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PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
November 07, 2006

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, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-16197

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

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

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

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

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

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

Yes No .

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of Common Stock outstanding as of November 1, 2006:
8,261,062

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PEAPACK-GLADSTONE FINANCIAL CORPORATION PART 1 FINANCIAL INFORMATION

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Item 1. Financial Statements (Unaudited)

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

| | September 30, 2006 | December 31, 2005 |
|-------------------------|-----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 22,768 | \$ 19,573 |

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| | | |
|--|--------------|--------------|
| Federal funds sold | 2,640 | 2,631 |
| Interest-earning deposits | 1,180 | 1,295 |
| | ----- | ----- |
| Total cash and cash equivalents | 26,588 | 23,499 |
| Investment securities held to maturity (approximate market value \$61,946 in 2006 and \$77,286 in 2005) | 62,625 | 78,084 |
| Securities available for sale | 276,265 | 341,584 |
| Loans: | | |
| Loans secured by real estate | 816,512 | 728,122 |
| Other loans | 44,827 | 40,351 |
| | ----- | ----- |
| Total loans | 861,339 | 768,473 |
| Less: Allowance for loan losses | 6,629 | 6,378 |
| | ----- | ----- |
| Loans, net | 854,710 | 762,095 |
| Premises and equipment, net | 23,562 | 21,412 |
| Accrued interest receivable | 5,215 | 4,828 |
| Cash surrender value of life insurance | 18,501 | 17,957 |
| Other assets | 4,728 | 5,924 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 1,272,194 | \$ 1,255,383 |
| | ===== | ===== |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | \$ 175,401 | \$ 185,854 |
| Interest-bearing deposits: | | |
| Checking | 129,056 | 176,175 |
| Savings | 76,922 | 90,744 |
| Money market accounts | 332,821 | 281,068 |
| Certificates of deposit over \$100,000 | 133,655 | 93,903 |
| Certificates of deposit less than \$100,000 | 238,679 | 214,252 |
| | ----- | ----- |
| Total deposits | 1,086,534 | 1,041,996 |
| Other borrowings | 44,500 | 77,500 |
| Federal Home Loan Bank Advances | 30,404 | 31,705 |
| Accrued expenses and other liabilities | 7,287 | 5,027 |
| | ----- | ----- |
| TOTAL LIABILITIES | 1,168,725 | 1,156,228 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY | | |
| Common stock (no par value; \$0.83 per share; authorized 20,000,000 shares; issued shares, 8,484,774 at September 30, 2006 and 8,473,718 at December 31, 2005; outstanding shares, 8,260,209 at September 30, 2006 and 8,284,715 at December 31, 2005) | 7,070 | 7,061 |
| Surplus | 89,212 | 88,973 |
| Treasury stock at cost, 224,565 shares in 2006 and 189,003 shares in 2005 | (4,946) | (4,022) |
| Retained earnings | 13,879 | 10,100 |
| Accumulated other comprehensive loss, net of income tax | (1,746) | (2,957) |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 103,469 | 99,155 |
| | ----- | ----- |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | \$ 1,272,194 | \$ 1,255,383 |
| | ===== | ===== |

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See accompanying notes to consolidated financial statements.

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

| | Three months ended September 30, | | Nine months September |
|--|-------------------------------------|-----------|--------------------------|
| | 2006 | 2005 | 2006 |
| INTEREST INCOME | | | |
| Interest and fees on loans | \$ 13,040 | \$ 10,282 | \$ 36,235 |
| Interest on investment securities: | | | |
| Taxable | 251 | 350 | 825 |
| Tax-exempt | 336 | 296 | 1,035 |
| Interest on securities available for sale: | | | |
| Taxable | 3,758 | 3,217 | 11,399 |
| Tax-exempt | 88 | 90 | 262 |
| Interest-earning deposits | 21 | 8 | 42 |
| Interest on federal funds sold | 30 | 23 | 102 |
| | ----- | ----- | ----- |
| Total interest income | 17,524 | 14,266 | 49,900 |
| INTEREST EXPENSE | | | |
| Interest on savings and interest-bearing deposit accounts | 3,794 | 2,333 | 9,430 |
| Interest on certificates of deposit over \$100,000 | 1,520 | 716 | 3,796 |
| Interest on other time deposits | 2,719 | 1,591 | 7,232 |
| Interest on borrowed funds | 1,636 | 864 | 4,834 |
| | ----- | ----- | ----- |
| Total interest expense | 9,669 | 5,504 | 25,292 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 7,855 | 8,762 | 24,608 |
| Provision for loan losses | 64 | 150 | 264 |
| | ----- | ----- | ----- |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 7,791 | 8,612 | 24,344 |
| OTHER INCOME | | | |
| Trust department income | 1,872 | 1,895 | 6,195 |
| Service charges and fees | 503 | 466 | 1,463 |
| Bank owned life insurance | 210 | 201 | 622 |
| Securities (losses)/gains | (1,837) | 216 | (1,781) |
| Other income | 167 | 161 | 593 |
| | ----- | ----- | ----- |
| Total other income | 915 | 2,939 | 7,092 |
| OTHER EXPENSES | | | |

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| | | | |
|------------------------------------|-----------|-----------|-----------|
| Salaries and employee benefits | 3,908 | 3,775 | 11,700 |
| Premises and equipment | 1,792 | 1,695 | 5,211 |
| Other expenses | 1,571 | 1,391 | 4,804 |
| | ----- | ----- | ----- |
| Total other expenses | 7,271 | 6,861 | 21,715 |
| | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAX EXPENSE | 1,435 | 4,690 | 9,721 |
| Income tax expense | 44 | 1,475 | 2,389 |
| | ----- | ----- | ----- |
| NET INCOME | \$ 1,391 | \$ 3,215 | \$ 7,332 |
| | ===== | ===== | ===== |
| EARNINGS PER SHARE | | | |
| Basic | \$ 0.17 | \$ 0.39 | \$ 0.89 |
| Diluted | \$ 0.17 | \$ 0.38 | \$ 0.88 |
| | | | |
| Average basic shares outstanding | 8,260,047 | 8,300,574 | 8,269,966 |
| Average diluted shares outstanding | 8,373,440 | 8,417,581 | 8,379,264 |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Balance, beginning of period | \$ 99,155 | \$ 94,669 |
| Comprehensive income: | | |
| Net income | 7,332 | 10,136 |
| Unrealized holding gains/(losses) on securities arising during the period, net of tax | 2,405 | (3,155) |
| Less: reclassification adjustment for (losses)/gains included in net income, net of tax | (1,194) | 358 |
| | ----- | ----- |
| | 1,211 | (3,513) |
| | ----- | ----- |
| Total comprehensive income | 8,543 | 6,623 |
| Common stock options exercised | 176 | 598 |
| Purchase of treasury stock | (924) | (763) |
| Cash dividends declared | (3,553) | (2,984) |
| Stock-based compensation expense | 43 | -- |

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| | | |
|--|------------|-----------|
| Tax benefit on disqualifying and nonqualifying exercise of stock options | 29 | 331 |
| | ----- | ----- |
| Balance, September 30, | \$ 103,469 | \$ 98,474 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2006 | 2005 |
| | ----- | ----- |
| OPERATING ACTIVITIES: | | |
| Net income: | \$ 7,332 | \$ 10,136 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,539 | 1,474 |
| Amortization of premium and accretion of discount on securities, net | 406 | 817 |
| Provision for loan losses | 264 | 478 |
| Losses/(Gains) on security sales | 1,781 | (170) |
| Gain on loans sold | (3) | (13) |
| Gain on disposal of fixed assets | (16) | (28) |
| Increase in cash surrender value of life insurance, net | (544) | (527) |
| Increase in accrued interest receivable | (387) | (473) |
| Decrease/(increase) in other assets | 392 | (2,182) |
| Increase in accrued expenses and other liabilities | 2,180 | 2,112 |
| | ----- | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 12,944 | 11,624 |
| | ----- | ----- |
| INVESTING ACTIVITIES: | | |
| Proceeds from maturities of investment securities | 17,816 | 31,277 |
| Proceeds from maturities of securities available for sale | 53,744 | 31,344 |
| Proceeds from calls of investment securities | -- | 4,685 |
| Proceeds from calls of securities available for sale | 6,000 | 7,000 |
| Proceeds from sales of securities available for sale | 60,330 | 34,800 |
| Purchase of investment securities | (2,463) | (18,087) |
| Purchase of securities available for sale | (54,820) | (41,349) |
| Proceeds from sales of loans | 622 | 2,316 |
| Purchase of loans | (26,774) | (108,339) |
| Net increase in loans | (66,724) | (73,842) |
| Purchases of premises and equipment | (3,689) | (2,817) |
| Disposal of premises and equipment | 16 | 47 |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (15,942) | (132,965) |
| | ----- | ----- |

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| FINANCING ACTIVITIES: | | |
|--|-----------|-----------|
| Net increase in deposits | 44,538 | 108,411 |
| Net (decrease)/increase in other borrowings | (33,000) | 45,000 |
| Repayments of Federal Home Loan Bank advances | (1,301) | (1,261) |
| Stock-based compensation | 43 | -- |
| Cash dividends paid | (3,474) | (2,730) |
| Tax benefit on stock option exercises | 29 | 331 |
| Exercise of stock options | 176 | 598 |
| Purchase of treasury stock | (924) | (763) |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 6,087 | 149,586 |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 3,089 | 28,245 |
| Cash and cash equivalents at beginning or period | 23,499 | 16,518 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 26,588 | \$ 44,763 |
| | ===== | ===== |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 24,068 | \$ 12,676 |
| Income taxes | 2,031 | 6,903 |

See accompanying notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the Corporation's loan portfolio. The allowance is based on management's evaluation

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of the loan portfolio considering, among other things, current economic conditions, the volume and nature of the loan portfolio, historical loan loss experience, and individual credit situations. The allowance is increased by provisions charged to expense and reduced by charge-offs net of recoveries.

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

As of January 1, 2006, the Corporation adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (Revised 2004), Share-Based Payment, (Statement 123R), under the modified prospective transition method. Statement 123R requires public companies to recognize compensation expense related to stock-based compensation awards over the period during which an employee is required to provide service for the award. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after January 1, 2006. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in salaries and benefits expense over the remaining requisite service period. Results from prior periods have not been restated. The following table represents the impact of the adoption of Statement 123R on the Corporation's financial statements for the nine months ended September 30, 2006.

| (Dollars in thousands except share data) | Under Statement 123R | Under APB 25 | Difference |
|--|-------------------------|-----------------|------------|
| Net income before income tax expense | \$ 9,721 | \$ 9,764 | \$ 43 |
| Net income | 7,332 | 7,375 | 43 |
| Earnings per share - basic | 0.89 | \$ 0.89 | \$ -- |
| Earnings per share - diluted | \$ 0.88 | 0.88 | -- |

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

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---|---|--|
| (Dollars in thousands except share data) Net income: | | |
| As reported | \$ 3,215 | \$ 10,136 |
| Less: Total stock-based compensation Expense determined under the Fair value based method on all stock Options, net of related tax effects | 99 | 296 |

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| | | | | |
|----------------------------------|----|-------|----|-------|
| Pro forma | \$ | 3,116 | \$ | 9,840 |
| Earnings per share - as reported | | | | |
| Basic | \$ | 0.39 | \$ | 1.22 |
| Diluted | | 0.38 | | 1.21 |
| Earnings per share - pro forma | | | | |
| Basic | \$ | 0.38 | \$ | 1.19 |
| Diluted | | 0.37 | | 1.17 |

As of September 30, 2006, there was approximately \$186 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans. That cost is expected to be recognized over a weighted average period of 1.6 years.

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

| (Dollars in thousands except share data) | Number of Shares | Exercise Price Per Share | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|--|------------------|--------------------------|---------------------------------|---------------------------|
| Balance, December 31, 2005 | 429,316 | \$11.85-\$32.14 | \$ 22.47 | |
| Granted | 5,100 | 24.35-27.90 | 25.40 | |
| Exercised | (2,879) | 11.85-16.86 | 12.28 | |
| Forfeited | (220) | 27.36-28.89 | 28.74 | |
| Balance, September 30, 2006 | 431,317 | \$11.85-\$32.14 | \$ 22.57 | \$ 1,811 |
| Options exercisable, September 30, 2006 | 405,864 | | | \$ 1,805 |

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 2006 and the 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, 2006 and 2005 was \$44 thousand and \$541 thousand, respectively.

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The following table summarizes information about stock options granted to employees outstanding at September 30, 2006.

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