

UNITY BANCORP INC /NJ/  
Form DEF 14A  
March 24, 2008

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

## SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ o

Check the appropriate box:

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| <input type="checkbox"/> o            | Preliminary Proxy Statement  |
| <input type="checkbox"/> o            | <b>Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))</b> |
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| <input type="checkbox"/> o            | Definitive Additional Materials  |
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UNITY BANCORP, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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| <input checked="" type="checkbox"/> x | No fee required.  |
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|                                       | (1) Amount Previously Paid:   |
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(4)

Date Filed:

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**UNITY BANCORP, INC.**

**64 Old Highway 22**

**Clinton, New Jersey 08809**

March 21, 2008

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders (the Annual Meeting ) of Unity Bancorp, Inc. (the Company ) to be held on April 24, 2008 at 3:00 p.m. at the Grand Colonial Restaurant, 86 Route 173 West, Perryville (Clinton), New Jersey. At the Annual Meeting, shareholders will be asked to consider and vote upon:

1. The election of the four (4) nominees listed in the attached proxy statement to serve on the Board of Directors for the terms set forth therein for each nominee;
2. Such other business as may properly come before the Annual Meeting and at any adjournments thereof, including whether or not to adjourn the Annual Meeting.

Space is limited for the Annual Meeting. If you plan on attending the Annual Meeting, please mark the appropriate box on the proxy card so we can reserve enough space to accommodate all attendees.

**Your cooperation is appreciated since a majority of the outstanding shares of Common Stock of the Company must be represented, either in person or by proxy, to constitute a quorum for the conduct of business. Whether or not you expect to attend, please sign, date and return the enclosed proxy card promptly in the postage-paid envelope provided so that your shares of Company Common Stock will be represented. In addition, please be kind enough to note on the proxy card whether or not you intend to be present at the Annual Meeting.**

On behalf of the Board of Directors and all of the employees of the Company, I thank you for your continued interest and support.

Sincerely yours,

DAVID D. DALLAS  
Chairman of the Board

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**UNITY BANCORP, INC.**  
**64 Old Highway 22**  
**Clinton, New Jersey 08809**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**TO BE HELD APRIL 24, 2008**

Notice is hereby given that the 2007 Annual Meeting of Shareholders (the Annual Meeting ) of Unity Bancorp, Inc., (the Company ), will be held at the Grand Colonial Restaurant, 86 Route 173 West, Perryville (Clinton), New Jersey, on April 24, 2008 at 3:00 p.m., for the purpose of considering and voting upon the following matters:

1. The election of directors to serve as directors of the Company for the terms set forth in the accompanying proxy statement;
2. Such other business as may properly come before the Annual Meeting and at any adjournments thereof, including whether or not to adjourn the Annual Meeting.

Shareholders of record at the close of business on March 7, 2008, are entitled to notice of, and to vote at, the Annual Meeting. If you plan on attending the Annual Meeting, please mark the appropriate box on the proxy card so we can reserve enough space to accommodate all attendees.

All shareholders are cordially invited to attend the Annual Meeting. Whether or not you contemplate attending the Annual Meeting, please execute the enclosed proxy and return it to the Company. You may revoke your proxy at anytime prior to the exercise of the proxy by delivering to the Company a later-dated proxy or by delivering a written notice of revocation to the Company. A return envelope, which does not require postage, if mailed in the United States, is enclosed for your convenience.

By Order of the Board of Directors

DAVID D. DALLAS  
Chairman of the Board

March 21, 2008  
Clinton, New Jersey

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**UNITY BANCORP, INC.  
64 Old Highway 22  
Clinton, New Jersey 08809**

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**PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 24, 2008**

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We are providing these proxy materials in connection with the solicitation by the Board of Directors of Unity Bancorp, Inc. (the "Company") of proxies to be voted at the Company's 2008 Annual Meeting of Shareholders (the "Annual Meeting") to be held on April 24, 2008, and at any postponement or adjournment of the Annual Meeting.

You are cordially invited to attend the Annual Meeting, which will begin at 3:00 p.m. local time. The Annual Meeting will be held at the Grand Colonial Restaurant, 86 Route 173 West, Perryville (Clinton), New Jersey. Shareholders will be admitted beginning at 2:45 p.m. local time. (Directions: Route 78 West to Exit 12 to end of ramp, turn left onto Route 173 West and proceed to restaurant on right; or Route 78 East to Exit 11 to end of ramp, turn left on Route 614, turn right onto Route 173 East and proceed to restaurant.)

The Company is first mailing this proxy statement and proxy card (including voting instructions) on or about March 21, 2008, to persons who were Unity Bancorp, Inc. shareholders at the close of business on March 7, 2008, the record date for the Annual Meeting.

**PROXIES AND VOTING PROCEDURES**

**Who Can Vote?**

You are entitled to vote at the Annual Meeting all shares of the Company's common stock, no par value per share (the "Common Stock"), that you held as of the close of business on the record date. Each share of Common Stock is entitled to one vote with respect to each matter properly brought before the Annual Meeting.

On March 7, 2008, there were 6,748,683 shares of Common Stock outstanding.

In accordance with New Jersey law, a list of shareholders entitled to vote at the meeting will be available at the Annual Meeting.

Who Is the Record Holder?

You may own Common Stock either (1) directly in your name, in which case you are the record holder of such shares, or (2) indirectly through a broker, bank or other nominee, in which case such nominee is the record holder.

If your shares of Common Stock are registered directly in your name, the Company is sending these proxy materials directly to you. If the record holder of your shares of Common Stock is a nominee, you will receive proxy materials from such record holder.

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#### How Do I Vote?

##### Record Holders:

- By Mail. If you choose to vote by mail, mark your proxy, date and sign it, and return it in the postage-paid envelope provided. Your vote by mail must be received by the close of voting at the Annual Meeting on April 24, 2008.
- By Attending the Annual Meeting. If you attend the Annual Meeting, you can vote your shares of Common Stock in person.

##### Stock Held by Brokers, Banks and Nominees:

If your Common Stock is held by a broker, bank or other nominee, you will receive instructions from them that you must follow in order to have your shares voted.

If you plan to attend the Annual Meeting and vote in person, you will need to contact the broker, bank or other nominee to obtain evidence of your ownership of Common Stock on March 7, 2008.

The method by which you vote will in no way limit your right to vote at the Annual Meeting if you later decide to attend in person.

#### How Many Votes Are Required?

A quorum is required to transact business at the Annual Meeting. The Company will have a quorum and be able to conduct the business of the Annual Meeting if the holders of a majority of the shares of Common Stock entitled to vote are present at the Annual Meeting, either in person or by proxy.

If a quorum is present, Directors will be elected by a plurality of votes cast at the Annual Meeting. Thus, a Director may be elected even if the Director receives less than a majority of the shares of Common Stock represented at the Annual Meeting.

#### How Are Votes Counted?

All shares that have been properly voted, and not revoked, will be voted at the Annual Meeting in accordance with the instructions given. If you sign and return your proxy card, but do not specify how you wish your shares to be voted, your shares represented by that proxy will be voted for the nominees for Director, and as recommended by the Board of Directors on any other business to be conducted at the Annual Meeting. The Board is not aware of any other business to be conducted at the Annual Meeting.

Proxies marked as abstaining, and any proxies returned by brokers as non-votes on behalf of shares held in street name because beneficial owners' discretion has been withheld as to one or more matters to be acted upon at the Annual Meeting, will be treated as present for purposes of determining whether a quorum is present at the Annual Meeting. However, any shares not voted as a result of a marked abstention or a broker non-vote will not be counted as votes for or against a particular matter. Accordingly, marked abstentions and broker non-votes will have no effect on the outcome of a vote.

#### How Can I Revoke My Proxy or Change My Vote?

You can revoke your proxy at any time before it is exercised by timely delivery of a properly executed, later-dated proxy or by voting in person at the Annual Meeting.

#### Who Will Pay the Expenses of Proxy Distribution?

The Company will pay the expenses of the preparation of the proxy materials and the solicitation of proxies. Proxies may be solicited on behalf of the Company by Directors, officers or employees of the Company, who will receive no additional compensation for soliciting, in person or by telephone, e-mail or facsimile or other electronic means. In accordance with the regulations of the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. ( NASD ), the Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for their expenses incurred in sending proxies and proxy materials to beneficial owners of Common Stock.

### ELECTION OF DIRECTORS

In accordance with the Certificate of Incorporation and the Bylaws of the Company, the Board of Directors shall consist of not less than one (1) and not more than fifteen (15) Directors. The Board of Directors of the Company currently has nine (9) members. The Board of Directors is divided into three classes. One class is elected each year for a term of three years.

Four (4) Directors will be elected at this Annual Meeting to serve for a three-year term expiring at the Company's Annual Meeting in 2011. The Board has nominated Wayne Courtright, David D. Dallas, Robert H. Dallas, II and Peter E. Maricondo to fill these positions. Each of the nominees is a current member of the Company's Board of Directors.

The following tables set forth, as of the record date, the names of the nominees and the names of those directors whose terms continue beyond the Annual Meeting and their ages, a brief description of their recent business experience, including present occupations and employment, certain directorships held by each, the year in which each became a director of the Company and the year in which their terms (or in the case of the nominees, their proposed terms) as director of the Company expire.

The persons named in the enclosed proxy card will vote such proxy for the election of each of the nominees named above unless you indicate that your vote should be withheld. If elected, each nominee will continue in office until his successor has been duly elected and qualified, or until the earliest of his death, resignation, retirement or removal. Each of the nominees has indicated to the Company that he or she will serve if elected. The Company does not anticipate that any of the nominees will be unable to stand for election, but if that happens, your proxy will be voted in favor of another person nominated by the Board.

The Board of Directors has nominated and recommends a vote FOR the election of Wayne Courtright, David D. Dallas, Robert H. Dallas, II and Peter E. Maricondo.



**Table I Nominees for 2008 Annual Meeting**

<b>Name, Age and Position with Company(1)</b>	<b>Principal Occupation During Past Five Years</b>	<b>Director Since(2)</b>	<b>Term Expires</b>
Wayne Courtright, 60 Director	Retired, Former Banker	2004	2011
David D. Dallas (3), 53 Chairman	Chairman of the Company and the Bank; Chief Executive Officer of Dallas Group of America, Inc. (Chemicals)	1990	2011
Robert H. Dallas, II, (3) 61 Director	President of Dallas Group of America, Inc. (Chemicals)	1990	2011
Peter E. Maricondo, 61 Director	Financial Consultant	2004	2011

**Table II Directors of the Company Whose Terms Continue Beyond this Annual Meeting**

<b>Name, Age and Position with Company(1)</b>	<b>Principal Occupation During Past Five Years</b>	<b>Director Since(2)</b>	<b>Term Expires</b>
Frank Ali, 75 Director	Entrepreneur and Real Estate Developer	2002	2009
Dr. Mark S. Brody, 55 Director	V.P. Planned Financial Programs, Inc.; Proprietor of Financial Planning Analysts; NY State Licensed Physician	2002	2009
Charles S. Loring, 66 Director	Owner, Charles S. Loring, Certified Public Accountant	1990	2009
James A. Hughes, 49 President, CEO and Director	President and CEO of the Company and the Bank	2002	2010
Allen Tucker, 81 Vice Chairman	President, Tucker Enterprises Real Estate Builder and Investor	1995	2010

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(1) Each director of the Company is also a director of the Bank.

(2) Includes prior service on the Board of Directors of the Bank.

(3) David D. Dallas and Robert H. Dallas, II, are brothers.

(4) No Director of the Company is also a Director of any other company registered pursuant to Section 12 of the Securities Exchange Act of 1934 or any company registered as an investment company under the Investment Company Act of 1940.



## GOVERNANCE OF THE COMPANY

### *Meetings of the Board of Directors and Committee Meetings*

During the fiscal year ended December 31, 2007, the Board of Directors of the Company held twelve (12) meetings. During the fiscal year ended December 31, 2007, no director attended fewer than 75% of the aggregate of (i) the meetings of the Board of Directors, and (ii) meetings of the Committees of the Board of Directors on which such director served. The Board of Directors has determined that each of the following Directors of the Company is independent, for Audit Committee purposes, within the meaning of the NASDAQ's listing standards: Frank Ali, Dr. Mark S. Brody, Wayne Courtright, Peter E. Maricondo, Charles S. Loring and Allen Tucker, constituting a majority of the Board. In reviewing the independence of these directors, the Board considered that Messrs. Ali, Brody, Loring and Tucker engaged in ordinary course banking transactions with the Bank, including loans that were made in accordance with Federal Reserve Regulation O. The Company's policy is to require all Directors to attend annual meetings of shareholders absent extenuating circumstances. All of the Company's Directors attended the Company's 2007 Annual Meeting of Shareholders.

### Audit Committee

The Company maintains an Audit Committee of the Board of Directors, which consisted of Chairman Peter E. Maricondo, and Directors Mark S. Brody, Wayne Courtright and Charles S. Loring, during the fiscal year ended December 31, 2007. The Audit Committee met five (5) times in 2007, and also held three (3) telephone conference calls with its external auditors in 2007. All Directors who serve on the Audit Committee are independent under the heightened NASDAQ listing standards and Securities and Exchange Commission's rules applicable to audit committees. The Board has determined that Messrs. Maricondo, Loring and Brody are considered audit committee financial experts as defined in Item 401(h) of Securities and Exchange Commission Regulation S-K.

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Board has adopted a written charter setting forth the functions of the Audit Committee. The functions of the Audit Committee are to: (i) monitor the integrity of the Company's financial reporting process and systems of internal controls; (ii) monitor the independence and performance of the Company's external audit and internal auditing functions; (iii) provide avenues of communication among the external and internal auditors and the Board of Directors; (iv) review and monitor compliance with the Company's Bank Secrecy Act (BSA) policy procedures and practices; and (v) review and monitor compliance with the Company's policies, procedures and practices. The Audit Committee reviews this charter annually in order to assure compliance with current SEC and NASDAQ rulemaking and to assure that the Audit Committee's functions and procedures are appropriately defined and implemented. A copy of our Audit Committee charter is available on our website at [www.unitybank.com](http://www.unitybank.com).

The Audit Committee also reviews and evaluates the recommendations of the Company's independent certified public accountant, receives all reports of examination of the Company and the Bank by regulatory agencies, analyzes such regulatory reports and informs the Board of the results of their analysis of the regulatory reports. In addition, the Audit Committee receives reports directly from the Company's internal auditors and recommends any action to be taken in connection therewith.

#### **H/R Compensation Committee**

The H/R Compensation Committee consisted of Chairman Mark S. Brody and Directors Frank Ali and Peter E. Maricondo during the fiscal year ended December 31, 2007. The H/R Compensation Committee met two (2) times in 2007. As of the date hereof, all Directors who serve on the H/R Compensation Committee are independent for purposes of NASDAQ listing standards.

The H/R Compensation Committee is appointed by the Board of Directors to assist the Board in fulfilling its responsibilities with respect to human resources issues, policies relating to human resources and compensation of employees, including executive compensation. The H/R Compensation Committee performs functions that include monitoring human resources and compensation issues and practices, both internally and in the marketplace, conducting surveys and studies as to these issues, keeping abreast of current developments in the relevant fields, developing compensation ranges/grades, human resources policies and employment manual updates. Based on the results of its activities, the H/R Compensation Committee makes recommendations to the Board as to matters of compensation and human resources. The H/R Compensation Committee does not delegate its authority regarding compensation. Currently, no consultants are engaged or used by the Compensation Committee for purposes of determining or recommending compensation. In 2007, the H/R Compensation Committee met two (2) times. The H/R Compensation Committee is not authorized to make final decisions as to these matters; rather, the Board of Directors makes all final determinations regarding compensation and human resources matters and takes into account, but is not required to follow, the recommendations of the H/R Compensation Committee. All decisions regarding compensation of executive officers of the Company are made by a majority of independent Directors in accordance with NASDAQ listing standards. The Board of Directors has adopted a written charter for the H/R Compensation Committee which is available on our website at [www.unitybank.com](http://www.unitybank.com)

#### ***Compensation Committee Interlocks and Insider Participation***

No members of the Compensation Committee are or were officers or employees of the Company.

The Company does not maintain a separate Nominating Committee. The full Board of Directors, which is comprised of a majority of independent directors within the meaning of the NASDAQ listing standards, performs the functions and fulfills the role of a nominating committee. In accordance with NASDAQ listing standards, each nominee selected by the Board must be approved by a majority of the independent Directors. The Company does not believe that a nominating committee is needed in light of the foregoing approval requirement and the fact that the Board consists largely of independent Directors. Although the Board has not adopted a formal written charter relating to its nominating procedures, it has adopted a resolution regarding the nomination process. The Board of Directors carefully considers all director candidates recommended by the Company's stockholders, and the Board does not and will not evaluate such candidate recommendations any differently from the way it evaluates other candidates. In its evaluation of each proposed candidate, the Board considers many factors including, without limitation, the individual's experience, character, demonstrations of judgment and ability, and financial and other special expertise. The Board is also authorized to obtain the assistance of an independent third party to complete the process of finding, evaluating and selecting suitable candidates for director. Candidates must be at least 30 years old. Any shareholder who wishes to recommend an individual as a nominee for election to the Board of Directors should submit such recommendation in writing to the Corporate Secretary of the Company, together with information regarding the experience, education and general background of the individual and a statement as to why the shareholder believes such individual to be an appropriate candidate for Director of the Company. Such recommendation should be provided to the Company no later than the deadline for submission of shareholder proposals with respect to the annual meeting at which such candidate, if nominated by the Board, would be proposed for election.



**Communications with the Board of Directors**

The Company encourages shareholder communications with the Board of Directors, but does not have a formal process. All such communications should be directed to the Chief Executive Officer of the Company, who will circulate them to the other members of the Board. The Board does not screen shareholder communications through management.

**Code of Ethics**

The Company has adopted a Code of Ethics in accordance with SEC regulations, applicable to the Company's Chief Executive Officer, Chief Operating Officer, senior financial officers and the Board of Directors. Our Code of ethics is available on our website at [www.unitybank.com](http://www.unitybank.com)

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Company's independent registered public accounting firm for the fiscal year ended December 31, 2007, was McGladrey & Pullen, LLP. Representatives of McGladrey & Pullen, LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

**Fees Paid to the Company's Independent Registered Public Accounting Firm during Fiscal Years 2006 and 2007.**

**Audit Fees**

The Company was billed the aggregate amount of \$128,000 for fiscal year ended December 31, 2007, for professional services rendered by McGladrey & Pullen, LLP for its audit of the Company's Financial Statements for 2007 and review of the financial statements included in the Company's Forms 10-Q during 2007.

The Company was billed the aggregate amount of \$ 165,000 for fiscal year ended December 31, 2006, for professional services rendered by KPMG LLP for its audit of the Company's consolidated Financial Statements for 2006 and review of the consolidated financial statements included in the Company's Forms 10-Q during 2006.

**All Other Fees**

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In addition to the fees set forth above under Audit Fees, the Company was billed \$18,000 for professional services related to the Audit of the Company's 401K Plan in fiscal year 2007. The Audit Committee has considered whether the provision of these services is compatible with maintaining the independence of McGladrey & Pullen, LLP.

In addition to the fees set forth above under Audit Fees, the Company was billed \$30,000 for professional services related to the Audit of the Company's 401K Plan and \$5,500 for issuance of consents in fiscal year 2006. The Audit Committee has considered whether the provision of these services is compatible with maintaining the independence of KPMG LLP.

**Pre-Approval of Audit and Permissible Non-Audit Services**

The Audit Committee generally pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. The Audit Committee has approved an exception to this pre-approval policy, allowing management to engage the Company's independent auditor to provide permissible non-audit services, provided that the total cost of such services, in the aggregate, does not exceed \$10,000 in any year. Management will then report the engagement to the Audit Committee at its next meeting. All audit and permissible non-audit services provided by McGladrey & Pullen, LLP to the Company for the fiscal years ended 2007 and by KPMG LLP for 2006 were approved by the Audit Committee.

***Report of the Audit Committee***

The Audit Committee meets at least four times per year to consider the adequacy of the Company's financial controls and the objectivity of its financial reporting. The Audit Committee meets with the Company's independent registered public accounting firm and the Company's internal auditors, who have unrestricted access to the Audit Committee.

Management of the Company has primary responsibility for the Company's financial statements and the overall reporting process, including the Company's system of internal controls. The independent registered public accounting firm audits the financial statements prepared by management, expresses an opinion as to whether those financial statements fairly represent the financial position, results of operations, and cash flows of the Company in conformity with generally accepted accounting principles and discusses with the Audit Committee any issues they believe should be raised with the Committee.

In connection with this year's financial statements, the Audit Committee has reviewed and discussed the Company's audited financial statements with the Company's officers and McGladrey & Pullen, LLP, the Company's independent registered public accounting firm. The Audit Committee has discussed with McGladrey & Pullen, LLP, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee also received the written disclosures and letters from McGladrey & Pullen, LLP, that are required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and have discussed such independence with representatives of McGladrey & Pullen, LLP.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the U.S. Securities and Exchange Commission.

Peter E. Maricondo, Chairman  
Dr. Mark S. Brody  
Wayne Courtright  
Charles S. Loring



### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth, as of February 29, 2008, certain information concerning the ownership of shares of Common Stock by (i) each person who is known by the Company to own beneficially more than five percent (5%) of the issued and outstanding Common Stock, (ii) each director and nominee for director of the Company, (iii) each named executive officer described in this Proxy Statement under the caption Executive Compensation, and (iv) all Directors and Executive Officers of the Company as a group.

**Table I Nominees for 2008 Annual Meeting**

Name and Position With Company(1)	Number of Shares Beneficially Owned (2)	Percent of Class
Frank Ali, Director	52,648(3)	0.78%
Mark S. Brody, Director	458,082(4)	6.77%
Wayne Courtright, Director	76,291(5)	1.13%
David D. Dallas, Chairman	1,042,479(6)	15.31%
Robert H. Dallas, II, Director	986,828(7)	14.50%
Charles S. Loring, Director	255,953(8)	3.76%
Peter E. Maricondo, Director	5,071(9)	0.08%
Allen Tucker, Director	269,896(10)	3.96%
Alan J. Bedner, Exec.V.P. and Chief Financial Officer	29,879(11)	0.44%
Michael F. Downes, Exec.V.P. and Chief Lending Of		

Operating income (loss)	4,794	5,359	(1,061)	955	10,047
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- (1) Revenues are disclosed net of payment of a fuel transfer tax and a turnover tax. Customs duties on hydrocarbon exports are disclosed in Taxes, charges and contributions, as indicated in Note 6.n) to the Unaudited Condensed Interim Consolidated Financial Statements. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining revenues.
- (2) Includes exploration and production operations in Argentina and the United States.
- (3) Intersegment revenues of crude oil to Downstream are recorded at transfer prices that reflect our estimate of Argentine market prices.
- (4) Corresponds to the elimination of income between segments of the YPF group.

#### ***Exploration and Production***

Revenues from the Exploration and Production business segment during the six-month period ended June 30, 2016 were Ps. 57,169 million, representing a 49.9% increase compared to Ps. 38,132 million in the same period in 2015.

Operating income during the six-month period ended June 30, 2016 for the Exploration and Production business segment was Ps. 6,157 million, an increase of 28.4% compared to Ps. 4,794 million during the same period in 2015. This increase in operating income was principally due to the following factors:

The intersegment oil price measured in U.S. dollars decreased 11.7%, while increasing 44.0% in Argentine peso terms. Oil production in respect of our operations in Argentina during the six-month period ended June 30, 2016 reached 245.8 barrels per day, representing a 1.1% decrease compared to the same period in 2015. This allowed the Company to maintain without variation the volume of crude oil transferred from the Exploration and Production business segment to the Downstream business segment and the volume of crude oil in sales to third parties. The crude oil volumes transferred to the Exploration and Production segment increased 1.5% and the volumes sold to third parties decreased by 2.7%;

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Natural gas production in respect of our operations in Argentina during the six-month period ended June 30, 2016 reached 44.4 million cm per day, representing a 0.3% increase compared to the same period in 2015. With the exception of the YSUR production, all natural gas produced, net of internal consumption, is assigned to the Downstream segment for sale to third parties. Sales volumes did not vary significantly during the six-month period ended June 30, 2016, compared to the same period in 2015. The Exploration and Production business segment records the average price obtained by YPF in such sales net of sales and marketing fees. The Exploration and Production segment also includes revenues from the Gas Plan, which increases the average prices obtained by YPF as a result of increasing YPF and YSUR's natural gas production. The average natural gas revenue recorded by the Company during the six-month period ended June 30, 2016, including revenues from the Gas Plan, reached U.S.\$ 4.72 per million BTU, a 4.6% increase compared to U.S.\$ 4.51 per million BTU in the same period in 2015.

During the six-month period ended June 30, 2015, the Company accrued Ps. 612 million due to the Crude Oil Production Stimulus Program in force at that time.

All of this was partially offset by:

Total operating costs in respect of our operations in Argentina during the six-month period ended June 30, 2016 were Ps. 49,644 million (excluding exploration costs), representing a 53.0% increase compared to Ps. 32,451 million during the same period in 2015. Among the main factors contributing to the increase were:

Property, plant and equipment depreciation costs increased by Ps. 8,409 million, or 80.7%, due mainly to increased investments in property, plant and equipment and overall increases of the value of property, plant and equipment in Argentine peso terms, which was related to the devaluation of the Argentine peso against the U.S. dollar;

Total lifting costs increased by Ps. 3,886 million, or 28.7%, primarily as a result of an increase of the unit indicator, expressed in pesos, of 27.6%;

Royalty payments increased by Ps. 2,520 million, or 45.8%, primarily as a result of increases of (i) Ps. 1,614 million related to crude oil production and (ii) Ps. 906 million related to natural gas production; and

Transportation costs increased by Ps. 1,054 million, or 48.8%, mainly due to increases in rates during 2015 and the six-month period ended June 30, 2016.

Exploration expenses during the six-month period ended June 30, 2016 increased to Ps. 1,192 million, representing a 106.2% increase compared to the Ps. 578 million in exploration expenses during the same period in 2015, primarily as a result of an increase in exploration activities in which the Company made investments. Negative results from unproductive exploratory drilling during the six-month period ended June 30, 2016 compared to the same period in 2015 increased by Ps. 325 million. Additionally, expenditures for the performance of geological and geophysical studies increased by Ps. 194 million, mainly for seismic survey studies of the Santa Cruz and Chubut areas. However, total investments in exploration decreased to Ps. 638 million, representing a 55.5% decrease compared to the total investment in exploration in the same period in 2015.

***Downstream***

Revenues from the Downstream business segment during the six-month period ended June 30, 2016 were Ps. 88,648 million, representing a 32.0% increase compared to Ps. 68,028 million during the same period in 2015.



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Operating income for the Downstream business segment during the six-month period ended June 30, 2016 was a gain of Ps. 2,638 million, representing a 50.8% decrease compared to an income of Ps. 5,359 million during the same period in 2015. This decrease in operating income is primarily due to the following factors:

The average volume of oil processed per day in YPF's refineries decreased 3.6% to 291,000 barrels of oil per day compared to same period in 2015, due to unit stoppages at our refineries in La Plata and Plaza Huincul between March and June of this year. These lower levels of processing decreased production of diesel by 3.9%, gasoline by 1.4%, fuel oil by 5.3% and other refined products by 4.7%, compared to the six-month period ended June 30, 2015;

Diesel revenues increased by Ps. 6,973 million, or 25.6%, as a result of an increase in the average price for diesel mix of approximately 31.4% with a decrease in overall sales volumes of approximately 4.5% and a 9.9% increase in sales volumes of Eurodiesel, a premium diesel;

Gasoline revenues increased by Ps. 5,350 million, or 32.3%, primarily as a result of an increase in the average price for gasoline mix of approximately 33.2%, which was partially offset by a decrease in sales volumes of approximately 0.6%;

Fuel oil revenues increased by Ps. 1,823 million, or 42.8%, primarily as a result of an increase in the average price of fuel oil of approximately 49.9%, which was partially offset by a decrease in sales volumes of 4.8%;

Exports of flour, grain and oil increased by Ps. 705 million, or 37.6%, due to an increase in the average sales price of 64.3% in Argentine peso terms and a decrease in export volumes of approximately 16.3%.

All of this was partially offset by:

Oil prices increased in Argentine peso terms as a result of the devaluation of the Argentine peso against the U.S. dollar as well as higher volumes of crude oil transferred from the Exploration and Production business segment of approximately 1.5% (approximately 105,000 cm) and an increase in the volume of crude oil purchased from third parties of approximately 6.7% (approximately 87,000 cm). The crude oil transferred from the Exploration and Production business segment and purchased from third parties increased by Ps. 13,564 million due to the increase in the average purchase price from the Exploration and Production business segment in Argentine peso terms of approximately 44.0% compared to an increase for oil purchased from third parties of approximately 38.2%. This variation in the percentage amounts is due to lower volumes purchased from third parties of light crude oil, which has a higher price;

Volumes purchased of diesel decreased by 30.5%, which was partially offset by an increase in volumes purchased of gasoline and jet fuel of 56.8%, representing a decrease of Ps. 108 million, or 3.6%, for all these products;

Purchases of biofuels increased by Ps. 1,945 million, or 51.8%, primarily as a result of an increase in volumes purchased of ethanol biofuel of 5.2%, which was partially offset by a decrease in volumes purchased of FAME of 5.5%, and an increase of approximately 33.3% in the price of ethanol biofuel and a 71.5% increase in the price of FAME;

Grain purchases in the agricultural sales segment through the form of barter increased by Ps. 807 million, or 62.5%, which were recorded as purchases;

During the six-month period ended June 30, 2015, insurance payments related to the losses suffered from an incident at our La Plata refinery in April 2013 were Ps. 511 million, which were mostly recorded as a lower cost of sales;

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Refining costs increased by Ps. 1,200 million, or 43.6%, driven by higher charges for consumption of materials, spare parts, electricity and other supplies and fuel;

Property, plant and equipment depreciation increased by Ps. 1,152 million, or 78.3%, primarily as a result of (i) increased investments in assets and (ii) an overall increase in property, plant and equipment values in Argentine pesos, which was related to the depreciation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;

Selling expenses increased by Ps. 1,305 million, or 24.3%, primarily as a result of higher product transportation charges, mainly related to increased costs for transportation related to increased fuel prices in the domestic market, as well as the depreciation of assets linked to commercial use; and

During the first six-month period of 2015, our subsidiary MetroGAS S.A. accrued Ps. 356 million related to the temporary economic assistance established by Resolution No. 263/2015 of the Energy Department's Office (Secretaría de Energía de la Nación).

**Corporate and other**

The operating income for the Corporate and Other business segment during the six-month period ended June 30, 2016 was a gain of Ps. 79 million, representing a 107.4% increase compared to a loss of Ps. 1,061 million in the same period in 2015. During the six-month period ended June 30, 2016, other operating results, net includes the net result of Ps.1,528 million generated by the process of the deconsolidation of the Maxus Entities.

**Liquidity and Capital Resources****Financial condition**

Total loans outstanding as of June 30, 2016 was Ps. 139,084 million, consisting of (i) current loans (including the current portion of non-current debt) of Ps. 33,822 million and non-current debt of Ps. 105,262 million. As of December 31, 2015, total loans outstanding was Ps. 105,751 million, consisting of (i) current loans (including the current portion of non-current debt) of Ps. 27,817 million and non-current debt of Ps. 77,934 million. As of June 30, 2016, and December 31, 2015, 76% and 73% of our debt was denominated in U.S. dollars, respectively.

The following tables set forth our consolidated cash flow information for the periods indicated.

	<b>For the six-month period ended June 30, 2016      2015 (in millions of pesos)</b>	
Net cash flows provided by operating activities	17,439	21,933
Net cash flows used in investing activities	(31,337)	(31,030)
Net cash flows provided by financing activities	13,614	13,065

Translation differences provided by cash and cash equivalents	938	512
Deconsolidation of subsidiaries	(148)	

Net increase in cash and equivalents	506	4,480
Cash and cash equivalents at the beginning of the year	15,387	9,758
Cash and cash equivalents at the end of period	15,893	14,238

Net cash flows provided by operating activities were Ps. 17,439 million during the six-month period ended June 30, 2016 compared to Ps. 21,933 million during the same period in 2015. The Ps. 4,494 million decrease during the six-month period ended June 30, 2016 was produced despite an increase in EBITDA of Ps. 7,070 million compared to the same period in 2015, due to an increase in working capital in the period and to a decrease in the collection of insurance for loss of profits of Ps. 1,066 million. The main items contributing to this increase were higher payments for income taxes and accrual of income pending collection, including new incentives for oil production and the stimulus program for surplus natural gas injection.

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Our use of cash in investing activities during the six-month period ended June 30, 2016 included Ps. 32,602 million for investments in property, plants and equipment and intangible assets made by our Exploration and Production business segment and investments in our refineries. Our net cash flow in financing activities reached Ps. 13,614 million during the six-month period ended June 30, 2016. Our use of cash in investing activities during the six-month period ended June 30, 2015 included Ps. 30,867 million in investments in property, plant and equipment and intangible assets made by our Exploration and Production business segment and investment in our refineries. In addition, net cash flow in financing activities reached Ps. 13,065 million.

The following table sets forth our debt maturities for the periods indicated below with regard to the principal amount payments of our loans as of June 30, 2016, including interest accrued and unpaid through June 30, 2016:

	Total	Less than 1 year	Expected Maturity Date							More than 5 years	
			1	2	2	3	3	4	4		5
			years		years		years		years		
(in millions of pesos)											
Loans	139,084	33,822	9,348		25,044		6,387		19,520		44,963

For detailed information regarding our indebtedness as of June 30, 2016, see Note 7.j) of the Unaudited Condensed Interim Consolidated Financial Statements.

On April 29, 2016, the Ordinary and Extraordinary General Meeting of Shareholders approved the increase of the amount of the Global Program for the Issuance of Medium Term Debt of the Company (*Programa Global de Emisión de Títulos de Deuda de Mediano Plazo de la Compañía*) by U.S.\$ 2.0 billion, to a total of U.S.\$ 10.0 billion, or its equivalent in other currencies to remain outstanding at any time under the program.

***Covenants in our indebtedness***

Our financial debt generally contains customary covenants. With respect to a significant portion of our financial debt totaling Ps. 129,381 million, including accrued interest (long-term and short-term debt) as of June 30, 2016, we have agreed, among other things and subject to certain exceptions, not to establish liens or charges on our assets. In addition, approximately 56.9% of our financial debt outstanding as of June 30, 2016 was subject to financial covenants related to our leverage ratio and debt service coverage ratio.

Additionally, GASA and its subsidiaries (including Metrogas), must comply with certain restrictions relating to indebtedness, restricted payments (including dividends), and liens, among others.

In case of payment default, creditors may declare due and immediately payable the principal and accrued interest on any amount due. Following an event of default with respect to other issues, with respect to net negotiable instruments amounting to Ps. 106,155 million as of June 30, 2016, the trustee may declare due and immediately payable the principal and accrued interest on the amounts due if requested by holders representing at least 25% of the total principal amount of the obligations outstanding under the Notes.

Almost all of our total outstanding financial loans are subject to cross-default provisions. The default on our part or, in certain cases, on the part of any of our consolidated subsidiaries covered by such provisions, could result in a declaration of default and/or acceleration of a substantial portion of our financial debt.

As of the date of this 6-K, none of our debt is under any event of default that could trigger an acceleration provision. In connection with the change of control of the Company as a result of the Expropriation Law, all waivers have been obtained.

**Table of Contents*****Guarantees provided***

As of June 30, 2016, we have issued letters of credit for an aggregate total amount of U.S.\$ 27 million to guarantee certain environmental obligations and guarantees in an aggregate total amount of U.S.\$ 238 million in relation to the performance of contracts of certain of our controlled companies.

***Capital investments, expenditures and divestments***

The table below sets forth our capital expenditures and investments by activity for the six-month periods ended June 30, 2016 and 2015.

	For the six-month period ended June 30,			
	2016		2015	
	(in millions of pesos)	%	(in millions of pesos)	%
Capital Expenditures and Investments <sup>(1)</sup>				
Exploration and Production <sup>(2)</sup>	24,185	81%	23,300	85%
Downstream	4,867	16%	3,444	13%
Corporate and Others	708	2%	555	2%
Total	29,760	100%	27,299	100%

(1) According to calculations and internal information of the Company.

(2) Includes property, plant and equipment acquisitions and exploration expenses, net of unproductive drilling expenses and well abandonment costs.

**Divestments**

We have made no significant divestments in the periods covered by this document.

See Note 7.c) to the Unaudited Condensed Interim Consolidated Financial Statements relating to the process of the deconsolidation of the Maxus Entities and the filing under Chapter 11 of the U.S. Bankruptcy Code.

**Off-balance sheet agreements**

We have no material off-balance sheet agreements. Our off-balance sheet agreements are described above in **Liquidity and Capital Resources** **Guarantees Provided**.

**Qualitative and Quantitative Disclosures about Market Risk**

The following quantitative and qualitative information is provided with respect to financial instruments to which we are a party as of June 30, 2016, and from which we may derive gains or incur losses from changes in market conditions, interest rates, foreign exchange rates or commodities prices. We do not enter into derivative or other financial instruments for trading purposes.

This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in **Key Information** **Risk Factors** in our 2015

20-F.

***Foreign currency exposure***

The value of financial assets and liabilities denominated in a currency different from the Company's functional currency is subject to variations resulting from fluctuations in exchange rates. Since YPF's functional currency is the U.S. dollar, the currency that generates the greatest exposure is the Argentine peso, the Argentine legal currency. See Note 1.b of the Audited Consolidated Financial Statements.



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In addition, our costs and receipts denominated in currencies other than the Argentine peso, including the U.S. dollar, often do not match. We generally follow a policy of not hedging our debt obligations in U.S. dollars. See Item 3. Key Information Risk Factors Risks Relating to Argentina We may be exposed to fluctuations in foreign exchange rates in the 2015 20-F.

The table below provides information about our assets and liabilities denominated in currencies other than pesos (principally U.S. dollars) being expressed in the latter currency at the exchange rate as of June 30, 2016 and December 31, 2015, in currencies other than the U.S. dollar. As mentioned in Note 1.b to the Unaudited Condensed Interim Consolidated Financial Statements, the Company has determined the U.S. dollar as its functional currency. Therefore, the effect of changes in the dollar exchange rate on dollar currency positions have no impact on the exchange difference recorded in the consolidated statements of comprehensive income included in the Unaudited Condensed Interim Consolidated Financial Statements.

	As of June 30, 2016	As of December 31, 2015
	(in millions of U.S.\$)	
Assets	1,427	1,813
Accounts payable	1,694	1,948
Loans	6,989	5,956
Other Liabilities	2,579	2,865

In addition, the Company was authorized to operate as a settlement and clearing agent in Rosario Futures Exchange ( ROFEX ). As a result, in October 2015, YPF acquired United States dollar purchase futures contracts in ROFEX, which matured between February and April 2016.

**Interest rate exposure**

Fixed rate debt satisfies our liquidity requirements and minimizes our exposure to interest rate fluctuations. We generally incur our debt on a fixed-rate basis, depending on the availability of capital and prevailing market conditions. Generally, we do not hedge our exposure to interest rates.

The table below set forth information relating to our assets and liabilities as of June 30, 2016 that may be sensitive to changes in interest rates.

	Less than 1 year	1 2 years	2 3 years	3 4 years	4 5 years	More than 5 years	Total	Fair Value
	Expected Maturity Date (in millions of pesos)							
<b>Assets</b>								
<i>Fixed rate</i>								
Other Receivables								
(1)	4,562						4,562	4,562

Interest rate 0.2%

Variable  
rate

Other  
Receivables  
(2)

750

750

750

Interest rate CER +  
8%/29,3%-  
14,3%

## Liabilities

Fixed rate

YPF s

Negotiable

Obligations	6,139	182	15,342	868	15,172	42,270	79,973	86,885
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Interest rate			3.5%-	3.5%-	3.5%-			
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	2%-25.75%	3.5%	8.875%	8.875%	8.5%	8.5%-10%		
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Other debt	17,896	1,150	177	16		26	19,266	19,243
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Interest rate	2.3%-36%	3.5%-15.23%	3.5%-15.23%	9.38%-15.23%		15.23%		
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Variable  
rate

YPF s

Negotiable

Obligations	2,639	3,055	6,299	4,804	3,847	2,667	23,311	23,311
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Interest rate		BADLAR +0%-	BADLAR +0%-					
	BADLAR +4.5% / LIBOR +7.5%	+4.75% / LIBOR +7.5%	4.75% / LIBOR + 7.5%	BADLAR +0%- +4.75%	BADLAR +0%-+4%	BADLAR +0%-+0.1%		

Other debt	3,574	4,967	3,238	702	502		12,983	12,983
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Interest rate

Libor

+4%-

Libor+6%-

Libor

Libor +4%-

6.2%/

6.2%/

+6%- +

BADLAR

BADLAR

Libor+6%-

6.2%/

+3%-

+3%-

6.2% /

+6.2% /

BADLAR

BADLAR

BADLAR

+3%-3.5%

3.5%

+3.5%

+3%

+3%

(1) Includes other receivables and time deposits.

(2) Includes other receivables and investment funds.



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**ADDITIONAL RECENT DEVELOPMENTS**

**Agreement with Chevron    Update of legal proceeding**

On July 14, 2016, the Federal Administrative Court    Room I upheld the ruling of the Court of First Instance stipulating that the Company must comply with the delivery of the required documentation in relation to its agreement with Chevron within five business days.

On August 11, 2016, the Company filed a federal extraordinary appeal contesting the decision of the Federal Administrative Court. Consequently, the contested decision is not yet final.

***Filing under Chapter 11 of the U.S. Bankruptcy Code by the Maxus Entities    Update of information***

On June 17, 2016 (the    Petition Date   ), Maxus, TS, Maxus International Energy Company, Maxus (U.S.) Exploration Company, and Gateway Coal Company (all indirect subsidiaries of YPF and collectively, the    Debtors   ) commenced cases (the    Chapter 11 Cases   ) by filing voluntary petitions under chapter 11 of title 11 of the United States Code (the    Bankruptcy Code   ) with the United States Bankruptcy Court for the District of Delaware (the    Bankruptcy Court   ). Prior to the Petition Date, the Debtors assessed any potential claims they may have against YPF and its other subsidiaries, YPF International S.A., YPF Holdings, Inc., CLH Holdings, Inc., and YPF Services USA Corp. (YPF S.A. and such subsidiaries, collectively, the    YPF Entities   ) based on or related to the corporate relationship between the Debtors and the YPF Entities, including claims based on an alter ego theory, all of which claims the YPF Entities believe are without merit. The Debtors and the YPF Entities have entered into a Settlement and Release (the    Settlement Agreement   ), pursuant to which, upon final Bankruptcy Court approval, the Debtors will release the YPF Entities from all such claims in exchange for a settlement payment of U.S.\$130 million. In addition, pursuant to the Settlement Agreement and subject to Bankruptcy Court approval, YPF Holdings, Inc. has agreed to loan the Debtors up to U.S.\$63.1 million under a debtor-in-possession credit facility (the    DIP Financing   ) to fund the Debtors' business operations and satisfy working capital needs and other expenses during the Chapter 11 Cases.

On August 19, 2016, the Bankruptcy Court issued a final order, under sections 362, 363 and 364 of the Bankruptcy Code, approving the DIP Financing.

The DIP Financing consists of two tranches: (a) Tranche A, which is senior up to U.S.\$28,750,000 and (b) Tranche B, which is subordinate up to U.S.\$34,350,000. Both tranches are subject to a budget. On August 29, 2016, the Debtors filed a motion for an order approving the Settlement Agreement with the Bankruptcy Court.

The first hearing in the Chapter 11 Cases was held on June 20, 2016. At that hearing, the Bankruptcy Court approved, among other things, the Debtors' motions for orders authorizing the payment of certain pre-petition tax claims and employee wage claims.

Subject to certain exceptions under the law, upon the Debtors filing voluntary petitions under the Bankruptcy Code, most decisions, as well as issues relating to creditor claims and actions for the recovery of previous debts prior to the date of filing are automatically stayed (including actions relating to claims against the Maxus Entities in the New Jersey State court relating to the Passaic River litigation    see Note 10 of the Unaudited Condensed Interim Consolidated Financial Statements and Note 11 of the Audited Consolidated Financial Statements).

YPF believes that the foregoing matters related to its indirect subsidiaries, which are not    significant subsidiaries    as defined under SEC rules, would not have a material adverse effect on YPF's consolidated operating results or financial condition. There can be no assurance as to whether or when the Debtors' Chapter 11 plan or the Settlement Agreement

will be approved by the Bankruptcy Court, or how the terms of the related documentation will be varied or amended.

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**SIGNATURE**

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, thereunto duly authorized.

**YPF Sociedad Anónima**

Date: September 15, 2016

By: /s/ Diego Celaá  
Name: Diego Celaá  
Title: Market Relations Officer