mae mortgage servicing portfolios was approximately \$3.8 billion and \$1.3 billion, respectively, representing approximately 57% of R&G Mortgage's servicing portfolio. This transaction does not affect R&G Mortgage's remaining third party mortgage servicing portfolio or the mortgages that R&G Mortgage services for R-G Premier Bank of Puerto Rico, the Company's wholly-owned Puerto Rico chartered commercial bank subsidiary (Premier Bank), which together had an aggregate unpaid principal balance of approximately \$4.1 billion as of August 31, 2008.

Banco Popular will acquire these assets for an estimated purchase price of \$34 million. At the closing, Banco Popular will also assume R&G Mortgage's recourse obligations in connection with the approximately \$1.2 billion Freddie Mac mortgage loans subject to recourse. The final purchase price will be determined at the closing of the transaction based on the unpaid principal balance of the Freddie Mac and Ginnie Mae mortgage loans and the outstanding balance of the servicing advances at closing. The purchase price will be paid in installments, 95% being due five days after the closing and the remaining five percent being payable in quarterly installments based on delivery of the related mortgage files to Banco Popular as of each such payment date. A portion of the proceeds will be used to repay approximately \$14 million currently outstanding under a line of credit with Banco Popular secured by the Ginnie Mae servicing rights and to deposit \$5 million in escrow to satisfy certain indemnification claims by Banco Popular. Moreover, under the terms of the agreement with Banco Popular, R&G Mortgage must satisfy its outstanding recourse obligations to Freddie Mac prior to closing. R&G Mortgage has satisfied its outstanding recourse obligations to Freddie Mac as of June 30, 2008 by repurchasing approximately \$17 million in mortgage loans.

The Purchase Agreement contains customary representations, warranties and agreements by the parties, indemnification rights and obligations of the parties and termination provisions. Additionally, the Purchase Agreement provides for indemnification rights in favor of Banco Popular in connection with certain repurchase or indemnity obligations related to breaches of representations and warranties made to Freddie Mac and Ginnie Mae upon the sale of the mortgage loans originated by R&G Mortgage. R&G Mortgage's obligation to indemnify Banco Popular under the Purchase Agreement may not exceed \$10 million, except for claims related to Banco Popular's indemnification right in connection with breaches of representations and warranties made to Freddie Mac and Ginnie Mae and the transfer of the servicing rights. The Company has agreed to guarantee R&G Mortgage's obligations under the Purchase Agreement. The consummation of the transaction contemplated by the Purchase Agreement is subject to the satisfaction or waiver of customary closing conditions, including receipt of applicable approvals from Freddie Mac and Ginnie Mae. The closing of the transaction is expected to occur in the fourth quarter of 2008.

The Purchase Agreement is being filed as Exhibit 10.1 to this Current Report on Form 8-K.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information included in Item 1.01 is incorporated by reference herein.

Item 8.01 Other Events.

On September 16, 2008, R&G Mortgage, Premier Bank, and Freddie Mac entered into an agreement to settle the litigation with Freddie Mac previously announced in a Current Report on Form 8-K filed by the Company on July 16, 2008. According to the terms of the settlement, R&G Mortgage and Premier Bank will remain as approved Freddie Mac seller/servicers in good standing. The settlement is subject to approval by the United States District Court, District of Puerto Rico, and may be rescinded by Freddie Mac if the transaction contemplated in the Purchase Agreement is not consummated within a certain time period.

A copy of the press release is incorporated herein by reference from Exhibit 99.1.

Forward-Looking Statements

The information included in this Current Report on Form 8-K contains certain forward-looking statements concerning the Company's economic future performance. The words or phrases expect, believe, anticipate, estimate, intend, look forward, should and similar expressions are used to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that a number of factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following: the Company's ability to attract new clients and retain existing clients; risks associated with the effects of global, national and regional economic and political conditions, including with respect to fluctuations in interest rates; risks associated with the Company's inability to prepare and timely file financial statements; potential adverse effects if the Company is required to recognize additional impairment charges or other adverse accounting-related developments; potential adverse developments from enforcement actions by bank regulatory agencies; and developments from changes in the regulatory and legal environment for financial services companies in Puerto Rico and the United States. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Item 9.01 Financial Statements and Exhibits.

- 10.1 Servicing Rights Purchase and Transfer Agreement, dated as of September 16, 2008
- 99.1 Press Release issued on September 17, 2008 by R&G Financial Corporation

SIGNATURES

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

R&G FINANCIAL CORPORATION

Date: September 18, 2008

By: /s/ Rolando Rodríguez
Rolando Rodríguez
President and Chief Executive Officer

4

the manufacturing of all the firm's non-antibiotic products. Dr. Aronson holds a Ph.D. in Physics from the University of Chicago. Mr. Aronson is also a director of Elite Research, Ltd. Other than Elite Research Ltd., no company with which Dr. Aronson was affiliated in the past was a parent, subsidiary or other affiliate of the Company. Eric L. Sichel, M.D., a director since August 2, 2001, is President of Sichel Medical Ventures, Inc., a company that provides biotechnology company assessments and investment banking services. Dr. Sichel has been the owner and President of Sichel Medical Ventures, Inc. since 1997. From 1995 through 1996, Dr. Sichel was a senior analyst in the biotechnology field for Alex, Brown & Sons, Inc. Prior to that, Dr. Sichel was affiliated with Sandoz Pharmaceuticals Corp. in various capacities, including associate director of transplantation/immunology. Dr. Sichel holds an M.B.A. from Columbia University and an M.D. from UMDNJ--New Jersey Medical School, and is licensed to practice medicine by the State of New York. John P. de Neufville has been the Chief Executive Officer and President of Voltaic, Inc., a supplier of electronic chemicals, since 1986. Mr. de Neufville has been a member of Elite's board of advisors since 1997. He holds a Ph.D. in applied physics and an M.S. in geology from Harvard University and a B.S. in geology from Yale University. John A. Moore has been Chief Executive Officer and President of Edson Moore Healthcare Ventures, an investment entity, since July 2002. Since 1994, Mr. Moore has been Chief Executive Officer and President of Optimer, Inc., a research based polymer development company. Mr. Moore holds a B.A. in history from Rutgers University. Richard A. Brown, has been Chairman of the Board of Directors of Niadyne, Inc., a pharmaceutical development company, since 1997. From 1986 to the present, Mr. Brown also has been President of Eagle Ventures, a healthcare venture capital and investment banking company. Mr. Brown also worked in the securities field for Tucker Anthony from 1972 to 1984 and Healthcare Ventures from 1984 to 1986. Mr. Brown holds an A.B. from Hamilton College. All of the nominees have agreed to serve if elected and consented to being named in the proxy statement. Except as summarized above under "Settlement of Election Contest" there are no arrangements between any director and any other person, pursuant to which the director is to be selected as such. There is no family relationship between the directors or persons nominated or chosen by the Company to become directors. **THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF THE SEVEN NOMINEES OF THE BOARD OF DIRECTORS DESCRIBED ABOVE.** **OUTSTANDING ELITE STOCK** As of November 1, 2002, there were [_____] shares of Elite common stock outstanding. **-5- SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE** To the knowledge of the Company, there was no person who, at any time during the fiscal year ended March 31, 2002, was a director, officer, beneficial owner of more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Securities Exchange Act of 1934, who failed to file on a timely basis the reports required by Section 16(a) of the Securities Exchange Act of 1934 during the most recent fiscal year, except Dr. Atul M. Mehta. **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS** The Company is a party to an agreement whereby fees are paid to Gittelman & Co., P.C., a company wholly owned by Mark I. Gittelman, the Company's Chief Financial Officer, Secretary and Treasurer, in consideration for services rendered by Mr. Gittelman in his capacity as Chief Financial Officer and Treasurer. For the fiscal years ended March 31, 2002 and 2001, the fees paid to that company were \$91,260 and \$82,639, respectively.

COMMITTEES The Board of Directors has an Audit Committee. The Board has no other standing committees. The Audit Committee members are Donald S. Pearson, Harmon Aronson and Eric L. Sichel. The Audit Committee had one meeting during the fiscal year ended March 31, 2002. The Company's Board of Directors has adopted a written charter for the Audit Committee, a copy of which was included as an appendix to the Company's proxy statement sent to stockholders in connection with the annual meeting of stockholders held October 11, 2001. The Company deems the members of its Audit Committee to be independent as independence is defined in Section 121(A) of the American Stock Exchange Listing Standards. **BOARD MEETINGS** The Board of Directors of the Company had three meetings during the fiscal year ended March 31, 2002. No incumbent director attended fewer than 75% of the aggregate of the meetings of the Board and its Audit Committee during that year. **AUDIT COMMITTEE REPORT** The Audit Committee reviewed and discussed the audited financial statements with management. The Audit Committee discussed with the independent auditors of the Company the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380), as modified or supplemented. The Audit Committee received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented. The Audit Committee discussed with the independent accountant the independent accountant's independence. Based upon the foregoing review and discussions, the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements of the Company be included in the Company's Annual Report on Form 10-K for the last fiscal year ended March 31, 2002 as filed with the Commission. The foregoing report of the Audit Committee is made by members of the Audit Committee of the Company: Donald S. Pearson, Harmon Aronson and Eric L. Sichel. **COMPENSATION OF DIRECTORS** Each non-affiliated director receives \$2,000 as compensation for each meeting of the Board of Directors attended. **EXECUTIVE OFFICERS AND COMPENSATION** -6- The following section sets forth certain information regarding the Company's executive officers. **BACKGROUND OF EXECUTIVE OFFICERS YEAR OF NAME OFFICES HELD FIRST ELECTION AGE** ----- Atul M. Mehta, Ph.D. Director, President and Chief Executive 1997 53 Officer Mark I. Gittelman Chief Financial Officer, Secretary and 1998 42 Treasurer For further information regarding Dr. Mehta's background, see "Board of Directors' Nominees" Mark I. Gittelman, CPA, the Chief Financial Officer, Secretary and Treasurer of the Company, is the President of Gittelman & Co., P.C., an accounting firm in Clifton, NJ. Prior to forming Gittelman & Co., P.C. in 1984, he worked as a certified public accountant with the international accounting firm of KPMG Peat Marwick, LLP. Mr. Gittelman holds a B.S. in accounting from New York University and a Masters of Science in Taxation from Farleigh Dickinson University. He is a Certified Public Accountant licensed in New Jersey and New York, and is a member of the American Institute of Certified Public Accountants ("AICPA"), the Securities and Exchange Practice Section of the AICPA, and the New Jersey State and New York States Societies of CPAs. Other than Elite Labs, no company with which Mr. Gittelman was affiliated in the past was a parent, subsidiary or other affiliate of the Company. All executive officers of the Company are serving until the next annual meeting of directors and until their successors have been duly elected and qualified. **EXECUTIVE COMPENSATION** The following table provides information on the compensation of Dr. Atul M. Mehta, the chief executive officer of the Company for the last three fiscal years. No other executive officer of the Company received salary and bonus exceeding \$100,000 during those periods. **SUMMARY COMPENSATION TABLE**

Annual Compensation	Long Term Compensation	-----	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(I)	Name and Fiscal				
Salary	Bonus	Other Restricted Securities	LTIP	All other principal	Year	-----	-----	Annual stock	Underlying	payouts	compen-	position				
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----				
2001-02	\$272,855	\$30,000	\$83,896	--	50,000	--	--	Mehta	2000-01	\$248,050	\$45,000	\$3,040	--	425,000(1)(2)	--	--
President	1999-00	\$227,030	\$25,000	\$3,040	--	500,000	--	--	and Chief Executive Officer	(1)	On December 15, 2000,	Dr. Mehta	surrendered options for 425,000 shares of the Company's common stock (exercisable at \$7.00 per share) and in return received options for 425,000 shares of the Company's common stock exercisable on January 2, 2001 and expiring January 1, 2006. The exercise price is 110% of the opening price of the Company's common stock on January 2, 2001 adjusted upward to the nearest half dollar of \$7.00. On January 2, 2001, the stock of the Company opened at \$6.25 per share, therefore the exercise price for the stock subject to these options is \$7.00 per share.	-7-	(2) By action on February 21, 2002, the Board corrected a clerical error in options for 425,000 shares of common stock of the Company previously granted to Dr. Mehta. This correction did not result in any additional shares being subject to options held by Dr. Mehta, any change in the exercise price or a change in any other material terms. The Company's	

fiscal year begins April 1 and ends March 31. The information is provided for each fiscal year beginning April 1. Other Annual Compensation represents use of a company car and premiums paid by the Company for life insurance on Dr. Mehta's life for the benefit of his wife. Reported below in this report is the purchase by the Company of options from Dr. Mehta. The purchase price for those options of \$80,896 is included above in "Other Annual Compensation."

OPTION GRANTS IN LAST FISCAL YEAR During the fiscal year ended March 31, 2002, the Board of the Company authorized the issuance to Dr. Mehta of options to acquire 50,000 shares of the common stock of the Company, vesting over a period of five years at the rate of 10,000 shares per year beginning February 21, 2003, exercisable at a price equal to 110% of the closing price of the stock on February 21, 2002 (\$8.25 per share). By action on January 25, 2001, the Board purchased options held by Dr. Mehta for 20,214 shares of the common stock of the Company at a price of \$4.00 per share. The options carried an exercise price of \$2.00 per share. The then current market price for the stock was in excess of \$7.50. Dr. Mehta had intended to exercise the option for these shares and then sell the shares. The purchase price for the option arrived at by the Board took into account the amount which would be necessary to purchase the options and cover taxes payable by Dr. Mehta on the transaction.

OPTION/SAR GRANTS TABLE IN LAST FISCAL YEAR (a) (b) (c) (d) (e) Number of % of Total Options Exercise or Name Securities Granted to Employees Base Price Expiration date ---- Underlying Options in Fiscal Year (\$/sh) -----
 Granted ----- Atul M. Mehta 50,000 2.8% \$8.25 2-20-07 Options for 500,000 shares which were granted to Dr. Mehta during the fiscal year ended March 31, 2000 vest at the rate of 100,000 shares per year on each December 31 beginning December 31, 2001. The options expire on the earlier of (a) one year after Dr. Mehta ceases to be employed by the Company or to serve as an officer or director of the Company or (b) March 31, 2010.

Notwithstanding, the options shall become fully vested and exercisable if Dr. Mehta's employment agreement or his position as an officer and director is terminated by the Company for any reason or if it expires as a result of the Company giving notice of nonrenewal. If the board of directors of the Company votes to approve the acquisition of more than 50% of the stock of the Company by any person or entity, the Company may require Dr. Mehta to exercise or sell the options. In addition to the above stated options, by Board action on September 22, 2000, Dr. Mehta was granted a preemptive right to acquire shares of the Company in a sufficient number to maintain his percentage ownership of the shares outstanding. Under this preemptive right, upon issuance by the Company of shares of common stock for any reason, or of securities convertible into common stock upon demand, Dr. Mehta shall be permitted to purchase shares of common stock of the Company sufficient to maintain the greater of his percentage ownership of outstanding common stock of the Company determined on an absolute basis and upon a fully diluted basis as existed prior to the stock issuance. The price which Dr. Mehta shall pay for such stock shall be the lower of (x) the then current market price (discounted 15% if the shares are not registered) or (y) the price to be paid by the party in the transaction triggering the preemptive right. The right shall be exercised and the price shall be paid within 120 days of the issuance of the stock triggering the preemptive right.

-8- AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUE TABLE a b c d e No. of Securities Underlying Value of Unexercised Unexercised Options In-the-Money Options at FY-End at FY-End Name Shares Acquired Value Exercisable/ Exercisable/ ---- on Exercise Realized Unexercisable Unexercisable -----
 ----- Dr. Atul M. Mehta None \$0 1,025,000/450,000 \$3,600,528 These options and the shares underlying them are unregistered, and their market value is unknown and incalculable. However, the registered common stock of the Company was trading for \$7.74 per share as of the close of business on March 28, 2002. It is on this hypothetical value that the figures in column (e) are calculated. These figures may have no relation to the actual value of the unexercised options.

EMPLOYMENT AGREEMENT The only employment agreement which the Company has with an executive officer is the Amended and Restated Employment Agreement entered into March 31, 2000 and amended on July 18, 2002, between the Company and Dr. Atul M. Mehta (the "Agreement"). The Agreement provides: o that the Company will employ Dr. Mehta for a period of five years ending December 31, 2005 (unless sooner terminated pursuant to provisions of the Agreement). At the end of the five years, the Agreement will be automatically renewed for an additional five year term with an annual salary to be agreed to, unless either party gives written notice of nonrenewal by December 31, 2004. The Agreement is automatically extended for periods of one year after December 31, 2010 unless either party gives notice of nonrenewal at least one year prior to the date of expiration. o for an annual salary of \$242,000, which amount is to be increased by the board of directors not less than 10% annually beginning January 1, 2001. o that Dr. Mehta will receive 5% of the net profit of the Company each fiscal year. o for an annual bonus in an amount determined by the Board. o that Dr. Mehta will receive options to purchase Elite common stock at

a price of \$10.00 per share in a total amount of 500,000 shares, exercisable in increments of 100,000 shares annually beginning December 31, 2000. The options shall be exercisable from the date of vesting until one year after Dr. Mehta ceases to be employed by the Company or to serve as an officer and director of the Company or March 31, 2010, whichever is earlier. o that the options are exercisable by Dr. Mehta if the Agreement or Dr. Mehta's position as an officer and director is terminated by the Company for any reason or if the Agreement is not renewed by the Company. o that the Agreement will terminate upon (a) Dr. Mehta's death, (b) election of either party if Dr. Mehta is unable to perform his duties on account of disability for a total period of 120 days or more during any consecutive period of twelve months, (c) by the Company upon "severe cause" and (d) by Dr. Mehta upon the occurrence of certain events. o that if the Agreement is terminated due to Dr. Mehta's death, his surviving spouse, or his estate if his spouse does not survive, shall receive Dr. Mehta's salary, incentive commissions, benefits and any deferred compensation accrued through the last day of the third calendar month following the month in which termination occurred; in addition, one-half of his salary would be paid for an additional period of three years. -9- o that if the Agreement is terminated by the Company because of Dr. Mehta's disability or upon "severe cause", Dr. Mehta will receive his salary, incentive commissions, benefits and any deferred compensation through the last day of the calendar month in which the termination occurs. o that if the Agreement is terminated by Dr. Mehta upon the occurrence of one of the events specified, including a "change in control" as defined, Dr. Mehta will receive all accrued salary, incentive commissions, benefits and any deferred compensation through the later of May 22, 2006 or the third anniversary of such termination. Dr. Mehta's Agreement was amended in July 2002 to amend the definition of "change in control".

The change was made in connection with Elite's consideration and implementation of anti-takeover defenses. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS Shown in the table below is any person (including any "group") known to the Company to be the beneficial owner of more than five percent (5%) of any class of the Company's voting securities as of October [], 2002. Title of Class Name and Address of Amount of Percent ----- Beneficial Owner Beneficial Ownership of Class ----- Common Dr. Atul

Beneficial Owner	Beneficial Ownership of Class	Amount of Percent
Common	Dr. Atul M. Mehta, Director/Officer	2,962,700(1) 26.4%
Common	Jerome Belson	928,000(2) 9.2%
Common	John P. de Neufville and Mely Rahn, Trustees	766,100(3) 7.9%
Common	Bakul and Dilip Mehta	630,000 6.5%
Common	Bridge Ventures, Inc.	859,470(4) 8.6%
Employee Pension Plan	1241 Gulf of Mexico Drive Longboat Key, FL 24228 SMACS Holding Corp.	1241 Gulf of Mexico Drive Longboat Key, FL 24228
Employee Pension Plan	9 Prospect Hill Road Ext. Pine Plains, NY 12567	-10- Saggi Capital Corp. Money Purchase Plan 9 Prospect Hill Road Ext. Pine Plains, NY 12567 Saggi Capital Corp. Profit Sharing Plan 9 Prospect Hill Road Ext. Pine Plains, NY 12567 Harris Freedman 1241 Gulf of Mexico Drive Longboat Key, FL 24228 Sharon Will 9 Prospect Hill Road Ext. Pine Plains, NY 12567 Michael H. Freedman 200 East 89th Street, Suite 17A New York, NY 10128 Common Shelly Bay Holdings, Inc. 849,291(5) 8.0% 101 Brookmeadow Road Wilmington, Delaware 19807 Shelly Bay Holdings, Ltd. c/o Consolidated Limited Par La Ville Place 14 Par-La-Ville Road Hamilton HM JX, Bermuda John Moore 101 Brookmeadow Road Wilmington, Delaware 19807 (1) Includes (i) 6,300 shares held by the Amar Mehta Trust; (ii) 6,300 shares held by Mrs. Mehta as custodian for Anand Mehta; (iii) 200,000 shares held by Mehta Partners, LP; and (iv) options to purchase 1,475,000 shares of common stock held by Dr. Mehta (including options for 400,000 shares which do not begin vesting until December 31, 2002 and then vest 100,000 shares on that date and 100,000 shares annually thereafter for three years and options for 50,000 shares which begin vesting on December 31, 2002 and then vest 10,000 shares on that date and 10,000 shares annually thereafter for four years). (2) Includes (i) 35,000 shares held by Maxine Belson, wife of Jerome Belson; (ii) 50,000 shares by the Jerome Belson Foundation; (iii) 28,000 shares owned by the Grandchildren of Jerome Belson; and (iv) warrants for 256,000 shares. (3) Represents (i) 331,000 shares held in trust for the benefit of John P. de Neufville; (ii) 410,000 shares held in trust for David T. de Neufville; and (iii) options personally held by John P. de Neufville to purchase 25,000 shares. (4) Based on information contained in a Schedule 13D, as amended, filed by the foregoing persons on August 26, 2002 who have formed a group within the meaning of Section 13(d) of the Securities Exchange Act of 1934. Consists of (a) 2,000 shares of common stock owned by Harris Freedman, (b) 369,970 shares of common stock owned by Bridge Ventures, Inc. (including 85,250 shares of common stock issuable upon exercise of warrants owned by Bridge Ventures, Inc.), (c) 121,000 shares of common stock owned by SMACS Holding Corp. (including 75,000 shares of common stock issuable upon exercise of warrants owned by SMACS Holding Corp.), (d) 102,200 -11-

shares of common stock owned by Bridge Ventures, Inc. Employee Pension Plan (including 10,000 shares of common stock issuable upon exercise of warrants owned by Bridge Ventures, Inc. Employee Pension Plan), (e) 7,500 shares of common stock owned by Sharon Will, (f) 217,500 shares of common stock owned by Saggi Capital Corp. (including 110,000 shares of common stock issuable upon exercise of warrants owned by Saggi Capital Corp.), (g) 7,450 shares of common stock owned by Saggi Capital Corp. Money Purchase Plan, (h) 8,350 shares of common stock owned by Saggi Capital Corp. Profit Sharing Plan, and (i) 23,500 shares of common stock owned by Michael H. Freedman (including 5,000 shares of common stock issuable upon exercise of warrants owned by Michael H. Freedman). (5) Based on information contained in a Schedule 13G filed by Shelly Bay Holdings, Inc., Shelly Bay Holdings, Ltd. and John Moore on August 27, 2002, the 849,291 shares of common stock beneficially owned by John Moore include the 849,291 shares of common stock beneficially owned by Shelly Bay Holdings, Inc. and the 849,291 shares of common stock beneficially owned by Shelly Bay Holdings, Ltd. These shares of common stock are comprised of (i) 667,500 shares of common stock issuable upon the exchange of 13,487 shares of the Series A Preferred Stock, par value \$1.00 per share, of Elite Labs, the wholly-owned subsidiary of the Company, (ii) 81,791 shares issuable upon the payment and exchange of in-kind dividends on the Series A Preferred Stock of Elite Labs accrued through and as of June 29, 2002, and (iii) the exercise of a warrant to purchase 100,000 shares of common stock (exercisable through October 17, 2005) at an exercise price of \$18.00 per share. The Series A Preferred Stock of Elite Labs became exchangeable by the reporting persons into shares of common stock of the Company on October [___], 2002. The Company is informed and believes that as of [_____], 2002, Cede & Co. held [_____] shares of the Company's common stock and [_____] Class A Warrants for shares of the common stock of the Company as nominee for Depository Trust Company, 55 Water Street, New York, New York 10004. It is the Company's understanding that Cede & Co. and Depository Trust Company both disclaim any beneficial ownership therein and that such shares are held for the account of numerous other persons, no one of whom is believed to beneficially own five percent or more of the common stock of the Company. SECURITY OWNERSHIP OF MANAGEMENT Shown below, as of October 1, 2002, are the shares of the Company beneficially owned by all directors and nominees, by the executive officers and by the directors and executive officers of the Company as a group. Title of Class Name and Address of Amount of Percent ----- Beneficial Owner Beneficial Ownership of Class ----- Common

Dr. Atul M. Mehta, Director/Officer	2,962,700(1)	26.4%	165 Ludlow Avenue Northvale NJ 07647	Common
Donald S. Pearson, Director	78,750(2)	0.8%	1305 Peabody Avenue Memphis, TN 38104	Common
Harmon Aronson, Director	60,000(3)	0.6%	26 Monterey Drive Wayne, NJ 07470	Common
Eric L. Sichel, Director	30,000(4)	0.3%	411 Highview Road Englewood, NJ 07631	Common
Mark I. Gittelman, Chief Financial Officer, Treasurer and Secretary	10,000(5)	0.1%	300 Colfax Avenue Clifton, NJ 07013 -12-	Common
Officers and Directors as a Group	3,141,450	27.7%	Nominees -----	Common
John P. de Neufville	766,100(6)	7.9%	197 Meister Avenue North Branch, NJ 08876	Common
John Moore	849,292(7)	8.6%	101 Brookmeadow Road Wilmington, Delaware 19807	Common
Richard A. Brown	461,500(8)	4.9%	P.O. Box 8706 Longboat Key, Florida 34228	(1) Includes (i) 6,300 shares held by the Amar Mehta Trust; (ii) 6,300 shares held by Mrs. Mehta as custodian for Anand Mehta; (iii) 200,000 shares held by Mehta Partners, LP; and (iv) options to purchase 1,475,000 shares of common stock held by Dr. Mehta (including options for 400,000 shares which do not begin vesting until December 31, 2002 and then vest 100,000 shares on that date and 100,000 shares annually thereafter for three years and options for 50,000 shares which do begin vesting until December 31, 2002 and then vest 10,000 shares on that date and 10,000 shares annually thereafter for four years). (2) Includes options to purchase 60,000 shares. Options for 40,000 shares are vested. The remaining options vest in increments of 10,000 shares each on September 1, 2002 and January 2, 2003. (3) Comprised of options to purchase 60,000 shares. Options for 40,000 shares are vested. The remaining options vest in increments of 10,000 shares each on September 1, 2002 and January 2, 2003. (4) Comprised of options to purchase 30,000 shares. Options for 10,000 shares are vested. Options for the remaining shares vest in increments of 10,000 each on August 2, 2003 and August 2, 2004. (5) Comprised of options to purchase 10,000 shares. (6) Comprised of (I) 331,100 shares held in trust for the benefit of John P. de Neufville; (ii) 410,000 shares held in trust for David T. de Neufville; and (iii) options personally held by John P. de Neufville to purchase 25,000 shares. (7) Comprised of (I) 667,500 shares of common stock issuable upon the exchange of 13,487 shares of the Series A Preferred Stock, par value \$1.00 per share, of Elite Labs, the wholly-owned subsidiary of the Company, beneficially owned by John Moore, Shelly Bay Holdings, Inc. and Shelly Bay Holdings, Ltd., (ii) 81,791 shares issuable upon the payment and exchange of in-kind dividends on the Series A Preferred Stock of Elite Labs accrued through and as of June 29, 2002 beneficially owned by John

Moore, Shelly Bay Holdings, Inc. and Shelly Bay Holdings, Ltd., and (iii) the exercise of a warrant to purchase 100,000 shares of common stock (exercisable through October 17, 2005) at an exercise price of \$18.00 per share, beneficially owned by John Moore, Shelly Bay Holdings, Inc. and Shelly Bay Holdings, Ltd. The Series A Preferred Stock of Elite Labs became exchangeable by the reporting persons into shares of common stock of the Company on October [], 2002. (8) Comprised of (i) 125,000 Class A Warrants held by Richard A. Brown, (ii) 261,500 shares of common stock held by Richard A. Brown, (iii) 50,000 shares of common stock held by the Alexander Brown Trust and (iv) 25,000 Class A Warrants held by the Alexander Brown Trust. -13- Information on the stock ownership of these persons was provided to the Company by the persons. COMPARATIVE STOCKHOLDER RETURN The graph which follows compares the yearly percentage change in the Company's cumulative total stockholder return on its common stock with the cumulative total stockholder return of (1) all United States companies traded on the American Stock Exchange (where the Company's common stock is now traded) and (2) 51 companies traded on the American Stock Exchange which carry the Standard Industrial Classification (SIC) code 283 (Pharmaceuticals). The graph was prepared by the Center for Research in Security Prices at the University of Chicago Graduate School of Business, Chicago, IL. The stock of the Company was traded on the NASDAQ over-the-counter bulletin board from July 23, 1998 until February 24, 2000. The stock of the Company began trading on the American Stock Exchange on February 24, 2000. The period covered by the comparison begins September 1998 because no trading data was available for the period from July 23, 1998 through August 31, 1998. The Company's fiscal year ends on March 31. -14-

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS PERFORMANCE GRAPH FOR ELITE PHARMACEUTICALS, INC. Produced on 05/29/2002 including data to 03/28/2002 [THE FOLLOWING DATA APPEARED AS A LINE CHART IN THE PRINTED MATERIAL] AMEX Elite AMEX Stocks Pharmaceuticals, Stock Market (SIC 2830-2839 Inc. (US Companies) US Companies) Drugs 09/03/1998 100.0 100.0 100.0 03/31/1999 158.4 117.5 136.2 03/31/2000 1780.0 166.6 267.8 03/30/2001 880.0 132.9 156.3 03/28/2002 1238.4 135.0 110.1

----- Legend Symbol CRSP Total Returns Index for:
 09/1998 03/1999 03/2000 03/2001 03/2002 [Box] Elite Pharmaceuticals, Inc. 100.0 158.4 1780.0 880.0 1238.4 [Star] AMEX Stock Market (US Companies) 100.0 117.5 166.6 132.9 135.0 [Triangle] AMEX Stocks (SIC 2830-2839 US Companies) Drugs 100.0 136.2 267.8 156.3 110.1 Notes: A. The lines represent monthly index levels derived from compounded daily returns that include all dividends. B. The indexes are reweighted daily, using the market capitalization on the previous trading day. C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used. D. The index level for all series was set to \$100.0 on 09/30/1998. E. Data for Elite Pharmaceuticals, Inc. from 09/1996 to 01/2000 was provided by the client.

----- Prepared by CRSP (www.crsp.uchicago.edu), Center for Research in Security Prices, Graduate School of Business, The University of Chicago. Used with permission. -15- INDEPENDENT PUBLIC ACCOUNTANTS The Board of Directors selects the independent public accounting firm for the Company each year at its annual meeting following the annual meeting of stockholders. Miller, Ellin & Co., LLP New York, New York, is the independent public accounting firm for the Company. AUDIT FEES The aggregate fees billed for professional services rendered by Miller, Ellin & Co., LLP, the principal accountants of the Company for the most recent fiscal year ended March 31, 2002, for the audit of the Company's annual financial statements for the most recent fiscal year ended March 31, 2002 and the reviews of the financial statements included in the Company's Forms 10-Q filed during that fiscal year were approximately \$43,000. ALL OTHER FEES No fees were billed for services rendered to the Company by Miller, Ellin & Co., LLP for the most recent fiscal year ended March 31, 2002 other than those services specified in the immediately preceding section. PRINCIPAL OFFICE The Company's principal offices are located at 165 Ludlow Avenue, Northvale, New Jersey 07647, and its telephone number is (201) 750-2646. ABSENCE OF APPRAISAL RIGHTS Under Delaware law, you do not have appraisal rights with respect to the matters to be considered at the Annual Meeting. OTHER MATTERS We are not aware of any matters to be presented at the Annual Meeting other than those described in this preliminary proxy statement. However, if other matters which are not known a reasonable time before the solicitation should come before the annual meeting, it is intended that the holders of proxies solicited hereby will vote on such matters in their discretion. A COPY OF THE COMPANY'S ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED MARCH 31, 2002, INCLUDING FINANCIAL STATEMENTS, ACCOMPANIES THIS PROXY STATEMENT. THE ANNUAL REPORT IS NOT TO BE REGARDED AS PROXY SOLICITING MATERIAL OR AS A COMMUNICATION BY MEANS OF WHICH ANY SOLICITATION IS TO BE MADE. STOCKHOLDER

PROPOSALS Any proposal intended to be presented by a stockholder at the next Annual Meeting of Stockholders must be received by the Company at the address specified below no later than the close of business on July 7, 2003 in order for such proposal to be eligible for inclusion in the Company's proxy statement and form of proxy for the 2003 Annual Meeting. Any proposal should be addressed to Mark I. Gittelman, Secretary, Elite Pharmaceuticals, Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647 and should be sent by certified mail, return receipt requested. **WHERE YOU CAN FIND MORE INFORMATION** The Company files reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. The SEC maintains an Internet world wide web site that provides access, without charge, to reports, proxy statements and other information about issuers, like Elite, who file electronically with the SEC. The address of that site is <http://www.sec.gov>. -16- You also may obtain copies of these materials by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. These materials are also available from the SEC in person at any one of its public reference rooms. Please call the SEC at 1-800-SEC-0330 for further information on its public reference rooms. You may read and copy this information at the following location of the SEC: Public Reference Room 450 Fifth Street, N.W. Washington, D.C. 20549 You can also obtain, without charge, reports, proxy statements and other information, including without limitation, any information we may incorporate by reference herein, about the Company, by contacting: Elite Pharmaceuticals, Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647, Attn: Corporate Secretary, telephone: (201) 750-2646, facsimile: (201) 750-2755. November [__], 2002 By Order of the Board of Directors Mark I. Gittelman, Secretary -17- **PRELIMINARY PROXY ELITE PHARMACEUTICALS, INC. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS.** November [__], 2002 The undersigned acknowledges receipt of the Company's proxy materials and revokes any prior proxy and hereby appoints Atul M. Mehta and Mark I. Gittelman, and each of them, attorneys and proxies, with power of substitution in each of them, to vote for and on behalf of the undersigned at the annual meeting of the stockholders of the Company to be held on December 12, 2002 or at any adjournment or postponement thereof, upon matters properly coming before the meeting, as set forth in the related Notice of Meeting and Proxy Statement, both of which have been received by the undersigned. Without otherwise limiting the general authorization given hereby, said attorneys and proxies are instructed to vote as follows: The Board of Directors recommends a vote "FOR" the Board's nominees for Director. 1. Election of the Board's nominees for Director. // **FOR ALL NOMINEES LISTED BELOW** // **WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW** Nominees: Atul M. Mehta, Harmon Aronson, Donald S. Pearson, Eric L. Sichel, John P. de Neufville, John A. Moore and Richard A. Brown. Discretionary authority is also granted to vote for the election of a substitute for any of said nominees who, for any reason presently unknown, cannot be a candidate for election. **INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE LISTED ABOVE, WRITE THE NOMINEE'S NAME IN THE SPACE PROVIDED BELOW.** 2. Upon all such other matters as may properly come before the meeting which were not known a reasonable time before the solicitation, as they in their discretion may determine. As of the date of this proxy statement, the Board of Directors was not aware of any such other matters. -18- **UNLESS OTHERWISE SPECIFIED IN THE SQUARES OR SPACE PROVIDED IN THIS PROXY, THIS PROXY WILL BE VOTED FOR EACH OF THE BOARD'S NOMINEES.** Dated: [_____], 2002 Signed: Please sign this proxy and return it promptly whether or not you expect to attend the meeting. You may nevertheless vote in person if you attend. Please sign exactly as your name appears hereon. Give full title if an Attorney, Executor, Administrator, Trustee, Guardian, etc. For an account in the name of two or more persons, each should sign, or if one signs, he should attach evidence of his authority. -2- -19-