

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

PEAPACK GLADSTONE FINANCIAL CORP  
Form 10-Q  
November 09, 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 September 30, 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 22-3537895  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  X.

Number of shares of Common Stock outstanding as of November 1, 2007:  
8,313,089

PEAPACK-GLADSTONE FINANCIAL CORPORATION

# Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

## PART 1 FINANCIAL INFORMATION

Item 1	Financial Statements (Unaudited): Consolidated Statements of Condition September 30, 2007 and December 31, 2006	Page 3
	Consolidated Statements of Income for the three and nine months ended September 30, 2007 and 2006	Page 4
	Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2007 and 2006	Page 5
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006	Page 6
	Notes to Consolidated Financial Statements	Page 7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	Page 11
Item 3	Quantitative and Qualitative Disclosures about Market Risk	Page 22
Item 4	Controls and Procedures	Page 22

## PART 2 OTHER INFORMATION

Item 1A	Risk Factors	Page 23
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	Page 23
Item 6	Exhibits	Page 24

2

### Item 1. Financial Statements (Unaudited)

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

	September 30, 2007
	-----
<b>ASSETS</b>	
Cash and due from banks	\$ 22,763
Federal funds sold	1,620
Interest-earning deposits	883
	-----
Total cash and cash equivalents	25,266
Investment securities held to maturity (approximate market value \$49,233 in 2007 and \$54,523 in 2006)	49,684
Securities available for sale	266,420
Loans	943,356
Less: Allowance for loan losses	7,112
	-----
Net Loans	936,244
Premises and equipment	25,726

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

Accrued interest receivable		5,920
Cash surrender value of life insurance		19,265
Other assets		6,428
		-----
TOTAL ASSETS	\$	1,334,953
		=====
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$	184,725
Interest-bearing deposits:		
Checking		121,406
Savings		68,961
Money market accounts		387,137
Certificates of deposit over \$100,000		146,895
Certificates of deposit less than \$100,000		242,273
		-----
Total deposits		1,151,397
Borrowings		64,923
Accrued expenses and other liabilities		11,496
		-----
TOTAL LIABILITIES		1,227,816
		-----
SHAREHOLDERS' EQUITY		
Common stock (no par value; \$0.83 per share;		
authorized 20,000,000 shares; issued shares, 8,576,598 at		
September 30, 2007 and 8,497,463 at December 31, 2006;		
outstanding shares, 8,313,138 at September 30, 2007 and		
8,270,973 at December 31, 2006)		7,147
Surplus		90,638
Treasury stock at cost, 263,460 shares at September 30, 2007		
and 226,490 shares at December 31, 2006		(6,016)
Retained earnings		19,369
Accumulated other comprehensive loss, net of income tax		(4,001)
		-----
TOTAL SHAREHOLDERS' EQUITY		107,137
		-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$	1,334,953
		=====

See accompanying notes to consolidated financial statements.

3

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

	Three Months Ended	
	September 30,	
	2007	2006
	-----	-----
INTEREST INCOME		
Interest and fees on loans	\$ 14,163	\$ 13,040

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

Interest on investment securities held to maturity:		
Taxable	204	251
Tax-exempt	259	336
Interest on securities available for sale:		
Taxable	3,227	3,758
Tax-exempt	245	88
Interest-earning deposits	9	21
Interest on federal funds sold	149	30
	-----	-----
Total interest income	18,256	17,524
INTEREST EXPENSE		
Interest on savings and interest-bearing deposit accounts	4,150	3,794
Interest on certificates of deposit over \$100,000	1,826	1,520
Interest on other time deposits	3,029	2,719
Interest on borrowed funds	364	1,636
	-----	-----
Total interest expense	9,369	9,669
	-----	-----
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	8,887	7,855
Provision for loan losses	125	64
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,762	7,791
	-----	-----
OTHER INCOME		
Trust department income	2,252	1,872
Service charges and fees	494	503
Bank owned life insurance	223	210
Securities gains/(losses)	--	(1,837)
Other income	195	167
	-----	-----
Total other income	3,164	915
	-----	-----
OTHER EXPENSES		
Salaries and employee benefits	4,402	3,908
Premises and equipment	1,981	1,792
Other expenses	1,715	1,571
	-----	-----
Total other expenses	8,098	7,271
	-----	-----
INCOME BEFORE INCOME TAX EXPENSE	3,828	1,435
Income tax expense	1,179	44
	-----	-----
NET INCOME	\$ 2,649	\$ 1,391
	=====	=====
EARNINGS PER SHARE		
Basic	\$ 0.32	\$ 0.17
Diluted	\$ 0.32	\$ 0.17
Average basic shares outstanding	8,321,702	8,260,047
Average diluted shares outstanding	8,406,966	8,373,440

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

See accompanying notes to consolidated financial statements.

4

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

	Nine Months Ended September 30,	
	2007	2006
Balance, beginning of period	\$ 103,763	\$ 99,155
Comprehensive income:		
Net income	8,154	7,332
Unrealized holding (losses)/gains on securities arising during the period, net of tax	(1,024)	2,405
Less: reclassification adjustment for gains/(losses) included in net income, net of tax	248	(1,194)
	(1,272)	1,211
Total comprehensive income	6,882	8,543
Common stock options exercised	1,070	176
Purchase of treasury stock	(1,017)	(924)
Cash dividends declared	(3,823)	(3,553)
Stock-based compensation expense	151	43
Tax benefit on disqualifying and nonqualifying exercise of stock options	111	29
Balance, September 30,	\$ 107,137	\$ 103,469

See accompanying notes to consolidated financial statements.

5

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

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

	Nine Months Ended September 30,	
	2007	2006
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net income:	\$ 8,154	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,650	
Amortization of premium and accretion of discount on securities, net	244	
Provision for loan losses	350	
Tax benefit on stock option exercises	(111)	
(Gains)/losses on security sales	(382)	
Gain on loans sold	--	
Proceeds from sales of loans	2,821	
Gain on disposal of fixed assets	(3)	
Stock-based compensation	151	
Increase in cash surrender value of life insurance, net	(576)	
Increase in accrued interest receivable	(739)	
(Increase)/decrease in other assets	3	
(Decrease)/increase in accrued expenses and other liabilities	(4,510)	
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,052	1
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Proceeds from maturities of investment securities held to maturity	7,000	1
Proceeds from maturities of securities available for sale	37,748	5
Proceeds from calls of investment securities held to maturity	150	
Proceeds from calls of securities available for sale	3,000	
Proceeds from sales of securities available for sale	2,108	6
Purchase of investment securities held to maturity	(1,743)	(
Purchase of securities available for sale	(25,017)	(5
Purchase of loans	--	(2
Net increase in loans	(76,030)	(6
Purchases of premises and equipment	(3,344)	(
Disposal of premises and equipment	30	
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(56,098)	(1
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Net increase in deposits	6,661	4
Net increase/(decrease) in other borrowings	34,300	(3
Proceeds from Federal Home Loan Bank advances	8,000	
Repayments of Federal Home Loan Bank advances	(1,341)	(
Cash dividends paid	(3,730)	(
Tax benefit on stock option exercises	111	
Exercise of stock options	1,070	
Purchase of treasury stock	(1,017)	
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	44,054	
	-----	-----
Net increase in cash and cash equivalents	(4,992)	
Cash and cash equivalents at beginning or period	30,258	2
	-----	-----
Cash and cash equivalents at end of period	\$ 25,266	\$ 2
	=====	=====

Supplemental disclosures of cash flow information:

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

Cash paid during the year for:

Interest	\$	26,606	\$	2
Income taxes		4,501		

See accompanying notes to consolidated financial statements.

6

### 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 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 September 30, 2007 and 2006, the Corporation recorded total compensation expense for share-based payment arrangements of \$53 thousand and \$14 thousand, respectively, with a recognized tax benefit of \$3 thousand on non-qualified stock option grants for the three months ended September 30, 2007. There was no recognized tax benefit for the three months ended September 30, 2006.

For the nine months ended September 30, 2007 and 2006, the Corporation recorded

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

total compensation expense for share-based payment arrangements of \$151 thousand and \$43 thousand, respectively, with a recognized tax benefit of \$10 thousand on non-qualified stock option grants for the nine months ended September 30, 2007. There was no recognized tax benefit for the nine months ended September 30, 2006.

As of September 30, 2007, there was approximately \$686 thousand of unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans. This expense is expected to be recognized over a weighted average period of 2.0 years.

7

For the Corporation's stock option plans for employees, changes in options outstanding during the nine months ended September 30, 2007 were as follows:

(Dollars in thousands except share data)	Number Of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2006	413,916	\$11.85-\$32.14	\$22.80
Granted	48,445	25.10-31.01	28.12
Exercised	(58,540)	11.85-26.65	12.26
Forfeited	(3,061)	16.86-29.50	23.20
Balance, September 30, 2007	400,760	\$12.86-\$32.14	\$24.97
Options exercisable, September 30, 2007	335,079		

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

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was \$922 thousand and \$44 thousand, respectively.

The Corporation also has non-qualified stock option plans for non-employee directors. Changes in options outstanding during the nine months ended September 30, 2007 were as follows:

(Dollars in thousands except share data)	Number Of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2006	189,553	\$15.68-\$28.89	\$23.16
Granted	17,600	28.10	28.10
Exercised	(20,595)	15.68-17.53	17.15
Balance, September 30, 2007	186,558	\$15.68-\$28.89	\$24.29
Options exercisable, September 30, 2007	168,958		



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

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was \$242 thousand and \$72 thousand, respectively.

The per share weighted-average fair value of stock options granted during the first nine months of 2007 and 2006 for all plans was \$10.38 and \$7.91, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
	-----	-----
Dividend yield	2.00%	2.08%
Expected volatility	43%	34%
Expected life	5 years	5 years
Risk-free interest rate	4.56%	4.83%

8

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.

(In Thousands, except per share data)	Three Months Ended September 30,		Nine Month September
	2007	2006	2007
	-----	-----	-----
Net Income to Common Shareholders	\$ 2,649	\$ 1,391	\$ 8,154
Basic Weighted-Average Common Shares Outstanding	8,321,702	8,260,047	8,295,563
Plus: Common Stock Equivalents	85,264	113,393	90,949
Diluted Weighted-Average Common Shares Outstanding	8,406,966	8,373,440	8,386,512
Net Income Per Common Share			
Basic	\$ 0.32	\$ 0.17	\$ 0.98
Diluted	0.32	0.17	0.97

Options to purchase 379,708 shares of common stock at a weighted average price of \$28.78 per share were outstanding and were not included in the computation of diluted earnings per share in the third quarter of 2007 because the option price was greater than the average market price. Options to purchase 318,941 shares of common stock at a weighted average price of \$28.89 per share were outstanding and were not included in the computation of diluted earnings per share in the third quarter of 2006 because the option price was greater than the average

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

market price.

Options to purchase 375,268 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 nine months ended September 30, 2007 because the option price was greater than the average market price. Options to purchase 318,641 shares of common stock at a weighted average price of \$28.89 per share were outstanding and were not included in the computation of diluted earnings per share in the first nine months 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 nor has anything changed significantly in the six months since adoption.

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 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 and nine months ended September 30, 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 third quarter of 2007 was \$2.5 million and \$5.3 million for the same quarter in 2006. Total comprehensive income for the nine months ended September 30, 2007 and 2006 was \$6.9 million and \$8.5 million, respectively.

9

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

### 2. LOANS

Loans outstanding as of September 30, consisted of the following:

(In thousands)	2007	2006
Residential real estate	\$ 497,640	\$ 496,516
Commercial real estate	207,871	161,316
Commercial loans	124,042	104,559
Construction loans	59,722	44,941
Consumer loans	36,688	35,300
Other loans	17,393	18,707

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

Total loans	\$ 943,356	\$ 861,339
	=====	=====

Non-performing assets, which include other real estate owned (OREO), loans past due in excess of 90 days and still accruing and non-accrual loans, totaled \$5.6 million at September 30, 2007 and \$615 thousand at September 30, 2006. The balance of non-performing assets at September 30, 2007 includes two commercial loans totaling \$5.3 million. These loans are both well collateralized by properties with appraised values in excess of the loan amounts.

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

Advances from the Federal Home Loan Bank of New York (FHLB) totaled \$30.6 million and \$30.4 million at September 30, 2007 and 2006, respectively, with a weighted average interest rate of 3.61 percent and 3.60 percent, respectively. Advances totaling \$22.6 million are secured by blanket pledges of certain 1-4 family residential mortgages totaling \$245.0 million and advances totaling \$8.0 million are secured by pledges of investment securities totaling \$9.2 million at September 30, 2007. At September 30, 2007, advances totaling \$25.0 million have fixed maturity dates, while advances totaling \$5.6 million were amortizing advances with monthly payments of principal and interest.

There were no short-term borrowings from the FHLB at September 30, 2007 or 2006, nor were there any short-term borrowings during 2007. However, for the nine months ended September 30, 2006 short-term borrowings averaged \$78.0 million with a weighted average interest rate of 4.99 percent.

Overnight borrowings at September 30, 2007 and 2006 totaled \$34.3 million and \$44.5 million, respectively. For the nine months ended September 30, 2007 and 2006, overnight borrowings from the FHLB averaged \$3.9 million with a weighted average interest rate of 5.25 percent and \$28.6 million with a weighted average interest rate of 5.03 percent, respectively.

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

(In thousands)	
2007	\$ 4,000
2008	370
2009	2,000
2010	14,183
2011	3,000
Over 5 years	7,070
	-----
Total	\$ 30,623
	=====

10

### 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

Nine Months Ended

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

(In thousands)	September 30,		September 30,	
	2007	2006	2007	2006
Service cost	\$ 438	\$ 417	\$ 1,315	\$
Interest cost	195	164	584	
Expected return on plan assets	(252)	(224)	(756)	
Amortization of:				
Net loss	10	19	27	
Unrecognized remaining net assets	(2)	(2)	(5)	
Net periodic benefit cost	\$ 389	\$ 374	\$ 1,165	\$

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 September 30, 2007, contributions of \$810 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, among others, the following possibilities:

- o Effectiveness 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 commercial loans.
- o Inability to manage growth in commercial loans.
- o Unexpected loan prepayment volume.
- o Unanticipated exposure to credit risks.
- o Insufficient allowance for loan losses.
- o Competition from other financial institutions.
- o Adverse effects of new government regulation or different than anticipated effects from existing regulations.
- o Decline in the levels of loan quality and origination volume.

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

- o Decline in trust assets or deposits.

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

11

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 located 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 was \$2.6 million for the third quarter of 2007, an increase of \$1.3 million or 90.4 percent compared to the same period last year. Diluted earnings per share were \$0.32 for the third quarter of 2007 and \$0.17 for the third quarter of 2006. This is primarily due to the impact of the 2006 balance sheet restructuring initiative that resulted in an after-tax charge of \$1.1 million, or \$0.13 per diluted share. The annualized return on average assets was 0.81 percent and the annualized return on average equity was 9.91 percent for the third quarter of 2007.

Net income was \$8.2 million, for the nine months ended September 30, 2007, as compared to \$7.3 million for the same period in 2006, an increase of \$822 thousand or 11.2 percent. Diluted earnings per share were \$0.97 for the nine-month period of 2007 compared to \$0.88 for the same period in 2006. The return on average assets was 0.83 percent and the return on average equity was

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

10.25 percent for the nine months ended September 30, 2007.

Excluding the 2006 restructuring impact on quarterly earnings, the Corporation would have reported income of \$2.5 million in the third quarter of 2006 as compared to \$2.6 million in the third quarter of 2007, an increase of \$140 thousand, or 5.6 percent. Diluted earnings per share excluding the restructuring charge were \$0.30 in the third quarter of 2006 as compared to \$0.32 in the same quarter of 2007. Net income for the first nine months of 2007 declined \$296 thousand, or 3.5 percent, when compared to \$8.5 million for the first nine months of 2006 excluding the impact of the restructuring initiative. Diluted earnings per share excluding the restructuring charge were \$1.01 for the nine months ended September 30, 2006. The Corporation considers the securities loss as a result of the balance sheet restructuring initiative in 2006 to be an unusual transaction and comparing net income without considering securities losses and gains provides a better analysis of net income trends.

12

Net interest income, on a fully tax-equivalent basis, was \$9.1 million in the third quarter of 2007, an increase of \$980 thousand or 12.0 percent from the same quarter last year. The net interest margin was 2.92 percent for the third quarter as compared to 2.59 percent for the same quarter of 2006 and 2.86 percent in the second quarter of 2007.

For the third quarter of 2007, average loans increased \$61.5 million, or 7.2 percent, to \$917.6 million from \$856.1 million for the same quarter of 2006. The Corporation's long-term plan calls for a substantial shift in the asset mix, with more emphasis on higher yielding commercial loans and commercial mortgages and less emphasis on residential mortgages. Most of the loan growth this quarter was in the commercial loan portfolios. While the Corporation believes that it has been successful in growing the commercial business, its conservative underwriting requirements have not changed materially. Loan rates increased eight basis points from the third quarter of 2006 to 6.18 percent for the same quarter of 2007.

For the third quarter of 2007, average deposits grew \$77.4 million, or 7.2 percent, to \$1.16 billion from \$1.08 billion for the third quarter of 2006. Rates paid for interest-bearing deposits in the third quarter of 2007 were 3.69 percent as compared to 3.55 percent for the same period in 2006, an increase of 14 basis points. The market for retail deposits remains very competitive and the positive effect of higher deposits was offset in part by a change in the funding mix into higher cost products. On a fully tax-equivalent basis, net interest income for the nine months ended September 30, 2007 was \$26.6 million as compared to \$25.5 million for the same year-to-date period of 2006, an increase of \$1.1 million, or 4.3 percent. The net interest margin was 2.86 percent and 2.75 percent for the nine months ended September 30, 2007 and 2006, respectively.

For the first nine months of 2007, loans averaged \$893.3 million, an increase of \$79.6 million, or 9.8 percent, over the same period in 2006. For the nine months ended September 30, 2007, the average commercial loan and commercial mortgage portfolios grew \$52.1 million or 17.9 percent, to \$343.5 million from \$291.4 million for the same period of 2006. The average mortgage loan portfolio was \$495.7 million and \$473.9 million for the nine months ended September 30, 2007 and 2006, respectively, a \$21.7 million increase or 4.6 percent. The average rate on the loan portfolio increased 17 basis points from 5.94 percent for the year-to-date ended September 30, 2006 to 6.11 percent for the same nine months in 2007.

Average deposits were \$1.16 billion for the nine months ended September 30,

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

2007, a \$105.5 million increase, or 10.0 percent, over the average of \$1.05 billion for the same period in 2006. Interest-bearing deposits increased \$100.4 million to \$973.0 million on average for the nine months ended September 30, 2007 as compared to the same period in 2006. Rates paid on interest-bearing deposits increased 53 basis points to 3.66 percent for the nine months ended September 30, 2007 from the same period last year. Average borrowings for the first nine months of 2007 decreased \$108.7 million compared to the same period of 2006 to \$28.9 million as higher-cost borrowings were eliminated in the third quarter of 2006 as part of the balance-sheet restructuring initiative.

### EARNINGS ANALYSIS

**NET INTEREST INCOME:** On a tax-equivalent basis and before the provision for loan losses, net interest income, for the third quarter of 2007 was \$9.1 million as compared to \$8.1 million for the third quarter of 2006, an increase of \$980 thousand or 12.0 percent. The net interest margin, on a fully tax-equivalent basis, was 2.92 percent and 2.59 percent in the third quarter of 2007 and 2006, respectively, an increase of 33 basis points. For the third quarter of 2007, net interest income was \$209 thousand, or 2.3 percent, higher when compared to the second quarter of 2007 on a tax-equivalent basis. The net interest margin, on a fully tax-equivalent basis, increased from 2.86 percent in the second quarter of 2007, to 2.92 percent in the third quarter of 2007. In the past year, funding costs have increased as strong competition for retail deposits and a changing deposit mix to more higher-paying deposits continued.

Average loans were \$917.6 million for the third quarter of 2007, an increase of \$61.5 million, or 7.2 percent, from \$856.1 million in the same period of 2006. The average commercial loan and commercial mortgage

13

portfolios grew \$58.6 million or 19.0 percent in the third quarter of 2007. The average installment loan portfolio grew by \$3.3 million or 9.8 percent, during this period. While the emphasis is to grow the commercial loan portfolios, new initiatives have also been instituted to increase the installment loan portfolios.

Average deposits grew \$77.4 million, or 7.2 percent, in the third quarter of 2007, to \$1.16 billion from \$1.08 billion for the same period in 2006. Money markets and certificates of deposit remain the Corporation's fastest growing categories of deposits, as well as being the highest cost, averaging 3.94 percent and 4.09 percent, respectively, for the third quarter of 2007. For the third quarter of 2007 and 2006, money market accounts averaged \$384.0 million and \$327.4 million, respectively, increasing \$56.6 million, or 17.3 percent, over the same period in 2006, in large part due to the increase in the high yield money market account. Average certificates of deposit for the third quarter of 2007 were \$396.5 million as compared to \$365.6 million for the same quarter of 2006, an increase of \$30.9 million or 8.5 percent.

There were no average short-term borrowings for the third quarter of 2007 while average short-term borrowings for the same period last year were \$58.0 million. Average overnight funds declined \$34.1 million to \$7.3 million for the third quarter of 2007 as compared to an average of \$41.4 million for the same quarter of 2006. Average demand deposits increased \$7.6 million or 4.3 percent in the third quarter of 2007 from the year ago period.

For the third quarter of 2007, on a tax-equivalent basis, average interest rates earned on interest-earning assets increased 26 basis points to 5.92 percent from 5.66 percent for the same quarter of 2006. Average interest rates earned on investment securities were 5.21 percent and 4.74 for the third quarters of 2007

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

and 2006, respectively, an increase of 47 basis points. Average interest rates earned on loans in the third quarter of 2007, were 6.18 percent, rising eight basis points over the prior year's third quarter.

The average interest rate paid on interest-bearing liabilities in the third quarter of 2007 and 2006 was 3.71 percent and 3.73 percent. Average rates paid on certificates of deposit were 4.90 percent in the third quarter of 2007, increasing 26 basis points from 4.64 percent for the same quarter last year. Money market accounts paid an average rate of 3.94 percent and 4.09 percent for the third quarters of 2007 and 2006, respectively. When compared to the same quarter in 2006, average rates paid on borrowings declined 94 basis points to 4.09 percent. Deposit rates were lowered late in the third quarter of 2007 as the Federal Reserve lowered the federal funds target rate by 50 basis points and in response, the Corporation lowered certain rates accordingly. On average, the High-Yield Money Market account has grown by \$180.3 million since the third quarter of 2006 and paid on average 4.15 percent in the third quarter of 2007. This growth has been offset, in part, by the \$122.5 million decline in the Fed Tracker money market product, which was discontinued earlier this year, and paid on average 4.73 percent in the third quarter of 2006. The overall borrowing rate decline is mostly due to the repayment of short-term and overnight borrowings as part of last year's restructuring initiative.

The cost of funds decreased to 3.14 percent for the third quarter of 2007 as compared to 3.19 percent for the same period in 2006. Reducing the Corporation's dependence on borrowings has been offset by the continued increase in the cost of interest-bearing deposits.

Net interest income for the nine months ended September 30, 2007, on a tax-equivalent basis and before the provision for loan losses, was \$26.6 million compared to \$25.5 million for the same period of 2006, an increase of \$1.1 million or 4.3 percent. The increase was primarily the result of higher loan volume and higher rates earned on investments and loans offset by higher rates paid on liabilities and lower investment volume. As noted above, rates on liabilities continue to rise and the mix of deposits has changed to include higher interest-bearing balances. For the nine months ended September 30, 2007, the change in the mix of interest-earning assets has increased the Corporation's net interest income. The Corporation believes that the intended effects of the balance sheet restructuring initiative undertaken in the third quarter of 2006, enhancing net interest margin and decreasing overall interest rate risk, are being realized. The net interest margin on a fully tax-equivalent basis was 2.86 percent and 2.75 percent in the first nine months of 2007 and 2006, respectively.

14

For the nine months ended September 30, 2007, average interest-earning assets were \$1.24 billion as compared to \$1.23 billion for the same period in 2006, an increase of \$2.3 million, or 0.2 percent. Average loan balances for the first nine months of 2007 were \$893.3 million, an increase of \$79.6 million or 9.8 percent over the average of \$813.7 million for the same period in 2006. Average investment securities declined \$88.7 million, or 21.3 percent, to \$328.4 million, which is due to the balance sheet restructuring that occurred in the third quarter of 2006 and maturities. The average commercial loan and commercial mortgage portfolios grew \$52.1 million or 17.9 percent, to \$343.5 million for the nine months ended September 30, 2007. The average mortgage loan portfolio was \$495.7 million and \$473.9 million for the nine months ended September 30, 2007 and 2006, respectively, a \$21.7 million, or 4.6 percent, Increase between such periods.

Average interest-bearing liabilities decreased \$8.2 million, or 0.8 percent, to \$1.00 billion for the nine months ended September 30, 2007. Interest expense



## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

increased due to the increase in deposit rates and the change in the deposit mix, offset in part by the decrease in borrowings. Average balances of money market accounts were \$377.9 million and \$304.1 million for the nine months ended September 30, 2007 and 2006, respectively, an increase of \$73.8 million or 24.3 percent. For the first nine months of 2007, average balances of certificates of deposits increased \$46.1 million, or 13.4 percent, to \$390.6 million. Average savings deposits declined \$13.6 million or 16.2 percent and average interest-bearing checking deposits declined \$5.8 million or 4.2 percent. Average non-interest-bearing demand deposits totaled \$184.7 million and \$179.7 million for the nine months ended September 30, 2007 and 2006, respectively, an increase of \$5.1 million or 2.8 percent.

There were no short-term borrowings for nine months ended September 30, 2007 as compared to an average of \$78.0 million for the same period of 2006. This decline is a result of the strategic decision to reduce exposure to high-cost, short-term borrowings and reduce interest rate risk. Long-term borrowings averaged \$25.1 million for the nine months ended September 30, 2007 as compared to \$31.0 million for the same period in 2006, a decline of \$5.9 million or 19.1 percent, which was the result of maturities and repayments offset by \$8 million of additional borrowings in the third quarter of 2007.

Average interest rates earned on interest-earning assets, on a tax-equivalent basis, increased 36 basis points to 5.84 percent for the first nine months of 2007 from 5.48 percent for the same nine months of 2006. Average interest rates earned on loans increased 17 basis points during this same nine-month period of 2007 to 6.11 percent from 5.94 percent for the same period in 2006 despite a flattened yield curve and competitive pressure. The average interest rates earned on investment securities for the nine months ended September 30, 2007 were 5.10 percent, an increase of 51 basis points from 4.59 percent in the same period in 2006.

In the first nine months of 2007, the average interest rate paid on interest-bearing liabilities was 3.67 percent as compared to 3.34 percent, a 33 basis point increase over the same period in 2006. The average rate paid on certificates of deposit in the nine months ended September 30, 2007 rose 59 basis points to 4.86 percent while average rates paid on money market accounts increased 36 basis points to 3.98 percent from the same period in 2006. For the first nine months of 2007, average rates paid on checking deposits increased 13 basis points to 0.84 percent as compared to the same period of 2006.

The average rate paid on borrowings was 3.83 percent for the nine months ended September 30, 2007, as compared to 4.68 percent for the same period in 2006, a decline of 85 basis points, due to the reduction in the balances on the higher cost short-term and overnight borrowings. Average overnight borrowing rates increased 22 basis points to 5.25 percent in the nine months ended September 30, 2007 as compared to 5.03 percent in the year ago period. The cost of funds for the first nine months of 2007 increased to 3.10 percent as compared to 2.83 percent for the same period in 2006.

15

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

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

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

	September 30, 2007			September 30, 2006	
	Average Balance	Income/ Expense	Yield	Average Balance	In Ex
	-----	-----	-----	-----	-----
<b>ASSETS:</b>					
Interest-earnings assets:					
Investments:					
Taxable (1)	\$ 263,636	\$ 3,431	5.21%	\$ 346,130	\$
Tax-exempt (1) (2)	55,041	717	5.21	51,543	
Loans (2) (3)	917,599	14,179	6.18	856,142	
Federal funds sold	11,116	149	5.36	2,298	
Interest-earning deposits	706	9	4.99	1,724	
	-----	-----	-----	-----	-----
Total interest-earning assets	1,248,098	\$ 18,485	5.92%	1,257,837	\$
	-----	-----	-----	-----	-----
Noninterest -earning assets:					
Cash and due from banks	20,510			22,414	
Allowance for loan losses	(6,996)			(6,515)	
Premises and equipment	25,591			23,527	
Other assets	26,015			22,204	
	-----	-----	-----	-----	-----
Total noninterest-earning assets	65,120			61,630	
	-----	-----	-----	-----	-----
Total assets	\$ 1,313,218			\$ 1,319,467	
	=====			=====	
<b>LIABILITIES:</b>					
Interest-bearing deposits:					
Checking	\$ 126,506	\$ 254	0.80%	\$ 133,207	\$
Money markets	384,013	3,778	3.94	327,374	
Savings	68,796	118	0.69	79,881	
Certificates of deposit	396,529	4,855	4.90	365,602	
	-----	-----	-----	-----	-----
Total interest-bearing deposits	975,844	9,005	3.69	906,064	
Borrowings	35,578	364	4.09	129,966	
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	1,011,422	9,369	3.71	1,036,030	
	-----	-----	-----	-----	-----
Noninterest bearing liabilities					
Demand deposits	183,500			175,892	
Accrued expenses and other liabilities	11,365			6,543	
	-----	-----	-----	-----	-----
Total noninterest-bearing liabilities	194,865			182,435	
Shareholders' equity	106,931			101,002	
	-----	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$ 1,313,218			\$ 1,319,467	
	=====			=====	
Net Interest income					
(tax-equivalent basis)		9,116			
Net interest spread			2.21%		
			=====		
Net interest margin (4)			2.92%		
			=====		
Tax equivalent adjustment					
		(229)			
		-----			
Net interest income		\$ 8,887			\$

Average Balance Sheet  
Unaudited  
Year-To-Date  
(Tax-Equivalent Basis, Dollars in Thousands)

	September 30, 2007			September 30, 2006
	Average Balance	Income/ Expense	Yield	
<b>ASSETS:</b>				
Interest-earnings assets:				
Investments:				
Taxable (1)	\$ 272,355	\$ 10,375	5.08%	\$ 363,609
Tax-exempt (1) (2)	56,041	2,196	5.22	53,530
Loans (2) (3)	893,319	40,962	6.11	813,736
Federal funds sold	14,664	585	5.32	2,823
Interest-earning deposits	773	30	5.25	1,195
	-----	-----	-----	-----
Total interest-earning assets	1,237,152	\$ 54,148	5.84%	1,234,893
	-----	-----	-----	-----
Noninterest -earning assets:				
Cash and due from banks	22,112			22,276
Allowance for loan losses	(6,888)			(6,477)
Premises and equipment	25,044			22,832
Other assets	26,500			22,045
Total noninterest-earning assets	66,768			60,676
	-----			-----
Total assets	\$ 1,303,920			\$ 1,295,569
	=====			=====
<b>LIABILITIES:</b>				
Interest-bearing deposits:				
Checking	\$ 133,954	\$ 839	0.84%	\$ 139,801
Money markets	377,922	11,283	3.98	304,092
Savings	70,520	365	0.69	84,120
Certificates of deposit	390,621	14,246	4.86	344,561
	-----	-----	-----	-----
Total interest-bearing deposits	973,017	26,733	3.66	872,574
Borrowings	28,939	831	3.83	137,606
	-----	-----	-----	-----
Total interest-bearing liabilities	1,001,956	27,564	3.67	1,010,180
	-----	-----	-----	-----
Noninterest bearing liabilities				
Demand deposits	184,738			179,684
Accrued expenses and other liabilities	11,190			5,677
Total noninterest-bearing liabilities	195,928			185,361
Shareholders' equity	106,036			100,028
	-----			-----
Total liabilities and				

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

shareholders' equity	\$ 1,303,920	\$ 1,295,569
	=====	=====
Net Interest income		
(tax-equivalent basis)	26,584	2.17%
Net interest spread		=====
Net interest margin (4)		2.86%
		=====
Tax equivalent adjustment	(703)	
	-----	
Net interest income	\$ 25,881	
	=====	

- (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.

17

OTHER INCOME: The Corporation recorded other income of \$3.2 million in the third quarter of 2007 as compared to \$915 thousand in the third quarter of 2006, an increase of \$2.2 million. Excluding the loss on securities sales of \$1.8 million, which was the result of the balance sheet restructuring, recorded in the third quarter of 2006, other income rose \$412 thousand, or 15.0 percent.

PGB Trust and Investments, the Bank's trust division, generated \$2.3 million in fee income in the third quarter of 2007, an increase of \$380 thousand or 20.3 percent over the same quarter of 2006. At September 30, 2007, the market value of trust assets under administration was in excess of \$2.06 billion, an increase of \$261.2 million or 14.4 percent over the market value at September 30, 2006.

The Corporation recorded no securities gains or losses in the third quarter of 2007 as compared to a loss on sale of securities of \$1.8 million in the same quarter of 2006. Other income, excluding trust fee income and securities gains, totaled \$912 thousand for the third quarter in 2007 as compared to \$880 thousand for the same period a year ago, an increase of \$32 thousand or 3.6 percent.

Other income for the nine months ended September 30, 2007 and 2006 was \$9.9 million and \$7.1 million, respectively, a \$2.8 million, or 39.8 percent, increase between such periods. PGB Trust and Investments generated fee income of \$6.9 million for the first nine months of 2007 as compared to \$6.2 million for the same period in 2006, an increase of \$658 thousand or 10.6 percent. The reason for the increase in other income in 2007 was the \$382 thousand in securities gains in the first nine months of 2007 as compared to securities losses of \$1.8 million in the same period of 2006. All other income categories in 2007 remained flat compared to the first nine months of 2006 at \$2.7 million.

The Corporation considers the securities loss as a result of the balance sheet restructuring initiative in 2006 to be an unusual transaction and comparing other income without considering securities losses and gains provides a better analysis of other income trends. Management also internally uses this non-GAAP financial measure to evaluate its operating performance on a comparative basis.

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Trust department income	\$ 2,252	\$ 1,872	\$ 6,853	6,195
Service charges and fees	494	503	1,497	1,463
Bank owned life insurance	223	210	660	622
Other non-interest income	113	81	274	319
Safe deposit rental fees	59	61	181	178
Fees for other services	23	25	65	96
Securities gains/(losses)	--	(1,837)	382	(1,781)
	-----	-----	-----	-----
Total other income	\$ 3,164	\$ 915	\$ 9,912	7,092
	=====	=====	=====	=====

OTHER EXPENSES: For the third quarter of 2007, other expenses totaled \$8.1 million as compared to \$7.3 million recorded in the same quarter of 2006, an increase of \$827 thousand or 11.4 percent. Salaries and benefits, the Corporation's largest non-interest expense, was \$4.4 million for the third quarter of 2007 as compared to \$3.9 million for the same period of 2006, an increase of \$494 thousand or 12.6 percent. In the past year, the Bank has added new lenders who have contributed to the growth in the commercial and construction loan portfolios as well as new Trust officers who have contributed to the growth in PGB Trust and Investments. In addition, normal salary increases, branch expansion, higher group health insurance and pension plan costs contributed to the increase in salaries and benefits expense.

18

Premises and equipment expense totaled \$2.0 million for the third quarter of 2007, increasing \$189 thousand, or 10.6 percent, from the third quarter of 2006. Excluding salaries and benefits and premises and equipment expenses, all other expense categories in total increased \$144 thousand, or 9.2 percent to \$1.7 million. Advertising expense rose \$113 thousand, or 70.0 percent, to \$275 thousand for the third quarter of 2007 as compared to the same period a year ago due to the additional advertising for the new Summit Branch and trust division advertising. For the third quarter of 2007 and 2006, professional fees totaled \$191 thousand and \$200 thousand, respectively. Other expenses, including stationery and supplies, delivery, postage, telephone, etc., increased \$40 thousand or 3.3 percent, remaining relatively constant at \$1.2 million for the nine-month periods.

Other expenses totaled \$23.7 million for the nine months ended September 30, 2007, an increase of \$2.0 million or 9.0 percent over the \$21.7 million recorded for the same period in 2006. Salaries and benefits expense was \$13.0 million for the first nine months of 2007 as compared to \$11.7 million for the same nine months in 2006, an increase of \$1.3 million or 11.3 percent. This year-to-date increase continues to reflect the Bank's investment in additional commercial lenders and trust officers who have contributed to the growth in their respective departments.

For the first nine months of 2007, premises and equipment expense was \$5.6

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

million as compared to \$5.2 million for the same period in 2006, an increase of \$372 thousand, or 7.1 percent. The increase is due in part to the additional expenses, such as depreciation, utilities and various equipment associated with the new Summit Branch and additional employees.

All other expense categories, excluding salaries and benefits and premises and equipment expenses, totaled \$5.1 million and \$4.8 million for the nine months ended September 30, 2007 and 2006, respectively, an increase of \$271 thousand, or 5.6 percent. Professional services increased \$254 thousand, or 45.4 percent, for the nine months ended September 30, 2007 as compared to the same period of 2006, due to increased legal, recruitment and other professional fees. Advertising expense rose \$217 thousand, or 37.9 percent, to \$789 thousand for the nine months period of 2007 as compared to the same period a year ago due to the additional advertising for the new Summit Branch and trust advertising. These increases were offset, in part, by decreases in other expense categories, such as stationery and supplies, delivery, postage and trust department expense. These other expenses totaled \$3.5 million and \$3.7 million for the nine months ended September 30, 2007 and 2006, respectively, a decline of \$200 thousand or 5.4 percent.

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 and control operating expenses.

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Salaries and employee benefits	\$ 4,402	\$ 3,908	\$ 13,016	\$ 11,
Premises and equipment	1,981	1,792	5,583	5,
Professional fees	191	200	814	
Advertising	275	162	789	
Telephone	122	103	333	
Trust department expense	102	113	332	
Stationery and supplies	108	102	303	
Postage	90	93	256	
Other expense	827	798	2,249	2,
	-----	-----	-----	-----
Total other expense	\$ 8,098	\$ 7,271	\$ 23,675	\$ 21,
	=====	=====	=====	=====

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 non-performing assets. These assets totaled \$5.6 million and \$615 thousand at September 30, 2007 and 2006 respectively, primarily due to two non-performing loans totaling \$5.3 million. These loans are both well collateralized by properties with appraised values in excess of the loan amounts. Peapack-Gladstone Bank has no sub-prime loans or other higher-interest rate loans to consumers with impaired or non-existent credit histories in its

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

mortgage loan portfolio.

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

(In thousands)	September 30,	
	2007	2006
	-----	-----
Loans past due in excess of 90 days and still accruing	\$ --	\$ 550
Non-accrual loans	5,613	65
	-----	-----
Total non-performing assets	\$ 5,613	\$ 615
	=====	=====
Non-performing loans as a % of total loans	0.60%	0.07%
Non-performing assets as a % of total loans plus other real estate owned	0.60%	0.07%
Allowance as a % of total loans	0.75%	0.77%

**PROVISION FOR LOAN LOSSES:** The provision for loan losses was \$125 thousand for the third quarter of 2007 and \$64 thousand for the same quarter of 2006, while the provision for loan losses for the first nine months of 2007 and 2006 was \$350 thousand and \$264 thousand, respectively. In 2006, the provision for loan losses was offset by \$59 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 third quarter of 2007 and 2006, there were net charge-offs of \$7 thousand and \$10 thousand, respectively. Net charge-offs for the nine months ended September 30, 2007 were \$6 thousand as compared to net charge-offs of \$13 thousand for the nine months ended September 30, 2006.

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

(In thousands)	2007		2006	
	2007	2006	2007	2006
	-----	-----	-----	-----
Balance, January 1,	\$ 6,768	\$ 6,378		
Provision charged to expense	350	264		
Charge-offs	(10)	(15)		
Recoveries	4	2		
	-----	-----	-----	-----
Balance, September 30,	\$ 7,112	\$ 6,629	=====	=====
	=====	=====	=====	=====

**INCOME TAXES:** Income tax expense as a percentage of pre-tax income was 30.8 percent and 3.1 percent for the quarters ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, income tax expense as a percentage of pre-tax income was 30.7 percent and 24.6 percent,

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

respectively. Pre-tax income increased to \$3.8 million for the third quarter in 2007 from \$1.4 million for the same period in of 2006, due in part to the loss on sale of available-for-sale securities of \$1.8 million in 2006. In addition, the effective tax rate is higher in both periods in 2007 due to a higher effective state tax rate paid by the Real Estate Investment Trust subsidiary.

**CAPITAL RESOURCES:** The Corporation is committed to maintaining a strong capital position. At September 30, 2007, total shareholders' equity, including net unrealized losses on securities available for

20

sale, was \$107.1 million, representing an increase in total shareholders' equity from what was recorded at December 31, 2006, of \$3.4 million or 3.3 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 September 30, 2007, the Corporation's Tier 1 Capital and Total Capital ratios were 14.95 percent and 15.91 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 September 30, 2007, was 8.48 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 \$25.3 million at September 30, 2007. In addition, the Corporation has \$266.4 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 of investment securities and securities available for sale maturing within one year amounted to \$12.2 million and \$22.9 million, respectively, as of September 30, 2007.

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 September 30, 2007, core deposits were in excess of \$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 or 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



## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

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 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.

21

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

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

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 adoption of Statement 156 did not have a material impact on the Corporation's 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 (September 30, 2007).

22

### 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

## Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

There were no material changes in the Corporation's risk factors during the nine months ended September 30, 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.

23

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

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs	Maximum N Of Shares T Yet be Pur Under the P Progra
-----	-----	-----	-----	-----
July 1-31, 2007	0	\$ --	0	89,10
August 1-31, 2007	1,750	25.36	1,750	87,35
September 1-30, 2007	10,250	25.59	10,250	77,10
	-----	-----	-----	
Total	12,000	\$ 25.56	12,000	
	=====	=====	=====	

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.

24

### 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).

Edgar Filing: PEAPACK GLADSTONE FINANCIAL CORP - Form 10-Q

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.

25

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.

PEAPACK-GLADSTONE FINANCIAL CORPORATION  
(Registrant)

DATE: November 9, 2007

By: /s/ Frank A. Kissel

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

DATE: November 9, 2007

By: /s/ Arthur F. Birmingham

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

26

EXHIBIT INDEX

Number	Description
-----	-----
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.

