PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
May 09, 2011

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

FORM 10-Q

(MARK ONE)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended March 31, 2011

OR

o 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 | 22-3537895 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

500 Hills Drive, Suite 300
Bedminster, New Jersey 07921-1538
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

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

Number of shares of Common Stock outstanding as of May 1, 2011:
8,822,700

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
PART 1 FINANCIAL INFORMATION



PART 2 OTHER INFORMATION

Item 1. Financial Statements (Unaudited)

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

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $7,348 | $6,490 |
| Federal funds sold | 100 | 100 |
| Interest-earning deposits | 42,234 | 56,097 |
| Total cash and cash equivalents | 49,682 | 62,687 |
| | | |
| Investment securities held to maturity (approximate fair value $150,196 in 2011 and $138,438 in 2010) | 151,993 | 140,277 |
| Securities available for sale | 271,687 | 275,076 |
| FHLB and FRB Stock, at cost | 4,619 | 4,624 |
| | | |
| Loans Held for Sale, at fair value | 1,168 | - |
| | | |
| Loans | 950,299 | 932,497 |
| Less: Allowance for loan losses | 14,386 | 14,282 |
| Net Loans | 935,913 | 918,215 |
| | | |
| Premises and equipment | 33,386 | 33,820 |
| Other real estate owned | 3,000 | 4,000 |
| Accrued interest receivable | 4,587 | 4,231 |
| Cash surrender value of life insurance | 27,301 | 27,074 |
| Deferred tax assets, net | 26,039 | 25,725 |
| Other assets | 11,343 | 9,696 |
| TOTAL ASSETS | $1,520,718 | $1,505,425 |
| | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $235,977 | $228,764 |
| Interest-bearing deposits: | | |
| Checking | 302,589 | 290,322 |
| Savings | 85,741 | 80,799 |
| Money market accounts | 526,355 | 524,449 |
| Certificates of deposit $100,000 and over | 73,966 | 79,311 |
| Certificates of deposit less than $100,000 | 139,022 | 147,901 |
| Total deposits | 1,363,650 | 1,351,546 |
| Federal Home Loan Bank advances | 24,016 | 24,126 |
| Capital lease obligation | 6,383 | 6,304 |
| Accrued expenses and other liabilities | 14,585 | 5,733 |
| TOTAL LIABILITIES | 1,408,634 | 1,387,709 |

| | | |
|---|---|---|
| SHAREHOLDERS' EQUITY | | |
| Preferred stock (no par value; authorized 500,000 shares; issued 14,341 shares at March 31, 2011 and 21,513 at December 31, 2010; liquidation preference of $1,000 per share) | 13,859 | 20,746 |
| Common stock (no par value; $0.83 per share; authorized 21,000,000 shares; issued shares, 9,230,878 at March 31, 2011 and 9,199,038 at December 31, 2010; outstanding shares, 8,822,700 at March 31, 2011 and 8,790,860 at December 31, 2010) | 7,676 | 7,650 |
| Surplus | 95,765 | 95,586 |
| Treasury stock at cost, 408,178 shares at March 31, 2011 and 408,178 shares at December 31, 2010 | (8,988) | (8,988) |
| Retained earnings | 5,823 | 4,693 |
| Accumulated other comprehensive loss, net of income tax | (2,051) | (1,971) |
| TOTAL SHAREHOLDERS' EQUITY | 112,084 | 117,716 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | $1,520,718 | $1,505,425 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| INTEREST INCOME | | |
| Interest and fees on loans | $11,730 | $12,975 |
| Interest on investment securities: | | |
| Taxable | 611 | 514 |
| Tax-exempt | 93 | 141 |
| Interest on securities available for sale: | | |
| Taxable | 1,658 | 1,997 |
| Tax-exempt | 121 | 140 |
| Interest on loans held for sale | 16 | - |
| Interest-earning deposits | 28 | 24 |
| Total interest income | 14,257 | 15,791 |
| INTEREST EXPENSE | | |
| Interest on savings and interest-bearing deposit accounts | 979 | 1,602 |
| Interest on certificates of deposit over $100,000 | 285 | 505 |
| Interest on other time deposits | 490 | 812 |
| Interest on borrowed funds | 203 | 324 |
| Interest on capital lease obligation | 79 | - |
| Total interest expense | 2,036 | 3,243 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 12,221 | 12,548 |
| Provision for loan losses | 2,000 | 2,400 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 10,221 | 10,148 |
| OTHER INCOME | | |
| Trust department income | 2,718 | 2,364 |
| Service charges and fees | 703 | 657 |
| Bank owned life insurance | 251 | 197 |
| Securities gains/(losses), net | 196 | - |
| Other income | 301 | 254 |
| Total other income | 4,169 | 3,472 |
| OPERATING EXPENSES | | |
| Salaries and employee benefits | 5,973 | 5,709 |
| Premises and equipment | 2,322 | 2,372 |
| FDIC insurance expense | 604 | 586 |
| Other expenses | 2,344 | 1,863 |
| Total operating expenses | 11,243 | 10,530 |
| INCOME BEFORE INCOME TAX EXPENSE | 3,147 | 3,090 |
| Income tax expense | 1,006 | 965 |
| NET INCOME | 2,141 | 2,125 |

| | | |
|---|---|---|
| Dividends on preferred stock and accretion | 570 | 710 |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | $1,571 | $1,415 |
| EARNINGS PER COMMON SHARE | | |
| Basic | $0.18 | $0.16 |
| Diluted | $0.18 | $0.16 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | | |
| Basic | 8,820,059 | 8,778,764 |
| Diluted | 8,820,856 | 8,779,049 |

See accompanying notes to consolidated financial statements.

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)
Three Months Ended March 31, 2011

| (In Thousands, Except Per Share Data) | Common Stock | Preferred Stock | Surplus | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2011 8,790,860 Common Shares Outstanding | $ 7,650 | $ 20,746 | $ 95,586 | $ (8,988 ) | $ 4,693 | $ (1,971 ) | $ 117,716 |
| Comprehensive Income: | | | | | | | |
| Net Income 2011 | | | | | 2,141 | | 2,141 |
| Unrealized Holding Gains on Securities Arising During the Period, Net of Amortization (Net of Income Tax Expense of $80) | | | | | | 48 | |
| Less: Reclassification Adjustment for Gain Included in Net Income (Net of Income Tax Expense of $68) | | | | | | 128 | |
| Net Unrealized Holding Gains on Securities Arising During the Period (Net of Income Tax Expense of $12) | | | | | | (80 ) | (80 ) |
| Total Comprehensive Income | | | | | | | 2,061 |
| Issuance of Restricted Stock 28,732 shares | 24 | | (24 ) | | | | - |
| Amortization of Restricted Stock | | | 58 | | | | 58 |
| Redemption of Preferred Stock 7,172 shares | | (7,172 ) | | | | | (7,172 ) |
| Accretion of Discount on Preferred Stock | | 285 | | | (285 ) | | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash Dividends Declared on Common Stock ($0.05 per share) | | | | | (441) | | (441) |
| Cash Dividends Declared on Preferred Stock | | | | | (285) | | (285) |
| Common Stock Option Expense | | | 107 | | | | 107 |
| Sales of Shares (Dividend Reinvestment Program), 3,108 shares | 2 | | 38 | | | | 40 |
| Balance at March 31, 2011 8,822,700 Common Shares Outstanding | $ 7,676 | $ 13,859 | $ 95,765 | $ (8,988) | $ 5,823 | $ (2,051) | $ 112,084 |

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

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income: | $2,141 | $2,125 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 718 | 810 |
| Amortization of premium and accretion of discount on securities, net | 690 | 44 |
| Amortization of restricted stock | 58 | 38 |
| Provision for loan losses | 2,000 | 2,400 |
| Provision for deferred taxes | 33 | (532) |
| Stock-based compensation | 107 | 75 |
| Gains on security sales, available for sale | (196) | - |
| Loans originated for sale | (9,726) | (12,438) |
| Proceeds from sales of loans | 8,744 | 12,615 |
| Gains on loans sold | (186) | (177) |
| Gains on sale of other real estate owned | (47) | (15) |
| Increase in cash surrender value of life insurance, net | (227) | (181) |
| Increase in accrued interest receivable | (339) | (668) |
| (Increase)/decrease in other assets | (2,006) | 1,579 |
| Increase/(decrease) in accrued expenses and other liabilities | 487 | (678) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,251 | 4,997 |
| INVESTING ACTIVITIES: | | |
| Proceeds from maturities of investment securities held to maturity | 6,536 | 3,456 |
| Proceeds from maturities of securities available for sale | 15,179 | 10,952 |
| Proceeds from calls of investment securities held to maturity | - | 6,250 |
| Proceeds from calls of securities available for sale | 24,995 | 24,594 |
| Proceeds from sales of securities available for sale | 27,235 | |
| Purchase of investment securities held to maturity | (18,381) | (25,517) |
| Purchase of securities available for sale | (56,021) | (41,006) |
| Net (increase)/decrease in loans | (19,889) | 10,600 |
| Proceeds from sales of other real estate owned | 1,238 | 335 |
| Purchases of premises and equipment | (284) | (841) |
| NET CASH USED IN INVESTING ACTIVITIES | (19,392) | (11,177) |
| FINANCING ACTIVITIES: | | |
| Net increase/(decrease) in deposits | 12,104 | (22,420) |
| Repayments of Federal Home Loan Bank advances | (110) | (359) |
| Redemption of preferred stock | (7,172) | (7,172) |
| Cash dividends paid on preferred stock | (285) | (320) |
| Cash dividends paid on common stock | (441) | (439) |
| Sales of shares (DRIP Program) | 40 | 33 |
| NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES | 4,136 | (30,677) |
| Net decrease in cash and cash equivalents | (13,005) | (36,857) |
| Cash and cash equivalents at beginning of period | 62,687 | 79,972 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $49,682 | $43,115 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $2,067 | $3,507 |
| Income taxes | 5 | 110 |
| Transfer of loans to other real estate owned | 191 | - |
| Security purchases settled in subsequent period | 8,444 | - |

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, 2011 for Peapack-Gladstone Financial Corporation (the "Corporation").

Principles of Consolidation: The Corporation considers that all adjustments 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.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale.  Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer.  Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income.  The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans: Loans are considered past due when they are not paid in accordance with contractual terms. The accrual of income on loans, including impaired loans, is discontinued if, in the opinion of Management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past 90 days or more and collateral, if any, is insufficient to cover principal and interest. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. A non-accrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured. Commercial loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments are credited to income only if collection of principal is not in doubt. If principal and interest payments are brought contractually current and future collectability is reasonably assured, loans are returned to accrual status. Mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding principal balance. The majority of the Corporation’s loans are secured by real estate in the State of New Jersey.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management’s judgment, should be charged off.

The allowance consists of specific and general components. The specific component of the allowance relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and are evaluated for impairment. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All loans are individually evaluated for impairment when loans are classified as substandard by Management. If a loan is considered impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral less estimated disposition costs if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment while they are performing assets. If and when a residential mortgage is placed on nonaccrual status and in the process of collection, such as through a foreclosure action then they are evaluated for impairment on an individual basis and the loan is reported, net, at the fair value of the collateral less estimated disposition costs.

A troubled debt restructuring is a renegotiated loan with concessions made by the lender to a borrower who is experiencing financial difficulty. Troubled debt restructurings are separately identified for impairment and are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral, less estimated disposition costs. For

troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers un-impaired loans and is based primarily on the Bank's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation on a weighted average basis over the previous two years. This actual loss experience is adjusted by other qualitative factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on Federal call report codes.

Stock-Based Compensation: The Corporation has stock option plans that allow the granting of shares of the Corporation's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights to directors, officers, employees and independent contractors of the Corporation and its subsidiaries. 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, 2011 and 2010, the Corporation recorded total compensation cost for share-based payment arrangements of $107 thousand and $75 thousand respectively, with a recognized tax benefit of $18 thousand for the quarter ended March 31, 2011 and $12 thousand for the March 31, 2010 quarter.

There was approximately $1.2 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans at March 31, 2011. That cost is expected to be recognized over a weighted average period of 1.7 years.

For the Corporation's stock option plans, changes in options outstanding during the three months ended March 31, 2011 were as follows:

| (Dollars in thousands except share data) | Number of Shares | | Exercise Price Per Share | Weighted Average Exercise Price | | Aggregate Intrinsic Value |
|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | 578,763 | $ | 10.83-$31.43 | 23.75 | | |
| Granted | 57,300 | | 13.38-13.62 | 13.53 | | |
| Forfeited | (63,679 ) | | 13.43-27.51 | 15.77 | | |
| Balance, March 31, 2011 | 572,384 | $ | 10.83-$31.43 | 23.61 | $ | 10 |
| Vested and Expected to Vest (1) | 559,571 | $ | 10.83-$31.43 | 24.27 | $ | 9 |
| Exercisable at March 31, 2011 | 420,556 | $ | 11.05-$31.43 | 26.24 | $ | 3 |

(1) Does not include shares which are not expected to vest as a result of anticipated forfeitures.

The aggregate intrinsic value 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 2011 and the exercise price, multiplied by the number of in-the-money options). The Corporation's closing stock price on March 31, 2011 was $13.26; therefore, there was almost no intrinsic value in the stock options outstanding at that date.

There were no stock options exercised during the three months ended March 31, 2011 or 2010.

The per share weighted-average fair value of stock options granted during the first three months of 2011 and 2010 for all plans was $8.99 and $8.32, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Dividend yield | 1.51 | % | 1.27 | % |
| Expected volatility | 84 | % | 72 | % |
| Expected life | 7 years | | 7 years | |
| Risk-free interest rate | 2.02 | % | 2.92 | % |

In January 2010 and 2011, the Corporation issued 55,993 shares restricted stock awards and 28,732 shares , respectively at a fair value equal to the market price of the Corporation's common stock at the date of the grant. The awards fully vest on the fifth anniversary of the grant date. For the three months ended March 31, 2011 and 2010, the Corporation recorded total compensation cost for share-based payment arrangements of $58 thousand and $38 thousand respectively.

As of March 31, 2011, there was approximately $1.0 million of unrecognized compensation cost related to non-vested restricted stock awards granted under the Corporation's stock incentive plans. That cost is expected to be recognized over a weighted average period of 2.0 years.

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) | 2011 | 2010 |
| Net Income to Common Shareholders | $1,571 | $1,415 |
| Basic Weighted-Average Common Shares Outstanding | 8,820,059 | 8,778,764 |
| Plus: Common Stock Equivalents | 797 | 285 |
| Diluted Weighted-Average Common Shares Outstanding | 8,820,856 | 8,779,049 |
| Net Income Per Common Share | | |
| Basic | $0.18 | $0.16 |
| Diluted | 0.18 | 0.16 |

Stock options and warrants with an exercise price below the Corporation's market price equal to 731,838 and 743,878 shares were not included in the computation of diluted earnings per share in the first quarters of 2011 and 2010, respectively, because they were antidilutive to the earnings per share calculation.

Income Taxes: The Corporation files a consolidated Federal income tax return and separate state income tax returns for each subsidiary based on current laws and regulations.

The Corporation is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2007 or by New Jersey tax authorities for years prior to 2006.

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 March 31, 2011.

Comprehensive Income: Comprehensive income consists of net income and the change during the period in the Corporation's net unrealized gains and losses on securities available for sale during the applicable period of time less adjustments for realized gains and losses and net amortization of the unrealized loss on securities transferred to held to maturity from available for sale. Total comprehensive income for the first quarter of 2011 was $2.1 million as compared to total comprehensive income of $2.2 million for the same quarter in 2010.

Reclassification: Certain reclassifications have been made in the prior periods' financial statements in order to conform to the 2011 presentation.

## 2. INVESTMENT SECURITIES HELD TO MATURITY

A summary of amortized cost and approximate fair value of investment securities held to maturity included in the consolidated statements of condition as of March 31, 2011 and December 31, 2010 follows:

March 31, 2011

| (In Thousands) | Carrying Amount | Gross Unrecognized Gains | Gross Unrecognized Losses | Approximate Fair Value |
|---|---|---|---|---|
| U.S. Government-Sponsored Entities | $57,980 | $ 23 | $ (868) | $ 57,135 |
| Mortgage-Backed Securities - Residential | 63,330 | 846 | (487) | 63,689 |
| State and Political Subdivisions | 21384 | 154 | (30) | 21,508 |
| Trust Preferred Pooled Securities | 9,299 | - | (1,435) | 7,864 |
| Total | $151,993 | $ 1,023 | $ (2,820) | $ 150,196 |

December 31, 2010

| (In Thousands) | Carrying Amount | Gross Unrecognized Gains | Gross Unrecognized Losses | Approximate Fair Value |
|---|---|---|---|---|
| U.S. Government-Sponsored Entities | $45,485 | $ 11 | $ (790) | $ 44,706 |
| Mortgage-Backed Securities - Residential | 67,745 | 921 | (494) | 68,172 |
| State and Political Subdivisions | 17,671 | 184 | (31) | 17,824 |
| Trust Preferred Pooled Securities | 9,376 | - | (1,640) | 7,736 |
| Total | $140,277 | $ 1,116 | $ (2,955) | $ 138,438 |

The following tables present the Corporation's investment securities held to maturity with continuous unrealized losses and the approximate fair value of these investments as of March 31, 2011 and December 31, 2010.

| | March 31, 2011 Duration of Unrealized Loss | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| (In Thousands) | Approximate Fair Value | Unrecognized Losses | Approximate Fair Value | Unrecognized Losses | Approximate Fair Value | Unrecognized Losses |
| U.S. Government-Sponsored Entities | $44,624 | $ (868 ) | $- | $ - | $44,624 | $ (868 ) |
| Mortgage-Backed Securities - Residential | 33,081 | (487 ) | - | - | 33,081 | (487 ) |
| State & Political Subdivisions | 10,507 | (30 ) | - | - | 10,507 | (30 ) |
| Trust Preferred Pooled Securities | - | - | 1,989 | (1,435 ) | 1,989 | (1,435 ) |
| Total | $88,212 | $ (1,385 ) | $1,989 | $ (1,435 ) | $90,201 | $ (2,820 ) |

| | December 31, 2010 Duration of Unrealized Loss | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| (In Thousands) | Approximate Fair Value | Unrecognized Losses | Approximate Fair Value | Unrecognized Losses | Approximate Fair Value | Unrecognized Losses |
| U.S. Government-Sponsored Entities | $39,707 | $ (790 ) | $- | $ - | $39,707 | $ (790 ) |
| Mortgage-Backed Securities - Residential | 32,553 | (494 ) | - | - | 32,553 | (494 ) |
| State & Political Subdivisions | 9,667 | (31 ) | - | - | 9,667 | (31 ) |
| Trust Preferred Pooled Securities | - | - | 1,782 | (1,640 ) | 1,782 | (1,640 ) |
| Total | $81,927 | $ (1,315 ) | $1,782 | $ (1,640 ) | $83,709 | $ (2,955 ) |

The trust preferred pooled securities within the Corporation's held to maturity investment portfolio are collateralized by trust preferred securities issued primarily by individual bank holding companies, but also by insurance companies and real estate investment trusts. There has been little or no active trading in these securities for several years; therefore the Corporation believes in most cases it is more appropriate to estimate fair value using discounted cash flow analysis. As of December 31, 2008, to estimate fair value, and determine whether the securities were other-than-temporarily impaired, the Corporation retained and worked with a third party to review the issuers (the collateral) underlying each of the securities. Among the factors analyzed were the issuers' profitability, credit quality, asset mix, capital adequacy, leverage and liquidity position, as well as an overall assessment of credit, profitability and capital trends within the portfolio's issuer universe. These factors provided an assessment of the portion of the collateral of each security which was likely to default in future periods. The cash flows associated with the collateral likely to default, together with the cash flows associated with collateral which had already deferred or defaulted, were then eliminated. In addition, the Corporation assumed constant rates of default in excess of those based upon the historic performance of the underlying collateral. The resulting cash flows were then discounted to the current period to determine fair value for each security. The discount rate utilized was based on a risk-free rate (LIBOR) plus spreads appropriate for the product, which include consideration of liquidity and credit uncertainty.

Each quarter since December 2008, to periodically assess the credit assumptions and related input data that could affect the fair value of each security, Management compared actual deferrals and defaults to the assumed deferrals and defaults included in the valuation model.

As of each year end since December 2008, the Corporation again worked with a third party to model the securities and review its valuation. The modeling process and related assumptions were similar to the process and related assumptions employed as of December 31, 2008. In 2010, as a result of this process additional impairment charges of $581 thousand were recorded on three trust preferred pooled securities for the year ended December 31, 2010. No additional impairment charges were recorded for the quarter ended March 31, 2011.

Further significant downturns in the real estate markets and/or the economy could cause additional issuers to defer paying dividends on these securities and/or ultimately default. Such occurrences, if beyond those assumed in the current valuation, could cause an additional write-down of the portfolio, with a negative impact on earnings; however, the Corporation has already recorded a substantial write-down of its trust preferred pooled securities portfolio. We do not expect that an additional write-down would have a material effect on the cash flows from the securities or on our liquidity position.

At March 31, 2011, other-than-temporary impairment recognized in accumulated other comprehensive income totaled $3.0 million.

Management has determined that any unrecognized losses on the mortgage-backed securities and state or municipal securities held to maturity at March 31, 2011, are temporary and due to interest rate fluctuations and/or volatile market conditions, rather than the creditworthiness of the issuers. The Corporation monitors creditworthiness of issuers periodically, including issuers of trust preferred securities on a quarterly basis. The Corporation does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

## 3. INVESTMENT SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of securities available for sale included in the consolidated statements of condition as of March 31, 2011 and December 31, 2010 follows:

| | March 31, 2011 | | | |
|---|---|---|---|---|
| (In Thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
| U.S. Government-Sponsored Entities | $16,282 | $3 | $(39) | $ 16,246 |
| Mortgage-Backed Securities - Residential | 229,356 | 3,787 | (950) | 232,193 |
| State and Political Subdivisions | 17,494 | 338 | (33) | 17,799 |
| Other Securities | 5,499 | - | (785) | 4,714 |
| Marketable Equity Securities | 680 | 56 | (1) | 735 |
| Total | $269,311 | $4,184 | $(1,808) | $ 271,687 |

| | December 31, 2010 | | | |
|---|---|---|---|---|
| (In Thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
| U.S. Treasury and U.S. Government-Sponsored Entities | $50,926 | $209 | $- | $ 51,135 |

| | | | | |
|---|---|---|---|---|
| Mortgage-Backed Securities - Residential | 199,099 | 4,179 | (1,188) | 202,090 |
| State and Political Subdivisions | 16,418 | 243 | (48) | 16,613 |
| Other Securities | 5,499 | - | (999) | 4,500 |
| Marketable Equity Securities | 680 | 58 | - | 738 |
| Total | $272,622 | $4,689 | $(2,235) | $ 275,076 |

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The following tables present the Corporation's available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of March 31, 2011 and December 31, 2010.

| | March 31, 2011 Duration of Unrealized Loss | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| (In Thousands) | Approximate Fair Value | Unrealized Losses | Approximate Fair Value | Unrealized Losses | Approximate Fair Value | Unrealized Losses |
| U.S. Government-Sponsored Entities | $9,944 | $(39) | $- | $- | $9,944 | $(39) |
| Mortgage-Backed Securities - Residential | 102,159 | (924) | 371 | (26) | 102,530 | (950) |
| State and Political Subdivisions | 2,269 | (16) | 463 | (17) | 2,732 | (33) |
| Other Securities | - | - | 3,221 | (778) | 3,221 | (778) |
| CRA Investment Fund | 1,493 | (7) | - | - | 1,493 | (7) |
| Marketable Equity Securities | - | - | - | (1) | - | (1) |
| Total | $115,865 | $(986) | $4,055 | $(822) | $119,920 | $(1,808) |

| | December 31, 2010 Duration of Unrealized Loss | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| (In Thousands) | Approximate Fair Value | Unrealized Losses | Approximate Fair Value | Unrealized Losses | Approximate Fair Value | Unrealized Losses |
| Mortgage-Backed Securities - Residential | 102,695 | (984) | 2,211 | (204) | 104,906 | (1,188) |
| State and Political Subdivisions | 777 | (14) | 446 | (34) | 1,223 | (48) |
| Other Securities | 1,499 | (1) | 3,001 | (998) | 4,500 | (999) |
| Total | $104,971 | $(999) | $5,658 | $(1,236) | $110,629 | $(2,235) |

Management believes that the unrealized losses on investment securities available for sale are temporary and due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. The Corporation does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; however, Management also closely monitors market conditions and may sell the securities if it determines it would be beneficial to do so.

At March 31, 2011, the unrealized loss on the other securities is related to two single-issuer trust preferred securities. The largest portion of the unrealized loss, $688 thousand, is related to a security issued by a large bank holding company that has experienced declines in all its securities due to the turmoil in the financial markets and a merger. The security continues to be rated investment grade by Moody's. Additionally, at March 31, 2011, the fair value of this security has improved from the fair value at December 31, 2010. It is not considered other-than-temporarily impaired. The other trust preferred security was issued by a large community bank that recorded a profit in its most recent reporting period and was considered well capitalized. It was determined that the credit risk associated with this security is minimal and that the unrealized loss is due to its type, as trust preferred securities remain out of favor with investors.

4.LOANS

Loans outstanding, by general ledger classification, as of March 31, 2011 and December 31, 2010, consisted of the following:

| (In Thousands) | 2011 | % of Total Loans | | 2010 | % of Total Loans | |
|---|---|---|---|---|---|---|
| Residential Mortgage | $432,413 | 45.5 | % | $419,653 | 45.0 | % |
| Commercial Mortgage | 300,659 | 31.6 | | 288,183 | 30.9 | |
| Commercial Loans | 133,614 | 14.1 | | 131,408 | 14.1 | |
| Construction Loans | 17,693 | 1.9 | | 25,367 | 2.7 | |
| Home Equity Lines of Credit | 45,512 | 4.8 | | 45,775 | 4.9 | |
| Consumer Loans, Including | | | | | | |
| Fixed Rate Home Equity Loans | 19,278 | 2.0 | | 20,622 | 2.2 | |
| Other Loans | 1,130 | 0.1 | | 1,489 | 0.2 | |
| Total Loans | $950,299 | 100.0 | % | $932,497 | 100.0 | % |

Included in the totals above for March 31, 2011 are $1.2 million of unamortized discount and $2.4 million of deferred origination costs net of deferred origination fees as compared to $1.4 million of unamortized discount and $2.3 million of deferred origination costs net of deferred origination fees for December 31, 2010.

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses as of March 31, 2011 and December 31, 2010:

| March 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Total Loans Individually Evaluated for Impairment | Ending ALLL Attributable to Loans Individually Evaluated for Impairment | Total Loans Collectively Evaluated for Impairment | Ending ALLL Attributable to Loans Collectively Evaluated for Impairment | Total Loans | Total Ending ALLL |
| Primary Residential Mortgage | $4,392 | $19 | $440,054 | $1,554 | $444,446 | $1,573 |
| Home Equity Lines of Credit | 26 | - | 45,486 | 174 | 45,512 | 174 |
| Junior Lien Loan On Residence | 525 | - | 13,524 | 208 | 14,049 | 208 |
| Multifamily Property | 599 | - | 66,864 | 367 | 67,463 | 367 |
| Owner-Occupied Commercial Real Estate | 12,640 | 1,418 | 98,222 | 1,969 | 110,862 | 3,387 |
| Investment Commercial Real Estate | 5,945 | 686 | 204,053 | 4,026 | 209,998 | 4,712 |
| Commercial and Industrial | 1,929 | 241 | 24,771 | 2,210 | 26,700 | 2,451 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial Construction | - | - | 17,693 | 903 | 17,693 | 903 |
| Consumer and Other | - | - | 13,576 | 90 | 13,576 | 90 |
| Unallocated | - | - | - | 521 | - | 521 |
| Total ALLL | $ 26,056 | $ 2,364 | $ 924,243 | $ 12,022 | $ 950,299 | $ 14,386 |

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Total Loans Individually Evaluated for Impairment | Ending ALLL Attributable to Loans Individually Evaluated for Impairment | Total Loans Collectively Evaluated for Impairment | Ending ALLL Attributable to Loans Collectively Evaluated for Impairment | Total Loans | Total Ending ALLL |
| Primary Residential Mortgage | $ 4,578 | $ - | $ 428,466 | $ 1,502 | $ 433,044 | $ 1,502 |
| Home Equity Lines of Credit | 85 | - | 45,730 | 160 | 45,815 | 160 |
| Junior Lien Loan On Residence | 537 | - | 14,981 | 228 | 15,518 | 228 |
| Multifamily Property | 691 | 26 | 40,327 | 277 | 41,018 | 303 |
| Owner-Occupied Commercial Real Estate | 3,051 | 504 | 114,634 | 2,740 | 117,685 | 3,244 |
| Investment Commercial Real Estate | 11,900 | 1,141 | 203,692 | 3,151 | 215,592 | 4,292 |
| Commercial and Industrial | 2,330 | 308 | 25,448 | 2,411 | 27,778 | 2,719 |
| Commercial Construction | 5,225 | 500 | 20,149 | 746 | 25,374 | 1,246 |
| Consumer and Other | - | - | 10,673 | 66 | 10,673 | 66 |
| Unallocated | - | - | - | 522 | - | 522 |
| Total ALLL | $ 28,397 | $ 2,479 | $ 904,100 | $ 11,803 | $ 932,497 | $ 14,282 |

Impaired loans include non-accrual loans of $19.2 million at March 31, 2011 and $18.1 million at December 31, 2010. Impaired loans also includes commercial mortgage troubled debt restructured loans of $3.2 million at March 31, 2011 and $5.2 million at December 31, 2010. As of March 31, 2011, impaired loans totaling $1.2 million have no specific reserves, while impaired loans totaling $24.9 million have specific reserves of $2.4 million. As of December 31, 2010, impaired loans totaling $5.2 million have no specific reserves, while impaired loans totaling $23.2 million have specific reserves of $2.5 million.

At March 31, 2011, $26.1 million of the $51.2 million of loans classified as substandard were also considered impaired as compared to December 31, 2010, whereby, $28.4 million of the $41.9 million of loans classified as substandard were also considered impaired.

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2011 and December 31, 2010:

March 31, 2011

| (In Thousands) | Unpaid Principal Balance | Recorded Investment | Specific Reserves |
|---|---|---|---|
| With No Related Allowance Recorded: | | | |
| Multifamily Property | $711 | $599 | $- |
| Home Equity Lines of Credit | 100 | 26 | - |
| Junior Lien Loan on Residence | 537 | 525 | - |
| Total Loans with No Related Allowance | $1,348 | $1,150 | $- |
| | | | |
| With Related Allowance Recorded: | | | |
| Primary Residential Mortgage | | | |