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PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
August 08, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the Quarter Ended June 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the transition period from to

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-3537895
(I.R.S. Employer
Identification No.)

158 Route 206 North,
Gladstone, New Jersey 07934
(Address of principal executive offices, including zip code)

(908) 234-0700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer of a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

Number of shares of Common Stock outstanding as of August 1, 2006:

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8,259,942

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
PART 1 FINANCIAL INFORMATION

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Item 1	Financial Statements (Unaudited)
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PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in thousands)
(Unaudited)

	June 30, 2006	December 31, 2005
	-----	-----
ASSETS		
Cash and due from banks	\$ 30,161	\$ 19,573
Federal funds sold	1,660	2,631
Interest-earning deposits	726	1,295
	-----	-----
Total cash and cash equivalents	32,547	23,499
Investment securities held to maturity (approximate market value \$65,668 in 2006 and \$77,286 in 2005)	66,958	78,084

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Securities available for sale	338,589	341,584
Loans:		
Loans secured by real estate	794,813	728,122
Other loans	44,062	40,351
	-----	-----
Total loans	838,875	768,473
Less: Allowance for loan losses	6,514	6,378
	-----	-----
Loans, net	832,361	762,095
Premises and equipment, net	23,374	21,412
Accrued interest receivable	4,940	4,828
Cash surrender value of life insurance	18,317	17,957
Other assets	10,476	5,924
	-----	-----
TOTAL ASSETS	\$ 1,327,562	\$ 1,255,383
	=====	=====
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$ 189,401	\$ 185,854
Interest-bearing deposits:		
Checking	133,819	176,175
Savings	81,905	90,744
Money market accounts	320,972	281,068
Certificates of deposit over \$100,000	123,214	93,903
Certificates of deposit less than \$100,000	236,484	214,252
	-----	-----
Total deposits	1,085,795	1,041,996
Other borrowings	100,250	77,500
Federal Home Loan Bank Advances	30,842	31,705
Accrued expenses and other liabilities	11,276	5,027
	-----	-----
TOTAL LIABILITIES	1,228,163	1,156,228
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock (no par value; \$0.83 per share; authorized 20,000,000 shares; issued shares, 8,484,507 at June 30, 2006 and 8,473,718 at December 31, 2005; outstanding shares, 8,259,942 at June 30, 2006 and 8,284,715 at December 31, 2005)	7,070	7,061
Surplus	89,194	88,973
Treasury stock at cost, 224,565 shares in 2006 and 189,003 shares in 2005	(4,946)	(4,022)
Retained earnings	13,725	10,100
Accumulated other comprehensive loss, net of income tax	(5,644)	(2,957)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	99,399	99,155
	-----	-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 1,327,562	\$ 1,255,383
	=====	=====

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
INTEREST INCOME				
Interest and fees on loans	\$ 11,945	\$ 9,094	\$ 23,194	\$ 17,111
Interest on investment securities:				
Taxable	277	430	575	430
Tax-exempt	330	307	699	699
Interest on securities available for sale:				
Taxable	3,874	3,461	7,641	6,922
Tax-exempt	87	90	174	174
Interest-earning deposits	12	6	21	6
Interest on federal funds sold	56	12	72	12
	-----	-----	-----	-----
Total interest income	16,581	13,400	32,376	26,256
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	3,143	1,949	5,636	3,898
Interest on certificates of deposit over \$100,000	1,261	578	2,275	1,156
Interest on other time deposits	2,431	1,318	4,514	2,437
Interest on borrowed funds	1,570	610	3,198	1,570
	-----	-----	-----	-----
Total interest expense	8,405	4,455	15,623	7,061
	-----	-----	-----	-----
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	8,176	8,945	16,753	19,195
Provision for loan losses	100	197	139	197
	-----	-----	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,076	8,748	16,614	18,998
	-----	-----	-----	-----
OTHER INCOME				
Trust department income	2,078	1,906	4,323	3,812
Service charges and fees	489	469	960	960
Bank owned life insurance	207	201	411	411
Securities gains	5	37	56	37
Other income	212	148	427	148
	-----	-----	-----	-----
Total other income	2,991	2,761	6,177	5,368
	-----	-----	-----	-----
OTHER EXPENSES				
Salaries and employee benefits	3,933	3,765	7,791	7,526
Premises and equipment	1,694	1,663	3,419	3,326
Other expenses	1,759	1,592	3,295	2,999
	-----	-----	-----	-----
Total other expenses	7,386	7,020	14,505	13,851
	-----	-----	-----	-----
INCOME BEFORE INCOME TAX EXPENSE	3,681	4,489	8,286	10,145

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Income tax expense	986	1,271	2,345	3
	-----	-----	-----	-----
NET INCOME	\$ 2,695	\$ 3,218	\$ 5,941	\$ 6
	=====	=====	=====	=====
EARNINGS PER SHARE				
Basic	\$ 0.33	\$ 0.39	\$ 0.72	\$
Diluted	\$ 0.32	\$ 0.38	\$ 0.71	\$
Average basic shares outstanding	8,270,905	8,297,449	8,275,008	8,279
Average diluted shares outstanding	8,373,884	8,418,049	8,385,690	8,400

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
	-----	-----
Balance, beginning of period	\$ 99,155	\$ 94,669
Comprehensive income:		
Net income	5,941	6,921
Unrealized holding losses on securities arising during the period, net of tax	(2,651)	(1,239)
Less: reclassification adjustment for gains included in net income, net of tax	36	218
	-----	-----
	(2,687)	(1,457)
	-----	-----
Total comprehensive income	3,254	5,464
Common stock options exercised	172	511
Purchase of treasury stock	(924)	(327)
Cash dividends declared	(2,316)	(1,823)
Stock-based compensation expense	29	--
Tax benefit on disqualifying and nonqualifying exercise of stock options	29	310
	-----	-----
Balance, June 30,	\$ 99,399	\$ 98,804
	=====	=====

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
	-----	-----
OPERATING ACTIVITIES:		
Net income:	\$ 5,941	\$ 6,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,021	965
Amortization of premium and accretion of discount on securities, net	283	573
Provision for loan losses	139	329
Gains on security sales	(56)	(82)
Gain on loans sold	(1)	(13)
Gain on disposal of fixed assets	--	(10)
Increase in cash surrender value of life insurance, net	(360)	(350)
Increase in accrued interest receivable	(112)	(396)
Increase in other assets	(2,831)	(2,027)
Increase in accrued expenses and other liabilities	6,251	1,948
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,275	7,858
	-----	-----
INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities	13,017	18,718
Proceeds from maturities of securities available for sale	30,192	17,729
Proceeds from calls of investment securities	--	3,185
Proceeds from calls of securities available for sale	3,000	7,000
Proceeds from sales of securities available for sale	330	26,404
Purchase of investment securities	(1,964)	(13,991)
Purchase of securities available for sale	(35,089)	(36,162)
Proceeds from sales of loans	226	1,613
Purchase of loans	(20,770)	(90,867)
Net increase in loans	(49,860)	(33,175)
Purchases of premises and equipment	(2,983)	(2,241)
Disposal of premises and equipment	--	21
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(63,901)	(101,766)
	-----	-----
FINANCING ACTIVITIES:		
Net increase in deposits	43,799	56,955
Net increase in short-term borrowings	22,750	48,250
Repayments of long-term debt	(863)	(838)
Stock-based compensation	29	--
Cash dividends paid	(2,318)	(1,817)
Tax benefit on stock option exercises	29	310
Exercise of stock options	172	511
Purchase of treasury stock	(924)	(327)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	62,674	103,044
	-----	-----

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Net increase in cash and cash equivalents	9,048	9,136
Cash and cash equivalents at beginning or period	23,499	16,518
	-----	-----
Cash and cash equivalents at end of period	\$ 32,547	\$ 25,654
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$ 14,386	\$ 7,577
Income taxes	1,720	5,503

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the unaudited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2005 for Peapack-Gladstone Financial Corporation (the "Corporation").

Principles of Consolidation: The Corporation considers that all adjustments (all of which are normal recurring accruals) necessary for a fair presentation of the statement of the financial position and results of operations in accordance with U.S. generally accepted accounting principles for these periods have been made. Results for such interim periods are not necessarily indicative of results for a full year.

The consolidated financial statements of Peapack-Gladstone Financial Corporation are prepared on the accrual basis and include the accounts of the Corporation and its wholly owned subsidiary, Peapack-Gladstone Bank. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the Corporation's loan portfolio. The allowance is based on management's evaluation of the loan portfolio considering, among other things, current economic conditions, the volume and nature of the loan portfolio, historical loan loss experience, and individual credit situations. The allowance is increased by provisions charged to expense and reduced by charge-offs net of recoveries.

Stock Option Plans: The Corporation has incentive and non-qualified stock option plans that allow the granting of shares of the Corporation's common stock to employees and non-employee directors. The options granted under these plans are exercisable at a price equal to the fair market value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant.

As of January 1, 2006, the Corporation adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (Revised 2004), Share-Based Payment, (Statement 123R), under the modified

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prospective transition method. Statement 123R requires public companies to recognize compensation expense related to stock-based compensation awards over the period during which an employee is required to provide service for the award. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after January 1, 2006. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in salaries and benefits expense over the remaining requisite service period. Results from prior periods have not been restated. The following table represents the impact of the adoption of Statement 123R on the Corporation's financial statements for the six months ended June 30, 2006.

(Dollars in thousands except share data)	Statement 123R	Under APB 25	Under Difference
	-----	-----	-----
Net income before income tax expense	\$ 8,286	\$ 8,315	\$ 29
Net income	5,941	5,970	29
Earnings per share - basic	\$ 0.72	\$ 0.72	\$ --
Earnings per share - diluted	0.71	0.71	--

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Prior to January 1, 2006, the Corporation had accounted for its stock option plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 (APB 25) and related Interpretations. No stock-based compensation cost was reflected in net income, as all options granted under those plans had an exercised price equal to the market value of their underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share for the three and six months ended June 30, 2005 as if the Corporation had applied the fair value recognition provisions of Statement No. 123R, to stock-based employee compensation in 2005:

(Dollars in thousands except share data)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	-----	-----
Net income:		
As reported	\$ 3,218	\$ 6,921
Less: Total stock-based compensation Expense determined under the Fair value based method on all stock Options, net of related tax effects	99	196
Pro forma	\$ 3,119	\$ 6,725
Earnings per share - as reported		
Basic	\$ 0.39	\$ 0.84
Diluted	0.38	0.82
Earnings per share - pro forma		
Basic	\$ 0.38	\$ 0.81
Diluted	0.37	0.80

As of June 30, 2006, there was approximately \$211 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans. That cost is expected to

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be recognized over a weighted average period of 1.5 years.

For the Corporation's stock option plans for employees, changes in options outstanding during the six months ended June 30, 2006 were as follows:

(Dollars in thousands except share data)	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2005	429,316	\$11.85-\$32.14	\$22.47	
Granted	3,800	24.57-27.90	25.73	
Exercised	(2,612)	11.85-15.08	11.97	
Forfeited	(22)	27.36	27.36	
Balance, June 30, 2006	430,482	\$11.85-\$32.14	\$22.56	\$ 2
Options exercisable, June 30, 2006	405,324			\$ 2

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the second quarter of 2006 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$41 thousand and \$489 thousand, respectively.

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The following table summarizes information about stock options outstanding at June 30, 2006.

Exercise Price	Shares Outstanding	Remaining Contractual Life	Shares Exercisable
----------------	--------------------	----------------------------	--------------------