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PEAPACK GLADSTONE FINANCIAL CORP  
Form 10-Q  
May 03, 2007

UNITED STATES  
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 March 31, 2007

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 or 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 May 1, 2007:  
8,286,603

PEAPACK-GLADSTONE FINANCIAL CORPORATION  
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Item 1. Financial Statements (Unaudited)

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

|                                                                                                            | March 31,<br>2007 | December 31,<br>2006 |
|------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
|                                                                                                            | -----             | -----                |
| ASSETS                                                                                                     |                   |                      |
| Cash and due from banks                                                                                    | \$ 21,258         | \$ 23,190            |
| Federal funds sold                                                                                         | 26,365            | 103                  |
| Interest-earning deposits                                                                                  | 1,092             | 6,965                |
|                                                                                                            | -----             | -----                |
| Total cash and cash equivalents                                                                            | 48,715            | 30,258               |
| Investment securities held to maturity (approximate market<br>value \$52,435 in 2007 and \$54,523 in 2006) | 52,987            | 55,165               |
| Securities available for sale                                                                              | 276,195           | 286,186              |

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|                                                                                                                                                                                                                                                            |              |              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Loans                                                                                                                                                                                                                                                      | 882,574      | 870,153      |
| Less: Allowance for loan losses                                                                                                                                                                                                                            | 6,894        | 6,768        |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| Net Loans                                                                                                                                                                                                                                                  | 875,680      | 863,385      |
| Premises and equipment                                                                                                                                                                                                                                     | 24,630       | 24,059       |
| Accrued interest receivable                                                                                                                                                                                                                                | 4,900        | 5,181        |
| Cash surrender value of life insurance                                                                                                                                                                                                                     | 18,877       | 18,689       |
| Other assets                                                                                                                                                                                                                                               | 5,098        | 5,453        |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| TOTAL ASSETS                                                                                                                                                                                                                                               | 1,307,082    | \$ 1,288,376 |
|                                                                                                                                                                                                                                                            | =====        | =====        |
| LIABILITIES                                                                                                                                                                                                                                                |              |              |
| Deposits:                                                                                                                                                                                                                                                  |              |              |
| Noninterest-bearing demand deposits                                                                                                                                                                                                                        | \$ 192,952   | \$ 196,519   |
| Interest-bearing deposits:                                                                                                                                                                                                                                 |              |              |
| Checking                                                                                                                                                                                                                                                   | 141,446      | 142,676      |
| Savings                                                                                                                                                                                                                                                    | 72,687       | 73,998       |
| Money market accounts                                                                                                                                                                                                                                      | 370,633      | 366,874      |
| Certificates of deposit over \$100,000                                                                                                                                                                                                                     | 142,245      | 126,014      |
| Certificates of deposit less than \$100,000                                                                                                                                                                                                                | 246,064      | 238,655      |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| Total deposits                                                                                                                                                                                                                                             | 1,166,027    | 1,144,736    |
| Long-term debt                                                                                                                                                                                                                                             | 23,520       | 23,964       |
| Accrued expenses and other liabilities                                                                                                                                                                                                                     | 11,967       | 15,913       |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| TOTAL LIABILITIES                                                                                                                                                                                                                                          | 1,201,514    | 1,184,613    |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| SHAREHOLDERS' EQUITY                                                                                                                                                                                                                                       |              |              |
| Common stock (no par value; \$0.83 per share;<br>authorized 20,000,000 shares; issued shares, 8,512,370 at<br>March 31, 2007 and 8,497,463 at December 31, 2006;<br>outstanding shares, 8,279,541 at March 31, 2007 and<br>8,270,973 at December 31, 2006) | 7,093        | 7,081        |
| Surplus                                                                                                                                                                                                                                                    | 89,624       | 89,372       |
| Treasury stock at cost, 232,829 shares at March 31, 2007<br>and 226,490 shares at December 31, 2006                                                                                                                                                        | (5,180)      | (4,999)      |
| Retained earnings                                                                                                                                                                                                                                          | 16,489       | 15,038       |
| Accumulated other comprehensive loss, net of income tax                                                                                                                                                                                                    | (2,458)      | (2,729)      |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| TOTAL SHAREHOLDERS' EQUITY                                                                                                                                                                                                                                 | 105,568      | 103,763      |
|                                                                                                                                                                                                                                                            | -----        | -----        |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY                                                                                                                                                                                                                   | \$ 1,307,082 | \$ 1,288,376 |
|                                                                                                                                                                                                                                                            | =====        | =====        |

See accompanying notes to consolidated financial statements.

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|                                                           | 2007      | 2006      |
|-----------------------------------------------------------|-----------|-----------|
|                                                           | -----     | -----     |
| INTEREST INCOME                                           |           |           |
| Interest and fees on loans                                | \$ 13,164 | \$ 11,248 |
| Interest on investment securities:                        |           |           |
| Taxable                                                   | 234       | 298       |
| Tax-exempt                                                | 271       | 369       |
| Interest on securities available for sale:                |           |           |
| Taxable                                                   | 3,275     | 3,767     |
| Tax-exempt                                                | 245       | 87        |
| Interest-earning deposits                                 | 11        | 9         |
| Interest on federal funds sold                            | 79        | 16        |
|                                                           | -----     | -----     |
| Total interest income                                     | 17,279    | 15,794    |
| INTEREST EXPENSE                                          |           |           |
| Interest on savings and interest-bearing deposit accounts | 4,243     | 2,492     |
| Interest on certificates of deposit over \$100,000        | 1,606     | 2,084     |
| Interest on other time deposits                           | 2,858     | 1,014     |
| Interest on borrowed funds                                | 263       | 1,628     |
|                                                           | -----     | -----     |
| Total interest expense                                    | 8,970     | 7,218     |
|                                                           | -----     | -----     |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES      | 8,309     | 8,576     |
| Provision for loan losses                                 | 125       | 39        |
|                                                           | -----     | -----     |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES       | 8,184     | 8,537     |
|                                                           | -----     | -----     |
| OTHER INCOME                                              |           |           |
| Trust department income                                   | 2,142     | 2,245     |
| Service charges and fees                                  | 490       | 472       |
| Bank owned life insurance                                 | 216       | 204       |
| Securities gains                                          | 162       | 51        |
| Other income                                              | 193       | 214       |
|                                                           | -----     | -----     |
| Total other income                                        | 3,203     | 3,186     |
|                                                           | -----     | -----     |
| OTHER EXPENSES                                            |           |           |
| Salaries and employee benefits                            | 4,254     | 3,859     |
| Premises and equipment                                    | 1,854     | 1,725     |
| Other expenses                                            | 1,450     | 1,534     |
|                                                           | -----     | -----     |
| Total other expenses                                      | 7,558     | 7,118     |
|                                                           | -----     | -----     |
| INCOME BEFORE INCOME TAX EXPENSE                          | 3,829     | 4,605     |
| Income tax expense                                        | 1,137     | 1,359     |
|                                                           | -----     | -----     |
| NET INCOME                                                | \$ 2,692  | \$ 3,246  |
|                                                           | =====     | =====     |
| EARNINGS PER SHARE                                        |           |           |
| Basic                                                     | \$ 0.33   | \$ 0.39   |
| Diluted                                                   | \$ 0.32   | \$ 0.39   |

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|                                    |           |           |
|------------------------------------|-----------|-----------|
| Average basic shares outstanding   | 8,273,250 | 8,279,156 |
| Average diluted shares outstanding | 8,400,599 | 8,383,269 |

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)

|                                                                                          | Three Months Ended<br>March 31, |           |
|------------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                          | 2007                            | 2006      |
|                                                                                          | -----                           | -----     |
| Balance, beginning of period                                                             | \$ 103,763                      | \$ 99,155 |
| Comprehensive income:                                                                    |                                 |           |
| Net income                                                                               | 2,692                           | 3,246     |
| Unrealized holding gains/(losses) on securities<br>arising during the period, net of tax | 376                             | (1,691)   |
| Less: reclassification adjustment for gains<br>included in net income, net of tax        | 105                             | 33        |
|                                                                                          | -----                           | -----     |
|                                                                                          | 271                             | (1,724)   |
|                                                                                          | -----                           | -----     |
| Total comprehensive income                                                               | 2,963                           | 1,522     |
| Common stock options exercised                                                           | 219                             | 91        |
| Purchase of treasury stock                                                               | (181)                           | (568)     |
| Cash dividends declared                                                                  | (1,241)                         | (1,158)   |
| Stock-based compensation expense                                                         | 45                              | 14        |
| Tax benefit on disqualifying and nonqualifying<br>exercise of stock options              | --                              | 16        |
|                                                                                          | -----                           | -----     |
| Balance, March 31,                                                                       | \$ 105,568                      | \$ 99,072 |
|                                                                                          | =====                           | =====     |

See accompanying notes to consolidated financial statements.

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

Three Months Ended

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|                                                                                   | March 31, |           |
|-----------------------------------------------------------------------------------|-----------|-----------|
|                                                                                   | 2007      | 2006      |
|                                                                                   | -----     | -----     |
| <b>OPERATING ACTIVITIES:</b>                                                      |           |           |
| Net income:                                                                       | \$ 2,692  | \$ 3,246  |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Depreciation                                                                      | 530       | 508       |
| Amortization of premium and accretion of discount on securities, net              | 80        | 151       |
| Provision for loan losses                                                         | 125       | 39        |
| Gains on security sales                                                           | (162)     | (51)      |
| Gain on loans sold                                                                | (1)       | (1)       |
| Gain on disposal of fixed assets                                                  | (3)       | --        |
| Stock-based compensation                                                          | 45        | 14        |
| Increase in cash surrender value of life insurance, net                           | (188)     | (178)     |
| Decrease/(increase) in accrued interest receivable                                | 281       | (511)     |
| Decrease/(increase) in other assets                                               | 198       | (441)     |
| (Decrease)/increase in accrued expenses and other liabilities                     | (3,946)   | 2,862     |
|                                                                                   | -----     | -----     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                                         | (349)     | 5,638     |
|                                                                                   | -----     | -----     |
| <b>INVESTING ACTIVITIES:</b>                                                      |           |           |
| Proceeds from maturities of investment securities                                 | 2,002     | 6,339     |
| Proceeds from maturities of securities available for sale                         | 14,313    | 14,241    |
| Proceeds from calls of investment securities                                      | 150       | --        |
| Proceeds from sales of securities available for sale                              | 810       | 228       |
| Purchase of investment securities                                                 | --        | (64)      |
| Purchase of securities available for sale                                         | (4,596)   | (27,517)  |
| Proceeds from sales of loans                                                      | 858       | 226       |
| Purchase of loans                                                                 | --        | (6,448)   |
| Net increase in loans                                                             | (13,277)  | (14,794)  |
| Purchases of premises and equipment                                               | (1,128)   | (1,968)   |
| Disposal of premises and equipment                                                | 30        | --        |
|                                                                                   | -----     | -----     |
| NET CASH USED IN INVESTING ACTIVITIES                                             | (838)     | (29,757)  |
|                                                                                   | -----     | -----     |
| <b>FINANCING ACTIVITIES:</b>                                                      |           |           |
| Net increase in deposits                                                          | 21,291    | 4,203     |
| Net increase in other borrowings                                                  | --        | 25,500    |
| Repayments of Federal Home Loan Bank advances                                     | (444)     | (430)     |
| Cash dividends paid                                                               | (1,241)   | (1,160)   |
| Tax benefit on stock option exercises                                             | --        | 16        |
| Exercise of stock options                                                         | 219       | 91        |
| Purchase of treasury stock                                                        | (181)     | (568)     |
|                                                                                   | -----     | -----     |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                         | 19,644    | 27,652    |
|                                                                                   | -----     | -----     |
| Net increase in cash and cash equivalents                                         | 18,457    | 3,533     |
| Cash and cash equivalents at beginning or period                                  | 30,258    | 23,499    |
|                                                                                   | -----     | -----     |
| Cash and cash equivalents at end of period                                        | \$ 48,715 | \$ 27,032 |
|                                                                                   | =====     | =====     |
| <b>Supplemental disclosures of cash flow information:</b>                         |           |           |
| Cash paid during the year for:                                                    |           |           |
| Interest                                                                          | \$ 8,067  | \$ 6,986  |
| Income taxes                                                                      | 750       | --        |

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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, 2006 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 incurred loan losses 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.

For the three months ended March 31, 2007 and 2006, the Corporation recorded total compensation cost for share-based payment arrangements of \$45 thousand and \$14 thousand, respectively, with a recognized tax benefit of \$4 thousand for the three months ended March 31, 2007. There was no recognized tax benefit for the three months ended March 31, 2006.

As of March 31, 2007, there was approximately \$771 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 be recognized over a weighted average period of 2.3 years.

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For the Corporation's stock option plans for employees, changes in options outstanding during the three months ended March 31, 2007 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, 2006               | 413,916          | \$11.85-\$32.14          | \$22.80                         |                           |
| Granted                                  | 45,345           | 26.30-29.65              | 28.13                           |                           |
| Exercised                                | (9,696)          | 11.85-26.65              | 13.28                           |                           |
| Forfeited                                | (213)            | 24.17-29.50              | 28.15                           |                           |
| Balance, March 31, 2007                  | 449,352          | \$11.85-\$32.14          | \$23.54                         | \$3,1                     |
| Options exercisable, March 31, 2007      | 383,338          |                          |                                 | \$2,9                     |

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 first quarter of 2007 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of options exercised during the three months ended March 31, 2007 and 2006 was \$158 thousand and \$40 thousand, respectively.

The Corporation also has non-qualified stock option plans for non-employee directors. Changes in options outstanding during the three months ended March 31, 2007 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, 2006               | 189,553          | \$15.68-\$28.89          | \$23.16                         |                           |
| Granted                                  | 17,600           | 28.10                    | 28.10                           |                           |
| Exercised                                | (5,211)          | 15.68-17.53              | 17.42                           |                           |
| Balance, March 31, 2007                  | 201,942          | \$15.68-\$28.89          | \$23.74                         | \$1,                      |
| Options exercisable, March 31, 2007      | 184,342          |                          |                                 | \$1,                      |

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 first quarter of 2007 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of options exercised during the three months ended March 31, 2007 and 2006 was \$53 thousand and \$40 thousand, respectively.

The per share weighted-average fair value of stock options granted during the



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first three months of 2007 and 2006 for all plans was \$10.24 and \$9.50, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

|                         | 2007    | 2006    |
|-------------------------|---------|---------|
|                         | -----   | -----   |
| Dividend yield          | 1.99%   | 2.19%   |
| Expected volatility     | 42%     | 40%     |
| Expected life           | 5 years | 5 years |
| Risk-free interest rate | 4.56%   | 4.30%   |

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Earnings per Common Share - Basic and Diluted: The following is a reconciliation of the calculation of basic and diluted earnings per share. Basic net income per common share is calculated by dividing net income to common shareholders by the weighted average common shares outstanding during the reporting period. Diluted net income per common share is computed similarly to that of basic net income per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally stock options, were issued during the reporting period utilizing the Treasury stock method.

|                                                    | Three Months Ended |           |
|----------------------------------------------------|--------------------|-----------|
|                                                    | March 31,          |           |
| (In Thousands, except per share data)              | 2007               | 2006      |
|                                                    | -----              | -----     |
| Net Income to Common Shareholders                  | \$ 2,692           | \$ 3,246  |
| Basic Weighted-Average Common Shares Outstanding   | 8,273,250          | 8,279,156 |
| Plus: Common Stock Equivalents                     | 127,349            | 104,113   |
|                                                    | -----              | -----     |
| Diluted Weighted-Average Common Shares Outstanding | 8,400,599          | 8,383,269 |
| Net Income Per Common Share                        |                    |           |
| Basic                                              | \$ 0.33            | \$ 0.39   |
| Diluted                                            | 0.32               | 0.39      |

Options to purchase 373,264 shares of common stock at a weighted average price of \$28.80 per share were outstanding and were not included in the computation of diluted earnings per share in the first quarter of 2007 because the option price was greater than the average market price. Options to purchase 317,593 shares of common stock at a weighted average price of \$28.93 per share were outstanding and were not included in the computation of diluted earnings per share in the first quarter of 2006 because the option price was greater than the average market price.

Income Taxes: The Company adopted Financial Accounting Standards Board (FASB) Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Corporation's financial statements.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the State of New Jersey. The Corporation is no longer subject to examination by taxing authorities for years before 2002. The Corporation does not expect the total amount of unrecognized tax benefits to

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significantly increase in the next 12 months.

The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense. The Corporation did not have any amounts accrued for interest and penalties at January 1, 2007.

**Comprehensive Income:** The difference between the Corporation's net income and total comprehensive income for the three months ended March 31, 2007 and 2006 relates to the change in the net unrealized gains and losses on securities available for sale during the applicable period of time less adjustments for realized gains and losses. Total comprehensive income for the three months ended March 31, 2007 and 2006 was \$3.0 million and \$1.5 million, respectively.

**Reclassification:** Certain reclassifications have been made in the prior periods' financial statements in order to conform to the 2007 presentation.

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### 2. LOANS

Loans outstanding as of March 31, consisted of the following:

| (In thousands)              | 2007      | 2006      |
|-----------------------------|-----------|-----------|
|                             | -----     | -----     |
| Loans secured by 1-4 family | \$555,004 | \$512,854 |
| Commercial real estate      | 231,832   | 205,397   |
| Construction loans          | 46,389    | 31,518    |
| Commercial loans            | 37,306    | 31,947    |
| Consumer loans              | 6,826     | 6,242     |
| Other loans                 | 5,217     | 1,529     |
|                             | -----     | -----     |
| Total loans                 | \$882,574 | \$789,487 |
|                             | =====     | =====     |

Non-performing assets, which are loans past due in excess of 90 days and still accruing and non-accrual loans, totaled \$6.0 million at March 31, 2007 and \$106 thousand at March 31, 2006. Loans past due in excess of 90 days and still accruing are in the process of collection and are collateralized by real estate. Management believes that the value of the real estate exceeds the balance due on the loans and expects no loss.

### 3. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (FHLB) totaled \$23.5 million and \$31.3 million at March 31, 2007 and 2006, respectively, with a weighted average interest rate of 3.47 percent and 3.56 percent, respectively. These advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling \$274.0 million at March 31, 2007. Advances totaling \$17.0 million at March 31, 2007, have fixed maturity dates, while advances totaling \$6.5 million were amortizing advances with monthly payments of principal and interest.

There were no other short-term borrowings from the FHLB at March 31, 2007.

There were no overnight borrowings at March 31, 2007 while overnight borrowings at March 31, 2006 totaled \$8.0 million. For the three months ended March 31, 2007 and 2006, overnight borrowings from the FHLB averaged \$4.3 million with a weighted average interest rate of 5.37 percent and \$37.9 million with a weighted average interest rate of 4.53 percent, respectively.

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The final maturity dates of the advances and other borrowings are scheduled as follows:

|                |           |
|----------------|-----------|
| (In thousands) |           |
| 2007           | \$ 4,000  |
| 2008           | 683       |
| 2009           | 2,000     |
| 2010           | 10,181    |
| 2011           | 3,000     |
| Over 5 years   | 3,656     |
|                | -----     |
| Total          | \$ 23,520 |
|                | =====     |

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#### 4. BENEFIT PLANS

The Corporation has a defined benefit pension plan covering substantially all of its salaried employees.

The net periodic expense for the periods indicated included the following components:

|                                   |                    |        |
|-----------------------------------|--------------------|--------|
|                                   | Three Months Ended |        |
|                                   | March 31,          |        |
| (In thousands)                    | 2007               | 2006   |
|                                   | -----              | -----  |
| Service cost                      | \$ 438             | \$ 417 |
| Interest cost                     | 195                | 165    |
| Expected return on plan assets    | (252)              | (224)  |
| Amortization of:                  |                    |        |
| Net loss                          | 9                  | 19     |
| Unrecognized prior service cost   | --                 | --     |
| Unrecognized remaining net assets | (2)                | (2)    |
|                                   | -----              | -----  |
| Net periodic benefit cost         | \$ 388             | \$ 375 |
|                                   | =====              | =====  |

As previously disclosed in the financial statements for the year ended December 31, 2006, the Corporation expects to contribute \$1.0 million to its pension plan in 2007. As of March 31, 2007, contributions of \$270 thousand had been made for the current year.

Item 2

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

GENERAL: The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's view of future interest income and net loans, management's confidence and strategies and management's expectations about new and existing programs and products, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect", "look", "believe", "anticipate", "may", "will", or similar statements or variations of such terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include,

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among others, the following possibilities:

- o The success of the Corporation's balance sheet restructuring initiative.
- o Unexpected decline in the direction of the economy in New Jersey.
- o Unexpected changes in interest rates.
- o Failure to grow business.
- o Inability to manage growth.
- o Unexpected loan prepayment volume.
- o Exposure to credit risks.
- o Insufficient allowance for loan losses.
- o Competition from other financial institutions.
- o Adverse effects of government regulation.
- o Decline in the levels of loan quality and origination volume.
- o Decline in the volume of increase in trust assets or deposits.

The Corporation assumes no responsibility to update such forward-looking statements in the future.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES: "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based upon the Corporation's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Corporation's Audited Consolidated Financial Statements included in the December 31, 2006 Annual Report on Form 10-K, contains a summary of the Corporation's significant accounting policies. Management believes the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

The provision for loan losses is based upon management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectibility may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's provision for loan losses. Such agencies may require the Corporation to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Corporation's loans are secured by real estate in the State of New Jersey. Accordingly, the collectibility of a substantial portion of the carrying value of the Corporation's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or should New Jersey experience adverse economic conditions. Future adjustments to the provision for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

EXECUTIVE SUMMARY: The Corporation's net income for the first quarter of 2007 was \$2.7 million as compared to \$3.2 million for the first quarter of 2006, a

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decline of \$554 thousand, or 17.1 percent. Earnings per share were \$0.32 per diluted share in the first quarter of 2007 as compared to \$0.39 per diluted share for the first quarter of 2006. The primary factor contributing to the decline in net income is the continued compression of the net interest margin, which is explained below. Annualized return on average assets for the quarter was 0.84 percent and annualized return on average equity was 10.28 percent for the first quarter of 2007.

On a fully tax-equivalent basis, net interest income was \$8.5 million in the first quarter of 2007, a decline of \$338 thousand or 3.8 percent from the same quarter last year and the net interest margin was 2.81 percent for the first quarter as compared to 2.94 percent for the same quarter of 2006 and 2.79 percent in the fourth quarter of 2006.

For the first quarter of 2007, average loans increased \$95.9 million or 12.4 percent from \$775.0 million for the first quarter of 2006 to \$870.9 million. The Corporation's long-term plan calls for a substantial shift in the asset mix, with less emphasis on residential mortgages and more emphasis on higher yielding commercial loans and commercial mortgages. As a result of this strategy, the average commercial loan portfolio grew \$31.8 million or 27.6 percent. The average mortgage loan portfolio grew by \$55.4 million or 9.0 percent. A majority of the mortgage loan growth was in adjustable-rate residential mortgage loans. Loan rates rose 24 basis points from the first quarter of 2006 to 6.05 percent for the same quarter of 2007.

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Average deposits grew \$125.3 million or 12.4 percent in the first quarter of 2007, over the levels of the first quarter of 2006, to \$1.14 billion. Deposit gathering remains highly competitive and short-term market rates continue to rise as is reflected in the rates paid on interest-bearing deposits. Rates paid for interest-bearing deposits in the first quarter of 2007 were 3.63 percent as compared to 2.67 percent for the first quarter of 2006, an increase of 96 basis points.

### EARNINGS ANALYSIS

**NET INTEREST INCOME:** Net interest income, on a tax-equivalent basis and before the provision for loan losses, for the first quarter of 2007 was \$8.5 million as compared to \$8.9 million for the first quarter of 2006, a decline of \$338 thousand or 3.8 percent. On a fully tax-equivalent basis, the net interest margin was 2.81 percent and 2.94 percent in the first quarter of 2007 and 2006, respectively, a decrease of 13 basis points. Net interest income for the first quarter of 2007, when compared to the fourth quarter of 2006, rose \$60 thousand, or 0.7 percent, to \$8.5 million on a tax-equivalent basis. The net interest margin, on a fully tax equivalent basis, increased from 2.79 percent in the fourth quarter of 2006, to 2.81 percent in the first quarter of 2007. In the past year, funding costs increased at a faster pace than yields on new loan originations. However, costs of interest-bearing liabilities declined by 7 basis points from the fourth quarter of 2006, as the federal funds target rate has remained unchanged since July of 2006.

Average loans for the first quarter of 2007 increased \$95.9 million or 12.4 percent to \$870.9 million from \$775.0 million for the first quarter of 2006. The average mortgage loan portfolio grew by \$55.4 million or 9.0 percent, during this period, while the average commercial loan portfolio grew \$31.8 million or 27.6 percent. Our long-term plan calls for a substantial shift in our asset mix, with less emphasis on residential mortgages and more emphasis on higher yielding commercial loans and commercial mortgages. We believe this material shift in our asset mix will deliver substantially superior earnings performance over the coming years. As reported above, improvement is already being seen in our net

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interest margin in the first quarter of 2007 as compared to the fourth quarter of 2006.

For the first quarter of 2007, average deposits grew \$125.3 million, or 12.4 percent to \$1.14 billion from \$1.01 billion for the first quarter of 2006. Money markets and certificates of deposit remain the Corporation's fastest growing categories of deposits, and also pay the highest rates, averaging 4.06 percent and 4.80 percent, respectively. For the first quarter of 2007, money market accounts averaged \$378.1 million, an increase of \$95.1 million, or 33.6 percent, over the same period in 2006, in large part due to the popularity of the high yield money market account with customers. Average certificates of deposit for the first quarter of 2007 and 2006 were \$372.3 million and \$322.6 million, respectively, an increase of \$49.6 million or 15.4 percent. Average short-term borrowings declined \$114.4 million from \$118.6 million in the first quarter of 2006 to \$4.3 million for the first quarter of 2007, a result of the strategic decision to reduce exposure to high-cost, short-term borrowings and reduce interest rate risk. Average demand deposits increased \$3.8 million or 2.2 percent in the first quarter of 2007 from the year ago period.

On a tax-equivalent basis, average interest rates earned on interest-earning assets rose 43 basis points to 5.76 percent for the first quarter of 2007 from 5.33 percent for the same quarter of 2006. Average interest rates earned on investment securities were 5.02 percent for the first quarter of 2007 as compared to 4.46 percent in the first quarter of 2006, an increase of 56 basis points. As part of the balance sheet restructuring undertaken in the third quarter of 2006, the Corporation sold lower yielding investment securities, using some of the proceeds to purchase higher yielding securities. In the first quarter of 2007, average interest rates earned on loans rose 24 basis points to 6.05 percent from 5.81 percent for the same period in 2006.

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The average interest rate paid on interest-bearing liabilities in the first quarter of 2007 and 2006 was 3.63 percent and 2.92 percent, a 71 basis point increase. Average rates paid on money market accounts increased 103 basis points to 4.06 percent for the first quarter of 2007, due, in large part, to the growth in the High-Yield Money Market account compared to the growth in other money market account products. On average, the High-Yield Money Market account has grown by \$160.3 million since the first quarter of 2006 and paid on average 4.09 percent in the first quarter of 2007. In the first quarter of 2007, certificates of deposit paid an average rate of 4.80 percent as compared to 3.84 percent in the same quarter of 2006, an increase of 96 basis points. The average rates paid on borrowings declined from 4.34 percent in the first quarter of 2006 to 3.77 percent in the first quarter of 2007, due in part to the reduction in the total borrowings outstanding.

The cost of funds increased to 3.07 percent for the first quarter of 2007 as compared to 2.48 percent for the same period in 2006. Despite strong loan and deposit growth, net interest income continues to be negatively affected by the narrow gap between short and long term interest rates and the inverted yield curve.

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The following tables reflect the components of net interest income for the periods indicated:

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Average Balance Sheet  
Unaudited  
Quarters Ended  
(Tax-Equivalent Basis, Dollars in Thousands)

|                                               | March 31, 2007              |                             |                |                             |
|-----------------------------------------------|-----------------------------|-----------------------------|----------------|-----------------------------|
|                                               | Average<br>Balance<br>----- | Income/<br>Expense<br>----- | Yield<br>----- | Average<br>Balance<br>----- |
| <b>ASSETS:</b>                                |                             |                             |                |                             |
| Interest-earnings assets:                     |                             |                             |                |                             |
| Investments:                                  |                             |                             |                |                             |
| Taxable (1)                                   | \$ 282,137                  | \$ 3,509                    | 4.97%          | \$ 374,043                  |
| Tax-exempt (1) (2)                            | 56,502                      | 740                         | 5.24           | 57,635                      |
| Loans (2) (3)                                 | 870,905                     | 13,178                      | 6.05           | 775,015                     |
| Federal funds sold                            | 5,884                       | 79                          | 5.38           | 1,479                       |
| Interest-earning deposits                     | 898                         | 11                          | 5.02           | 904                         |
|                                               | -----                       | -----                       | -----          | -----                       |
| Total interest-earning assets                 | 1,216,326                   | \$ 17,517                   | 5.76%          | 1,209,076                   |
|                                               | -----                       | -----                       | -----          | -----                       |
| Noninterest -earning assets:                  |                             |                             |                |                             |
| Cash and due from banks                       | 23,127                      |                             |                | 21,893                      |
| Allowance for loan losses                     | (6,770)                     |                             |                | (6,501)                     |
| Premises and equipment                        | 24,406                      |                             |                | 21,716                      |
| Other assets                                  | 26,642                      |                             |                | 23,113                      |
|                                               | -----                       |                             |                | -----                       |
| Total noninterest-earning assets              | 67,405                      |                             |                | 60,221                      |
|                                               | -----                       |                             |                | -----                       |
| Total assets                                  | \$ 1,283,731                |                             |                | \$ 1,269,297                |
|                                               | =====                       |                             |                | =====                       |
| <b>LIABILITIES:</b>                           |                             |                             |                |                             |
| Interest-bearing deposits:                    |                             |                             |                |                             |
| Checking                                      | \$ 136,941                  | \$ 282                      | 0.82%          | \$ 144,319                  |
| Money markets                                 | 378,082                     | 3,837                       | 4.06           | 283,022                     |
| Savings                                       | 72,574                      | 124                         | 0.68           | 88,395                      |
| Certificates of deposit                       | 372,280                     | 4,464                       | 4.80           | 322,649                     |
|                                               | -----                       | -----                       | -----          | -----                       |
| Total interest-bearing deposits               | 959,877                     | 8,707                       | 3.63           | 838,385                     |
| Borrowings                                    | 27,930                      | 263                         | 3.77           | 150,054                     |
|                                               | -----                       | -----                       | -----          | -----                       |
| Total interest-bearing liabilities            | 987,807                     | 8,970                       | 3.63           | 988,439                     |
|                                               | -----                       | -----                       | -----          | -----                       |
| Noninterest bearing liabilities               |                             |                             |                |                             |
| Demand deposits                               | 180,247                     |                             |                | 176,398                     |
| Accrued expenses and<br>other liabilities     | 10,967                      |                             |                | 4,893                       |
|                                               | -----                       |                             |                | -----                       |
| Total noninterest-bearing<br>liabilities      | 191,214                     |                             |                | 181,291                     |
| Shareholders' equity                          | 104,710                     |                             |                | 99,567                      |
|                                               | -----                       |                             |                | -----                       |
| Total liabilities and<br>shareholders' equity | \$ 1,283,731                |                             |                | \$ 1,269,297                |
|                                               | =====                       |                             |                | =====                       |
| Net Interest income                           |                             |                             |                |                             |
| (tax-equivalent basis)                        |                             | 8,547                       |                |                             |
| Net interest spread                           |                             |                             | 2.13%          |                             |
|                                               |                             |                             | =====          |                             |
| Net interest margin (4)                       |                             |                             | 2.81%          |                             |

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|                           |          |
|---------------------------|----------|
| Tax equivalent adjustment | (238)    |
| Net interest income       | \$ 8,309 |

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Average Balance Sheet  
Unaudited  
Quarters Ended  
(Tax-Equivalent Basis, Dollars in Thousands)

|                                           | March 31, 2007     |                    |       |                    |
|-------------------------------------------|--------------------|--------------------|-------|--------------------|
|                                           | Average<br>Balance | Income/<br>Expense | Yield | Average<br>Balance |
|                                           | -----              | -----              | ----- | -----              |
| <b>ASSETS:</b>                            |                    |                    |       |                    |
| Interest-earnings assets:                 |                    |                    |       |                    |
| Investments:                              |                    |                    |       |                    |
| Taxable (1)                               | \$ 282,137         | \$ 3,509           | 4.97% | \$ 290,532         |
| Tax-exempt (1) (2)                        | 56,502             | 740                | 5.24  | 47,617             |
| Loans (2) (3)                             | 870,905            | 13,178             | 6.05  | 871,664            |
| Federal funds sold                        | 5,884              | 79                 | 5.38  | 3,282              |
| Interest-earning deposits                 | 898                | 11                 | 5.02  | 1,548              |
|                                           | -----              | -----              | ----- | -----              |
| Total interest-earning assets             | 1,216,326          | \$ 17,517          | 5.76% | 1,214,643          |
|                                           | -----              | -----              | ----- | -----              |
| Noninterest -earning assets:              |                    |                    |       |                    |
| Cash and due from banks                   | 23,127             |                    |       | 23,068             |
| Allowance for loan losses                 | (6,770)            |                    |       | (6,632)            |
| Premises and equipment                    | 24,406             |                    |       | 23,649             |
| Other assets                              | 26,642             |                    |       | 25,465             |
|                                           | -----              |                    |       | -----              |
| Total noninterest-earning assets          | 67,405             |                    |       | 65,550             |
|                                           | -----              |                    |       | -----              |
| Total assets                              | \$ 1,283,731       |                    |       | \$ 1,280,193       |
|                                           | =====              |                    |       | =====              |
| <b>LIABILITIES:</b>                       |                    |                    |       |                    |
| Interest-bearing deposits:                |                    |                    |       |                    |
| Checking                                  | \$ 136,941         | \$ 282             | 0.82% | \$ 132,834         |
| Money markets                             | 378,082            | 3,837              | 4.06  | 357,379            |
| Savings                                   | 72,574             | 124                | 0.68  | 75,773             |
| Certificates of deposit                   | 372,280            | 4,464              | 4.80  | 374,529            |
|                                           | -----              | -----              | ----- | -----              |
| Total interest-bearing deposits           | 959,877            | 8,707              | 3.63  | 940,515            |
| Borrowings                                | 27,930             | 263                | 3.77  | 48,638             |
|                                           | -----              | -----              | ----- | -----              |
| Total interest-bearing liabilities        | 987,807            | 8,970              | 3.63  | 989,153            |
|                                           | -----              | -----              | ----- | -----              |
| Noninterest bearing liabilities           |                    |                    |       |                    |
| Demand deposits                           | 180,247            |                    |       | 179,338            |
| Accrued expenses and<br>other liabilities | 10,967             |                    |       | 6,962              |



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|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Total noninterest-bearing liabilities      | 191,214      | 186,300      |
| Shareholders' equity                       | 104,710      | 104,740      |
| -----                                      |              |              |
| Total liabilities and shareholders' equity | \$ 1,283,731 | \$ 1,280,193 |
| =====                                      |              |              |
| Net Interest income (tax-equivalent basis) | 8,547        |              |
| Net interest spread                        |              | 2.13%        |
|                                            |              | =====        |
| Net interest margin (4)                    |              | 2.81%        |
|                                            |              | =====        |
| Tax equivalent adjustment                  | (238)        |              |
| -----                                      |              |              |
| Net interest income                        | \$ 8,309     |              |
|                                            |              | =====        |

- (1) Average balances for available-for sale securities are based on amortized cost.
- (2) Interest income is presented on a tax-equivalent basis using a 35 percent federal tax rate.
- (3) Loans are stated net of unearned income and include non-accrual loans.
- (4) Net interest income on a tax-equivalent basis as a percentage of total average interest-earning assets.

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OTHER INCOME: Other income for the first quarter of 2007 was \$3.20 million as compared to \$3.19 million in the first quarter of 2006, an increase of \$17 thousand. PGB Trust and Investments, the Bank's trust division, generated \$2.14 million in fee income in the first quarter of 2007, a decrease of \$103 thousand or 4.6 percent over the same quarter of 2006 due in part to a decline in trust termination fees and executor fees. These fees, which are non-recurring, totaled \$48 thousand in the first quarter of 2007 as compared to \$304 thousand recorded in the year ago period. At March 31, 2007, the market value of trust assets under administration was over \$1.94 billion, an increase of \$173.7 million or 9.8 percent over the market value at March 31, 2006.

The Corporation recorded \$162 thousand of securities gain in the first quarter of 2007 as compared to \$51 thousand in the first quarter of 2006. Other income, excluding trust fee income and securities gains, totaled \$899 thousand for the first three months of 2007 as compared to \$890 thousand for the same period a year ago.

The following table presents the components of other income for the periods indicated:

| (In thousands)            | Three Months Ended |          |
|---------------------------|--------------------|----------|
|                           | March 31,          |          |
|                           | 2007               | 2006     |
|                           | -----              | -----    |
| Trust department income   | \$ 2,142           | \$ 2,245 |
| Service charges and fees  | 490                | 472      |
| Bank owned life insurance | 216                | 204      |
| Other non-interest income | 108                | 107      |

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|                          |          |          |
|--------------------------|----------|----------|
| Safe deposit rental fees | 66       | 63       |
| Fees for other services  | 19       | 44       |
| Securities gains         | 162      | 51       |
|                          | -----    | -----    |
| Total other income       | \$ 3,203 | \$ 3,186 |
|                          | =====    | =====    |

OTHER EXPENSES: For the first quarter of 2007, other expenses totaled \$7.56 million as compared to \$7.12 million recorded in the first quarter of 2006, an increase of \$440 thousand or 6.2 percent. Salaries and benefits, the Corporation's largest non-interest expense, was \$4.25 million for the first quarter of 2007 as compared to \$3.86 million for the same quarter of 2006, an increase of \$395 thousand or 10.2 percent. In the past year, the Bank has added new lenders who have contributed to the growth in the commercial and construction loan portfolios. In addition, normal salary increases, branch expansion, higher group health insurance and pension plan costs contributed to the increase.

Premises and equipment expense increased \$129 thousand, or 7.5 percent, from the first quarter of 2006 to \$1.85 million in the first quarter in 2006. The increase is due in part to the additional expenses associated with a new branch and new employees. While the Corporation strives to control costs, new branches are vital to our future growth and profitability. Deposit and loan growth continues as we add new markets and expand our staff to include professional commercial lenders. The Corporation continues to strive to operate in an efficient manner.

Excluding salaries and benefits and premises and equipment expenses, all other expense categories in total declined to \$1.45 million from \$1.53 million, a decrease of \$84 thousand, or 5.5 percent. For the three months ended March 31, 2007, professional services increased \$76 thousand, or 38.6 percent, due to increased audit and legal fees, as well as higher recruitment fees to fill new lending positions. Advertising expense declined \$70 thousand, or 38.3 percent, to \$113 thousand for the three months ended March 31, 2007 as compared to the same period a year ago and stationery and supplies declined \$29 thousand, or 27.1 percent, to \$78 thousand.

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The following table presents the components of other income for the periods indicated:

|                                | Three Months Ended |          |
|--------------------------------|--------------------|----------|
|                                | March 31,          |          |
| (In thousands)                 | 2007               | 2006     |
|                                | -----              | -----    |
| Salaries and employee benefits | \$ 4,254           | \$ 3,859 |
| Premises and equipment         | 1,854              | 1,725    |
| Professional fees              | 273                | 197      |
| Advertising                    | 113                | 183      |
| Telephone                      | 106                | 92       |
| Trust department expense       | 99                 | 115      |
| Postage                        | 84                 | 85       |
| Stationery and supplies        | 78                 | 107      |
| Other expense                  | 697                | 755      |
|                                | -----              | -----    |
| Total other expense            | \$ 7,558           | \$ 7,118 |
|                                | =====              | =====    |

NON-PERFORMING ASSETS: Other real estate owned (OREO), loans past due in excess of 90 days and still accruing, and non-accrual loans are considered

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non-performing assets. These assets totaled \$6.0 million and \$106 thousand at March 31, 2007 and 2006 respectively. Loans past due in excess of 90 days and still accruing are in the process of collection and we believe to be well secured. The increase in non-performing assets is primarily the result of two commercial loans of \$5.3 million, which we believe are well collateralized by properties with appraised values in excess of the loan amounts. No loss of principal or interest is anticipated. Peapack-Gladstone Bank has no sub-prime loans, higher-interest rate loans to consumers with impaired or non-existent credit histories, in its mortgage loan portfolio.

The following table sets forth non-performing assets on the dates indicated, in conjunction with asset quality ratios:

| (In thousands)                                                           | Three Months Ended<br>March 31, |        |
|--------------------------------------------------------------------------|---------------------------------|--------|
|                                                                          | 2007                            | 2006   |
|                                                                          | -----                           | -----  |
| Loans past due in excess of 90 days and still accruing                   | \$ 393                          | \$ 38  |
| Non-accrual loans                                                        | 5,651                           | 68     |
|                                                                          | -----                           | -----  |
| Total non-performing assets                                              | \$ 6,044                        | \$ 106 |
|                                                                          | =====                           | =====  |
| Non-performing loans as a % of total loans                               | 0.68%                           | 0.01%  |
| Non-performing assets as a % of total loans plus other real estate owned | 0.68%                           | 0.01%  |
| Allowance as a % of total loans                                          | 0.78%                           | 0.81%  |

PROVISION FOR LOAN LOSSES: The provision for loan losses was \$125 thousand for the first quarter of 2007 as compared to \$39 thousand for the first quarter in 2006. In 2006, the provision for loan losses was offset by \$61 thousand, representing the provision for losses on letters of credit and unfunded lines of credit, which was recorded in other expenses.

The amount of the loan loss provision and the level of the allowance for loan losses are based upon a number of factors including management's evaluation of probable losses inherent in the portfolio, after consideration of appraised collateral values, financial condition and past credit history of the borrowers as well as prevailing economic conditions.

For the first quarter of 2007, there were net recoveries of \$1 thousand as compared to net charge-offs of \$3 thousand during the first quarter of 2006.

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A summary of the allowance for loan losses for the periods indicated:

| (In thousands)               | 2007     | 2006     |
|------------------------------|----------|----------|
|                              | -----    | -----    |
| Balance, January 1,          | \$ 6,768 | \$ 6,378 |
| Provision charged to expense | 125      | 39       |
| Charge-offs                  | --       | (4)      |
| Recoveries                   | 1        | 1        |
|                              | -----    | -----    |
| Balance, March 31,           | \$ 6,894 | \$ 6,414 |
|                              | =====    | =====    |

INCOME TAXES: Income tax expense as a percentage of pre-tax income was 29.7 percent and 29.5 percent for the three months ended March 31, 2007 and 2006, respectively. Pre-tax income declined from \$4.6 million for the first three

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months of 2006 to \$3.8 million for the same period in 2007.

**CAPITAL RESOURCES:** The Corporation is committed to maintaining a strong capital position. At March 31, 2007, total shareholders' equity, including net unrealized losses on securities available for sale, was \$105.6 million, representing an increase in total shareholders' equity from what was recorded at December 31, 2006, of \$1.8 million or 1.7 percent. The Federal Reserve Board has adopted risk-based capital guidelines for banks. The minimum guideline for the ratio of total capital to risk-weighted assets is 8 percent. Tier 1 Capital consists of common stock, retained earnings, minority interests in the equity accounts of consolidated subsidiaries and non-cumulative preferred stock, less goodwill and certain other intangibles. The remainder may consist of other preferred stock, certain other instruments and a portion of the allowance for loan loss. At March 31, 2007, the Corporation's Tier 1 Capital and Total Capital ratios were 15.51 percent and 16.51 percent, respectively.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets of 3 percent for banks that meet certain specified criteria, including having the highest regulatory rating. All other banks are generally required to maintain a leverage ratio of at least 3 percent plus an additional 100 to 200 basis points. The Corporation's leverage ratio at March 31, 2007, was 8.37 percent.

**LIQUIDITY:** Liquidity refers to an institution's ability to meet short-term requirements in the form of loan requests, deposit withdrawals and maturing obligations. Principal sources of liquidity include cash, temporary investments and securities available for sale.

Management's opinion is that the Corporation's liquidity position is sufficient to meet future needs. Cash and cash equivalents, interest earning deposits and federal funds sold totaled \$48.7 million at March 31, 2007. In addition, the Corporation has \$276.2 million in securities designated as available for sale. These securities can be sold in response to liquidity concerns or pledged as collateral for borrowings as discussed below. Book value as of March 31, 2007, of investment securities and securities available for sale maturing within one year amounted to \$12.2 million and \$19.7 million, respectively.

The primary source of funds available to meet liquidity needs is the Corporation's core deposit base, which excludes certificates of deposit greater than \$100 thousand. As of March 31, 2007, core deposits equaled \$1.0 billion.

Another source of liquidity is borrowing capacity. The Corporation has a variety of sources of short-term liquidity available, including federal funds purchased from correspondent banks, short-term and long-term borrowings from the Federal Home Loan Bank of New York, access to the Federal Reserve Bank discount window and loan participations of sales of loans. The Corporation also generates liquidity from the regular principal payments made on its mortgage-backed securities and loan portfolios.

**RECENT ACCOUNTING PRONOUNCEMENTS:** In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." Statement 159 provides companies with an option to report selected financial assets and liabilities at fair value. Statement 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Statement 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year

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provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. The Corporation is still evaluating the impact the adoption of Statement No. 159 will have on its future consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement 157 establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Corporation is still evaluating the impact the adoption of Statement No. 157 will have on its future consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force (EITF) finalized Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." EITF 06-4 requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Corporation is still evaluating the impact of the adoption of EITF 06-4.

In September 2006, the FASB EITF finalized Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4" (Accounting for Purchases of Life Insurance). EITF 06-5 requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. EITF 06-5 also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, EITF 06-5 discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The adoption of EITF 06-5 did not have a material impact on the financial statements.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140." Statement 156 provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. Statement 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. The Corporation does not expect the adoption of Statement 156 will have a material impact on its consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to information required regarding quantitative and qualitative disclosures about market risk from the end of the preceding fiscal year to the date of the most recent interim financial statements (March 31, 2007).

ITEM 4. Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Corporation's management, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by this Quarterly report on Form 10-Q. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

The Corporation's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Corporation's internal control over financial reporting that have materially affected, or is reasonable likely to materially affect, the Corporation's internal control over financial reporting.

The Corporation's management, including the CEO and CFO, does not expect that our disclosure controls and procedures of our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, provides reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system reflects resource constraints; the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty that breakdowns occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions; over time, control may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the three months ended March 31, 2007 from the risk factors disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

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## Issuer Purchases of Equity Securities

| Period              | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>Or Programs | Maximum Number<br>Of Shares That May<br>Yet be Purchased<br>Under the Plans or<br>Programs |
|---------------------|-------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| January 1-31, 2007  | --                                        | \$ --                              | --                                                                                              | 89,100                                                                                     |
| February 1-28, 2007 | --                                        | --                                 | --                                                                                              | 89,100                                                                                     |
| March 1-31, 2007    | --                                        | --                                 | --                                                                                              | 89,100                                                                                     |
| Total               | -----<br>=====                            | -----<br>=====                     | -----<br>=====                                                                                  | -----<br>=====                                                                             |

On April 15, 2005, the Board of Directors of Peapack-Gladstone Financial Corporation announced the authorization of a stock repurchase plan. The Board authorized the purchase of up to 150,000 shares of outstanding common stock, to be made from time to time, in the open market or in privately negotiated transactions, at prices not exceeding prevailing market prices. On April 19, 2007, the Board of Directors authorized another extension of the stock buyback program for an additional twelve months to April 19, 2008.

### ITEM 6. Exhibits

#### 3 Articles of Incorporation and By-Laws:

- A. Restated Certificate of Incorporation as in effect on the date of this filing is incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
- B. Amended By-Laws of the Registrant as in effect on the date of this filing are incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2007.

31.1 Certification of Frank A. Kissel, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Arthur F. Birmingham, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002, signed by Frank A. Kissel, Chief Executive Officer of the Corporation, and Arthur F. Birmingham, Chief Financial Officer of the 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 thereunto duly authorized.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION  
(Registrant)

DATE: May 3, 2007

By: /s/ Frank A. Kissel

-----  
Frank A. Kissel  
Chairman of the Board and Chief Executive Officer

DATE: May 3, 2007

By: /s/ Arthur F. Birmingham

-----  
Arthur F. Birmingham  
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

| Number | Description                                                                                                                                                                                                                                                          |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----  | -----                                                                                                                                                                                                                                                                |
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