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PEAPACK GLADSTONE FINANCIAL CORP  
Form 10-Q  
August 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 June 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  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No .

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

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

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Number of shares of Common Stock outstanding as of August 1, 2007:  
8,322,056

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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)

|                                 | June 30,<br>2007 | December 31,<br>2006 |
|---------------------------------|------------------|----------------------|
| <b>ASSETS</b>                   |                  |                      |
| Cash and due from banks         | \$ 22,293        | \$ 23,190            |
| Federal funds sold              | 23,665           | 103                  |
| Interest-earning deposits       | 801              | 6,965                |
|                                 | 46,759           | 30,258               |
| Total cash and cash equivalents |                  |                      |

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|  |              |              |
|--|--------------|--------------|
| Investment securities held to maturity (approximate market value \$48,899 in 2007 and \$54,523 in 2006)  | 49,732       | 55,165       |
| Securities available for sale  | 267,486      | 286,186      |
| Loans  | 902,364      | 870,153      |
| Less: Allowance for loan losses  | 6,994        | 6,768        |
| Net Loans  | 895,370      | 863,385      |
| Premises and equipment   | 25,263       | 24,059       |
| Accrued interest receivable  | 5,040        | 5,181        |
| Cash surrender value of life insurance   | 19,070       | 18,689       |
| Other assets   | 5,604        | 5,453        |
| TOTAL ASSETS   | \$ 1,314,324 | \$ 1,288,376 |
| LIABILITIES  |              |              |
| Deposits:  |              |              |
| Noninterest-bearing demand deposits  | \$ 195,694   | \$ 196,519   |
| Interest-bearing deposits:   |              |              |
| Checking   | 134,789      | 142,676      |
| Savings  | 70,249       | 73,998       |
| Money market accounts  | 368,137      | 366,874      |
| Certificates of deposit over \$100,000   | 148,307      | 126,014      |
| Certificates of deposit less than \$100,000  | 256,378      | 238,655      |
| Total deposits   | 1,173,554    | 1,144,736    |
| Borrowings   | 23,073       | 23,964       |
| Accrued expenses and other liabilities   | 11,549       | 15,913       |
| TOTAL LIABILITIES  | 1,208,176    | 1,184,613    |
| SHAREHOLDERS' EQUITY   |              |              |
| Common stock (no par value; \$0.83 per share; authorized 20,000,000 shares; issued shares, 8,566,669 at June 30, 2007 and 8,497,463 at December 31, 2006; outstanding shares, 8,314,181 at June 30, 2007 and 8,270,973 at December 31, 2006) | 7,139        | 7,081        |
| Surplus  | 90,477       | 89,372       |
| Treasury stock at cost, 252,488 shares at June 30, 2007 and 226,490 shares at December 31, 2006  | (5,681)      | (4,999)      |
| Retained earnings  | 18,054       | 15,038       |
| Accumulated other comprehensive loss, net of income tax  | (3,841)      | (2,729)      |
| TOTAL SHAREHOLDERS' EQUITY   | 106,148      | 103,763      |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY   | \$ 1,314,324 | \$ 1,288,376 |

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<br>June 30, |           | Six Months<br>June |
|--|--------------------------------|-----------|--------------------|
|  | 2007                           | 2006      | 2007               |
|  | -----                          | -----     | -----              |
| INTEREST INCOME  |                                |           |                    |
| Interest and fees on loans                                   | \$ 13,576                      | \$ 11,945 | \$ 26,755          |
| Interest on investment securities held to maturity:          |                                |           |                    |
| Taxable  | 217                            | 277       | 451                |
| Tax-exempt   | 274                            | 330       | 545                |
| Interest on securities available for sale:                   |                                |           |                    |
| Taxable  | 3,218                          | 3,874     | 6,493              |
| Tax-exempt   | 243                            | 87        | 488                |
| Interest-earning deposits                                    | 10                             | 12        | 21                 |
| Interest on federal funds sold                               | 357                            | 56        | 436                |
|  | -----                          | -----     | -----              |
| Total interest income  | 17,895                         | 16,581    | 35,189             |
| INTEREST EXPENSE   |                                |           |                    |
| Interest on savings and interest-bearing deposit<br>accounts | 4,094                          | 3,143     | 8,337              |
| Interest on certificates of deposit over \$100,000           | 1,810                          | 1,261     | 3,416              |
| Interest on other time deposits                              | 3,117                          | 2,431     | 5,975              |
| Interest on borrowed funds                                   | 204                            | 1,570     | 467                |
|  | -----                          | -----     | -----              |
| Total interest expense                                       | 9,225                          | 8,405     | 18,195             |
| NET INTEREST INCOME BEFORE<br>PROVISION FOR LOAN LOSSES      | 8,670                          | 8,176     | 16,994             |
| Provision for loan losses                                    | 100                            | 100       | 225                |
|  | -----                          | -----     | -----              |
| NET INTEREST INCOME AFTER<br>PROVISION FOR LOAN LOSSES       | 8,570                          | 8,076     | 16,769             |
| OTHER INCOME   |                                |           |                    |
| Trust department income                                      | 2,459                          | 2,078     | 4,601              |
| Service charges and fees                                     | 513                            | 489       | 1,003              |
| Bank owned life insurance                                    | 221                            | 207       | 437                |
| Securities gains   | 220                            | 5         | 382                |
| Other income   | 147                            | 212       | 325                |
|  | -----                          | -----     | -----              |
| Total other income   | 3,560                          | 2,991     | 6,748              |
| OTHER EXPENSES   |                                |           |                    |
| Salaries and employee benefits                               | 4,360                          | 3,933     | 8,614              |
| Premises and equipment                                       | 1,748                          | 1,694     | 3,602              |
| Other expenses   | 1,911                          | 1,759     | 3,361              |
|  | -----                          | -----     | -----              |
| Total other expenses   | 8,019                          | 7,386     | 15,577             |
|  | -----                          | -----     | -----              |

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|                                    |           |           |           |
|------------------------------------|-----------|-----------|-----------|
| INCOME BEFORE INCOME TAX EXPENSE   | 4,111     | 3,681     | 7,940     |
| Income tax expense                 | 1,298     | 986       | 2,435     |
|                                    | -----     | -----     | -----     |
| NET INCOME                         | \$ 2,813  | \$ 2,695  | \$ 5,505  |
|                                    | =====     | =====     | =====     |
| EARNINGS PER SHARE                 |           |           |           |
| Basic                              | \$ 0.34   | \$ 0.33   | \$ 0.67   |
| Diluted                            | \$ 0.33   | \$ 0.32   | \$ 0.65   |
| Average basic shares outstanding   | 8,289,843 | 8,270,905 | 8,281,592 |
| Average diluted shares outstanding | 8,400,401 | 8,373,884 | 8,384,148 |

See accompanying notes to consolidated financial statements.

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

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2007                         | 2006      |
|   | -----                        | -----     |
| Balance, beginning of period  | \$ 103,763                   | \$ 99,155 |
| Comprehensive income:   |                              |           |
| Net income  | 5,505                        | 5,941     |
| Unrealized holding losses on securities<br>arising during the period, net of tax  | (864)                        | (2,651)   |
| Less: reclassification adjustment for gains<br>included in net income, net of tax | 248                          | 36        |
|   | -----                        | -----     |
|   | (1,112)                      | (2,687)   |
|   | -----                        | -----     |
| Total comprehensive income  | 4,393                        | 3,254     |
| Common stock options exercised  | 953                          | 172       |
| Purchase of treasury stock  | (682)                        | (924)     |
| Cash dividends declared   | (2,488)                      | (2,316)   |
| Stock-based compensation expense  | 98                           | 29        |
| Tax benefit on disqualifying and nonqualifying<br>exercise of stock options       | 111                          | 29        |
|   | -----                        | -----     |
| Balance, June 30,   | \$ 106,148                   | \$ 99,399 |
|   | =====                        | =====     |

See accompanying notes to consolidated financial statements.

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

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2007                         | 2006     |
|  | -----                        | -----    |
| <b>OPERATING ACTIVITIES:</b>   |                              |          |
| Net income:  | \$ 5,505                     | \$ 5,941 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |                              |          |
| Depreciation   | 1,071                        | 1,021    |
| Amortization of premium and accretion of<br>discount on securities, net              | 172                          | 283      |
| Provision for loan losses  | 225                          | 139      |
| Tax benefit on stock option exercises  | (111)                        | (29)     |
| Gains on security sales  | (382)                        | (56)     |
| Gain on loans sold   | --                           | (1)      |
| Gain on disposal of fixed assets   | (3)                          | --       |
| Stock-based compensation   | 98                           | 29       |
| Increase in cash surrender value of life insurance, net                              | (381)                        | (360)    |
| Decrease/(increase) in accrued interest receivable                                   | 141                          | (112)    |
| Decrease/(increase) in other assets  | 665                          | (2,802)  |
| (Decrease)/increase in accrued expenses and other liabilities                        | (4,370)                      | 6,251    |
|  | -----                        | -----    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | 2,630                        | 10,304   |
|  | -----                        | -----    |
| <b>INVESTING ACTIVITIES:</b>   |                              |          |
| Proceeds from maturities of investment securities held to maturity                   | 5,799                        | 13,017   |
| Proceeds from maturities of securities available for sale                            | 27,650                       | 30,192   |
| Proceeds from calls of investment securities held to maturity                        | 150                          | 3,000    |
| Proceeds from sales of securities available for sale                                 | 2,108                        | 330      |
| Purchase of investment securities held to maturity                                   | (568)                        | (1,964)  |
| Purchase of securities available for sale  | (12,613)                     | (35,089) |
| Proceeds from sales of loans   | 2,056                        | 226      |
| Purchase of loans  | --                           | (20,770) |
| Net increase in loans  | (34,266)                     | (49,860) |
| Purchases of premises and equipment  | (2,302)                      | (2,983)  |
| Disposal of premises and equipment   | 30                           | --       |
|  | -----                        | -----    |
| NET CASH USED IN INVESTING ACTIVITIES  | (11,956)                     | (63,901) |
|  | -----                        | -----    |
| <b>FINANCING ACTIVITIES:</b>   |                              |          |
| Net increase in deposits   | 28,818                       | 43,799   |
| Net increase in other borrowings   | --                           | 22,750   |
| Repayments of Federal Home Loan Bank advances  | (891)                        | (863)    |
| Cash dividends paid  | (2,482)                      | (2,318)  |
| Tax benefit on stock option exercises  | 111                          | 29       |
| Exercise of stock options  | 953                          | 172      |
| Purchase of treasury stock   | (682)                        | (924)    |
|  | -----                        | -----    |

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| NET CASH PROVIDED BY FINANCING ACTIVITIES          | 25,827    | 62,645    |
|--|-----------|-----------|
|  | -----     | -----     |
| Net increase in cash and cash equivalents          | 16,501    | 9,048     |
| Cash and cash equivalents at beginning or period   | 30,258    | 23,499    |
|  | -----     | -----     |
| Cash and cash equivalents at end of period         | \$ 46,759 | \$ 32,547 |
|  | =====     | =====     |
| Supplemental disclosures of cash flow information: |           |           |
| Cash paid during the year for:                     |           |           |
| Interest   | \$ 16,934 | \$ 14,386 |
| Income taxes                                       | 3,170     | 1,720     |

See accompanying notes to consolidated financial statements.

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

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the unaudited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2006 for Peapack-Gladstone Financial Corporation (the "Corporation").

**Principles of Consolidation:** The Corporation considers that all adjustments (all of which are normal recurring accruals) necessary for a fair presentation of the statement of 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.

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For the three months ended June 30, 2007 and 2006, the Corporation recorded total compensation expense for share-based payment arrangements of \$53 thousand and \$15 thousand, respectively, with a recognized tax benefit of \$3 thousand for the three months ended June 30, 2007. There was no recognized tax benefit for the three months ended June 30, 2006.

For the six months ended June 30, 2007 and 2006, the Corporation recorded total compensation expense for share-based payment arrangements of \$98 thousand and \$29 thousand, respectively, with a recognized tax benefit of \$7 thousand for the six months ended June 30, 2007, while there was no recognized tax benefit for the six months ended June 30, 2006.

As of June 30, 2007, there was approximately \$732 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 2.1 years.

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

| (Dollars in thousands except share data) | Number<br>of<br>Shares | Exercise<br>Price<br>Per Share | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value |
|--|------------------------|--------------------------------|---------------------------------------|---------------------------------|
| Balance, December 31, 2006               | 413,916                | \$11.85-\$32.14                | \$22.79                               |                                 |
| Granted                                  | 47,245                 | 26.30-31.01                    | 28.18                                 |                                 |
| Exercised                                | (48,611)               | 11.85-26.65                    | 12.34                                 |                                 |
| Forfeited                                | (2,961)                | 16.86-29.50                    | 23.20                                 |                                 |
| Balance, June 30, 2007                   | 409,589                | \$11.85-\$32.14                | \$24.65                               | \$1,440                         |
| Options exercisable, June 30, 2007       | 344,315                |                                |                                       | \$1,432                         |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the second quarter of 2007 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was \$774 thousand and \$41 thousand, respectively.

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

| (Dollars in thousands except share data) | Number<br>Of<br>Shares | Exercise<br>Price<br>Per Share | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value |
|--|------------------------|--------------------------------|---------------------------------------|---------------------------------|
| Balance, December 31, 2006               | 189,553                | \$15.68-\$28.89                | \$23.16                               |                                 |



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|                                    |          |                 |         |
|------------------------------------|----------|-----------------|---------|
| Granted                            | 17,600   | 28.10           | 28.10   |
| Exercised                          | (20,595) | 15.68-17.53     | 17.15   |
| -----                              |          |                 |         |
| Balance, June 30, 2007             | 186,558  | \$15.68-\$28.89 | \$24.29 |
| =====                              |          |                 |         |
| Options exercisable, June 30, 2007 | 168,958  |                 | \$718   |
| =====                              |          |                 |         |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the second quarter of 2007 and the exercise price, multiplied by the number of in-the-money options).

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

The per share weighted-average fair value of stock options granted during the first six months of 2007 and 2006 for all plans was \$10.36 and \$7.66, 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%   | 2.17%   |
| Expected volatility     | 43%     | 28%     |
| Expected life           | 5 years | 5 years |
| Risk-free interest rate | 4.57%   | 4.86%   |

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

|  |                    |           |                  |           |
|--|--------------------|-----------|------------------|-----------|
|  | Three Months Ended |           | Six Months Ended |           |
|  | June 30,           |           | June 30,         |           |
| (In Thousands, except per share data)              | 2007               | 2006      | 2007             | 2006      |
|  | -----              | -----     | -----            | -----     |
| Net Income to Common Shareholders                  | \$ 2,813           | \$ 2,695  | \$ 5,505         | \$ 5,118  |
| Basic Weighted-Average Common Shares Outstanding   | 8,289,843          | 8,270,905 | 8,281,592        | 8,277,111 |
| Plus: Common Stock Equivalents                     | 110,558            | 102,979   | 102,556          | 110,558   |
| Diluted Weighted-Average Common Shares Outstanding | 8,400,401          | 8,373,884 | 8,384,148        | 8,387,669 |
| Net Income Per Common Share                        |                    |           |                  |           |
| Basic  | \$ 0.34            | \$ 0.33   | \$ 0.67          | \$ 0.62   |
| Diluted  | 0.33               | 0.32      | 0.65             | 0.61      |

Options to purchase 15,480 shares of common stock at a weighted average price of

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\$29.97 per share were outstanding and were not included in the computation of diluted earnings per share in the second quarter of 2007 because the option price was greater than the average market price. Options to purchase 325,454 shares of common stock at a weighted average price of \$28.86 per share were outstanding and were not included in the computation of diluted earnings per share in the second quarter of 2006 because the option price was greater than the average market price.

Options to purchase 308,161 shares of common stock at a weighted average price of \$28.95 per share were outstanding and were not included in the computation of diluted earnings per share in the first six months of 2007 because the option price was greater than the average market price. Options to purchase 321,113 shares of common stock at a weighted average price of \$28.91 per share were outstanding and were not included in the computation of diluted earnings per share in the first six 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 affect 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 six months ended June 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 second quarter of 2007 was \$1.4 million and \$1.7 million for the same quarter in 2006. Total comprehensive income for the six months ended June 30, 2007 and 2006 was \$4.4 million and \$3.3 million, respectively.

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**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 June 30, consisted of the following:

| (In thousands)          | 2007       | 2006       |
|-------------------------|------------|------------|
|                         | -----      | -----      |
| Residential real estate | \$ 489,720 | \$ 484,844 |
| Commercial real estate  | 190,667    | 159,527    |

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|                    |            |            |  |
|--------------------|------------|------------|--|
| Commercial loans   | 117,220    | 104,371    |  |
| Construction loans | 48,559     | 39,191     |  |
| Consumer loans     | 36,885     | 31,055     |  |
| Other loans        | 19,313     | 19,887     |  |
|                    | -----      | -----      |  |
| Total loans        | \$ 902,364 | \$ 838,875 |  |
|                    | =====      | =====      |  |

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 \$5.9 million at June 30, 2007 and \$3.9 million at June 30, 2006. Loans past due in excess of 90 days and still accruing are in the process of collection and are collateralized by real estate.

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

Advances from the Federal Home Loan Bank of New York (FHLB) totaled \$23.1 million and \$30.8 million at June 30, 2007 and 2006, respectively, with a weighted average interest rate of 3.49 percent and 3.58 percent, respectively. These advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling \$256.5 million at June 30, 2007. At June 30, 2007, advances totaling \$17.0 million have fixed maturity dates, while advances totaling \$6.1 million were amortizing advances with monthly payments of principal and interest.

There were no short-term borrowings from the FHLB at June 30, 2007; however, short-term borrowings totaled \$90.0 million at June 30, 2006. For the six months ended June 30, 2007 there were no average short-term borrowings, while short-term borrowings averaged \$88.2 million with a weighted average interest rate of 4.83 percent for the same period in 2006.

There were no overnight borrowings at June 30, 2007, while overnight borrowings totaled \$10.3 million at June 30, 2006. For the six months ended June 30, 2007 and 2006, overnight borrowings from the FHLB averaged \$2.1 million with a weighted average interest rate of 5.40 percent and \$22.1 million with a weighted average interest rate of 4.63 percent, respectively.

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

|                |           |
|----------------|-----------|
| (In thousands) |           |
| 2007           | \$ 4,000  |
| 2008           | 527       |
| 2009           | 2,000     |
| 2010           | 9,986     |
| 2011           | 3,000     |
| Over 5 years   | 3,560     |
|                | -----     |
| Total          | \$ 23,073 |
|                | =====     |

### 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:

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| (In thousands)                    | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|-----------------------------------|--------------------------------|--------|------------------------------|--------|
|                                   | 2007                           | 2006   | 2007                         | 2006   |
| Service cost                      | \$ 439                         | \$ 418 | \$ 877                       | \$ 835 |
| Interest cost                     | 194                            | 165    | 389                          | 330    |
| Expected return on plan assets    | (252)                          | (225)  | (504)                        | (449)  |
| Amortization of:                  |                                |        |                              |        |
| Net loss                          | 8                              | 18     | 17                           | 37     |
| Unrecognized remaining net assets | (1)                            | (1)    | (3)                          | (3)    |
|                                   | \$ 388                         | \$ 375 | \$ 776                       | \$ 750 |
| Net periodic benefit cost         | \$ 388                         | \$ 375 | \$ 776                       | \$ 750 |

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 June 30, 2007, contributions of \$540 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 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.
- o Decline in trust assets or deposits.

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

**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

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included in the December 31, 2006 Annual Report on Form 10-K, contains a summary of the Corporation's significant accounting policies. Management believes the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

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

**EXECUTIVE SUMMARY:** The Corporation's net income for the second quarter of 2007 was \$2.8 million, an increase of \$118 thousand or 4.4 percent compared to \$2.7 million for the same period last year. This increase was primarily due to higher net interest income and other income offset in part by higher other expenses. Diluted earnings per share were \$0.33 for the second quarter of 2007 and \$0.32 for the second quarter of 2006. The annualized return on average assets was 0.86 percent and the annualized return on average equity was 10.57 percent for the second quarter of 2007.

Net interest income, on a fully tax-equivalent basis, was \$8.9 million in the second quarter of 2007, an increase of \$448 thousand or 5.3 percent from the second quarter last year and the net interest margin was 2.86 percent for the second quarter as compared to 2.73 percent for the same quarter of 2006 and 2.82 percent in the first quarter of 2007.

Average loans for the second quarter of 2007 increased \$81.8 million, or 10.1 percent, to \$890.9 million from \$809.2 million for the second 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. The average commercial loan and commercial mortgage portfolios grew \$51.4 million or 17.6 percent, accounting for almost 63 percent of the total loan growth. The average mortgage loan portfolio grew by \$23.7 million or 5.0 percent. Loan rates rose 19 basis points from the second quarter of 2006 to 6.10 percent for the same quarter of 2007.

For the second quarter of 2007, average deposits grew \$114.3 million, or 10.8 percent, to \$1.17 billion from \$1.06 billion for the same quarter of 2006. Rates paid for interest-bearing deposits in the second quarter of 2007 were 3.67 percent as compared to 3.13 percent for the same period in 2006, an increase of 54 basis points. The continued increase in funding costs was due to the very

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competitive market for retail deposits and the corresponding change in the funding mix into higher cost products.

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For the first six months of 2007, net income was \$5.5 million as compared to \$5.9 million for the same period in 2006, a decline of \$436 thousand or 7.3 percent. This decline is primarily the result of increased other expenses and provision for loan losses offset in part by higher net interest income and other income. Diluted earnings per share were \$0.65 for the first half of 2007 compared to \$0.71 for the same period in 2006. The return on average assets was 0.85 percent and the return on average equity was 10.43 percent for the first six months of 2007.

On a fully tax-equivalent basis, net interest income for the six months ended June 30, 2007 was \$17.5 million as compared to \$17.3 million for the same six months of 2006, an increase of \$123 thousand, or 0.7 percent. The net interest margin was 2.84 percent for both periods.

Loans averaged \$881.0 million for the first six months of 2007, an increase of \$88.8 million, or 11.2 percent, over the same period in 2006. For the six months ended June 30, 2007, the average commercial loan and commercial mortgage portfolios grew \$48.7 million or 17.2 percent, to \$331.4 million from \$282.7 million for the same period of 2006. The average mortgage loan portfolio was \$496.0 million and \$463.7 million for the six months ended June 30, 2007 and 2006, respectively, a \$32.4 million increase or 7.0 percent. The average rate on the loan portfolio rose 22 basis points from 5.86 percent for the year-to-date ended June 30, 2006 to 6.08 percent for the same six months in 2007.

Average deposits were \$1.16 billion for the six months ended June 30, 2007, a \$119.8 million increase, or 11.5 percent, over the average of \$1.04 billion for the same period in 2006. Interest-bearing deposits increased \$116.0 million to \$971.6 million on average for the six months ended June 30, 2007 as compared to the same period in 2006. Rates paid on interest-bearing deposits increased 75 basis points to 3.65 percent for the six months ended June 30, 2007 from the same period last year. Average borrowings for the first half of 2007 decreased \$115.9 million compared to the first half of 2006 to \$25.6 million as higher-cost borrowings were eliminated in the third quarter of 2006.

### EARNINGS ANALYSIS

**NET INTEREST INCOME:** Net interest income, on a tax-equivalent basis and before the provision for loan losses, for the second quarter of 2007 was \$8.9 million as compared to \$8.5 million for the same quarter of 2006, an increase of \$448 thousand or 5.3 percent. On a fully tax-equivalent basis, the net interest margin was 2.86 percent and 2.73 percent in the second quarter of 2007 and 2006, respectively, an increase of 13 basis points. For the second quarter of 2007, net interest income was \$345 thousand, or 4.0 percent, higher when compared to the first quarter of 2007 on a tax-equivalent basis. The net interest margin, on a fully tax-equivalent basis, increased from 2.82 percent in the first quarter of 2007, to 2.86 percent in the second 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 for the second quarter of 2007 increased \$81.8 million or 10.1 percent to \$890.9 million from \$809.2 million in the same period of 2006. The mortgage loan portfolio grew, on average, by \$23.7 million or 5.0 percent, during this period, while the average commercial loan and commercial mortgage portfolios grew \$51.4 million or 17.6 percent. In the second quarter of 2007, installment loans averaged a \$7.1 million, or 24.9 percent increase, when compared with the same quarter in 2006. While the emphasis is to grow the

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commercial loan portfolios, new initiatives have also been instituted to increase the installment loan portfolios.

Average deposits grew \$114.3 million, or 10.8 percent, in the second quarter of 2007, to \$1.17 billion from \$1.06 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 3.95 percent and 4.89 percent, respectively, for the second quarter of 2007. For the second quarter of 2007, money market accounts averaged \$371.6 million, an increase of \$70.2 million, or 23.3 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 second quarter of 2007 and 2006 were \$402.8 million and \$345.0 million,

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respectively, an increase of \$57.8 million or 16.8 percent. Higher promotional rates were offered for certificates of deposit opened at the new Summit Branch and other rates have remained competitive.

Average short-term borrowings declined \$95.5 million to zero for the second quarter of 2007 from the same period last year, a result of the strategic decision to reduce exposure to high-cost, short-term borrowings and reduce interest rate risk. Overnight funds have also declined to zero for the second quarter of 2007 as compared to an average of \$6.5 million for the same quarter of 2006. Average demand deposits increased \$3.7 million or 2.0 percent in the second quarter of 2007 from the year ago period.

Average interest rates earned on interest-earning assets, on a tax-equivalent basis, rose 37 basis points to 5.82 percent for the second quarter of 2007 from 5.45 percent for the same quarter of 2006. Average interest rates earned on investment securities were 5.09 percent for the second quarter of 2007 as compared to 4.58 percent in the second quarter of 2006, an increase of 51 basis points. In the second quarter of 2007, average interest rates earned on loans were 6.10 percent, rising 19 basis points over the prior year's second quarter.

The average interest rate paid on interest-bearing liabilities in the second quarter of 2007 and 2006 was 3.67 percent and 3.34 percent, an increase of 33 basis points. While average rates paid on certificates of deposit increased 61 basis points and money market accounts increased 29 basis points to 4.89 percent and 3.95 percent, respectively, for the second quarter of 2007 when compared to the same quarter in 2006, average rates paid on borrowings declined 121 basis points to 3.51 percent. On average, the High-Yield Money Market account has grown by \$202.9 million since the second quarter of 2006 and paid on average 4.16 percent in the second quarter of 2007. This growth has been offset, in part, by the \$124.9 million decline in the Fed Tracker money market product, which was discontinued earlier this year, and paid on average 4.33 percent in the second quarter of 2006. The overall borrowing rate decline is mostly due to the repayment of short-term and overnight borrowings.

The cost of funds increased to 3.08 percent for the second quarter of 2007 as compared to 2.82 percent for the same period in 2006. Despite strong loan and deposit growth, the continued increase in funding costs was due to the very competitive market for retail deposits and the corresponding change in the funding mix into higher cost products.

On a tax-equivalent basis, net interest income for the six months ended June 30, 2007, before the provision for loan losses, was \$17.5 million compared to \$17.3 million for the same period of 2006, an increase of \$123 thousand or 0.7 percent. The slight increase was primarily the result of higher loan volume and higher rates earned on investments and loans offset by higher rates paid on

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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, which negatively affected net interest income. However, for the six months ended June 30, 2007, the change in the mix of interest-earning assets has increased the net interest income. The net interest margin on a fully tax-equivalent basis was 2.84 percent in the first six months of 2007 and 2006.

Average interest-earning assets were \$1.23 billion for the six months ended June 30, 2007 as compared to \$1.22 billion for the same period in 2006, and increase of \$8.4 million, or 0.7 percent. For the first six months of 2007, average loan balances were \$881.0 million, an increase of \$88.8 million or 11.2 percent over the average of \$792.2 million for the same six months in 2006. Average investment securities declined \$93.7 million, or 21.9 percent, to \$333.3 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 \$48.7 million or 17.2 percent, to \$331.4 million for the six months ended June 30, 2007, from \$282.7 million for the same period of 2006. The average mortgage loan portfolio was \$496.0 million and \$463.7 million for the six months ended June 30, 2007 and 2006, respectively, a \$32.4 million, or 7.0 percent, increase between such periods.

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Average interest-bearing liabilities remained flat at \$997.0 million for the six months ended June 30, 2007 and 2006, while the rates and the mix were responsible for the increase in interest expense. Average balances of money market accounts were \$374.8 million and \$292.3 million for the six months ended June 30, 2007 and 2006, respectively, an increase of \$82.6 million or 28.3 percent. The Fed Tracker Money Market was discontinued earlier in 2007, but a High Yield Money Market product has been well received by customers and accounted for much of the growth in money market products. Average balances of certificates of deposits grew to \$387.6 million for the first six months of 2007, an increase of \$53.8 million or 16.1 percent over the average balances of \$333.9 million during the same period in 2006. Average savings deposits declined \$14.9 million or 17.2 percent and average interest-bearing checking deposits declined \$5.4 million or 3.8 percent. Average non-interest-bearing demand deposits totaled \$185.4 million and \$181.6 million for the six months ended June 30, 2007 and 2006, respectively, an increase of \$3.8 million or 2.1 percent.

For six months ended June 30, 2007, short-term borrowings averaged \$2.1 million as compared to \$110.3 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 \$23.4 million for the six months ended June 30, 2007 as compared to \$31.2 million for the same period in 2006, a decline of \$7.8 million or 24.9 percent, which was the result of maturities and repayments.

Average interest rates earned on interest-earning assets, on a tax-equivalent basis, rose 40 basis points to 5.79 percent for the first six months of 2007 from 5.39 percent for the first six months of 2006. Average interest rates earned on loans rose 22 basis points in the first six months of 2007 to 6.08 percent from 5.86 percent for the same period in 2006, despite a flattened yield curve and competitive pressure. For the six months ended June 30, 2007, the average interest rates earned on investment securities increased to 5.05 percent, rising 53 basis points from 4.52 percent in the same period in 2006.

The average interest rate paid on interest-bearing liabilities in the first six months of 2007 and 2006 was 3.65 percent and 3.13 percent, respectively, a 52 basis point increase. The average rate paid on certificates of deposit in the first six months of 2007 rose 78 basis points to 4.85 percent while average



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rates paid on money market accounts increased 65 basis points to 4.01 percent when compared to 3.36 percent for the same period in 2006. Average rates paid on checking deposits increased 24 basis points to 0.85 percent for the first six months of 2007 as compared to the same period of 2006 due to the increase in the rates paid on the interest-bearing checking products.

For the six months ended June 30, 2007, the average rate paid on borrowings was 3.65 percent as compared to 4.52 percent for the same period in 2006, a decline of 87 basis points, due to the reduction in the balances on the higher cost short-term and overnight borrowings. Average overnight borrowing rates increased 77 basis points to 5.40 percent in the six months ended June 30, 2007 as compared to 4.63 percent in the year ago period. The cost of funds for the first six months of 2007 increased to 3.08 percent as compared to 2.65 percent for the same period in 2006.

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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) |                             |                             |                |                             |
| June 30, 2007                                |                             |                             |                |                             |
|  | Average<br>Balance<br>----- | Income/<br>Expense<br>----- | Yield<br>----- | Average<br>Balance<br>----- |
| <b>ASSETS:</b>                               |                             |                             |                |                             |
| Interest-earnings assets:                    |                             |                             |                |                             |
| Investments:                                 |                             |                             |                |                             |
| Taxable (1)                                  | \$ 271,494                  | \$ 3,435                    | 5.06%          | \$ 370,962                  |
| Tax-exempt (1) (2)                           | 56,597                      | 740                         | 5.23           | 51,478                      |
| Loans (2) (3)                                | 890,939                     | 13,590                      | 6.10           | 809,161                     |
| Federal funds sold                           | 26,935                      | 357                         | 5.30           | 4,684                       |
| Interest-earning deposits                    | 718                         | 10                          | 5.77           | 949                         |
|  | -----                       | -----                       | -----          | -----                       |
| Total interest-earning assets                | 1,246,683                   | \$ 18,132                   | 5.82%          | 1,237,234                   |
|  | -----                       | -----                       | -----          | -----                       |
| Noninterest -earning assets:                 |                             |                             |                |                             |
| Cash and due from banks                      | 22,727                      |                             |                | 22,514                      |
| Allowance for loan losses                    | (6,896)                     |                             |                | (6,416)                     |
| Premises and equipment                       | 25,121                      |                             |                | 23,232                      |
| Other assets                                 | 26,851                      |                             |                | 23,492                      |
|  | -----                       |                             |                | -----                       |
| Total noninterest-earning assets             | 67,803                      |                             |                | 62,822                      |
|  | -----                       |                             |                | -----                       |
| Total assets                                 | \$ 1,314,486                |                             |                | \$ 1,300,056                |
|  | =====                       |                             |                | =====                       |
| <b>LIABILITIES:</b>                          |                             |                             |                |                             |
| Interest-bearing deposits:                   |                             |                             |                |                             |
| Checking                                     | \$ 138,530                  | \$ 303                      | 0.87%          | \$ 141,999                  |
| Money markets                                | 371,605                     | 3,669                       | 3.95           | 301,391                     |
| Savings                                      | 70,232                      | 122                         | 0.69           | 84,177                      |

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|   |              |          |       |              |
|---|--------------|----------|-------|--------------|
| Certificates of deposit                       | 402,787      | 4,927    | 4.89  | 344,959      |
|   | -----        | -----    | ----- | -----        |
| Total interest-bearing deposits               | 983,154      | 9,021    | 3.67  | 872,526      |
| Borrowings                                    | 23,224       | 204      | 3.51  | 133,020      |
|   | -----        | -----    | ----- | -----        |
| Total interest-bearing liabilities            | 1,006,378    | 9,225    | 3.67  | 1,005,546    |
|   | -----        | -----    | ----- | -----        |
| Noninterest bearing liabilities               |              |          |       |              |
| Demand deposits                               | 190,432      |          |       | 186,769      |
| Accrued expenses and<br>other liabilities     | 11,235       |          |       | 8,242        |
|   | -----        |          |       | -----        |
| Total noninterest-bearing<br>liabilities      | 201,667      |          |       | 195,011      |
| Shareholders' equity                          | 106,441      |          |       | 99,499       |
|   | -----        |          |       | -----        |
| Total liabilities and<br>shareholders' equity | \$ 1,314,486 |          |       | \$ 1,300,056 |
|   | =====        |          |       | =====        |
| Net Interest income<br>(tax-equivalent basis) |              | 8,907    |       |              |
| Net interest spread                           |              |          | 2.15% |              |
|   |              |          | ===== |              |
| Net interest margin (4)                       |              |          | 2.86% |              |
|   |              |          | ===== |              |
| Tax equivalent adjustment                     |              | (237)    |       |              |
|   |              | -----    |       |              |
| Net interest income                           |              | \$ 8,670 |       |              |
|   |              | =====    |       |              |

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

|                               | June 30, 2007      |                    |       |                    |
|-------------------------------|--------------------|--------------------|-------|--------------------|
|                               | Average<br>Balance | Income/<br>Expense | Yield | Average<br>Balance |
|                               | -----              | -----              | ----- | -----              |
| ASSETS:                       |                    |                    |       |                    |
| Interest-earnings assets:     |                    |                    |       |                    |
| Investments:                  |                    |                    |       |                    |
| Taxable (1)                   | \$ 276,786         | \$ 6,944           | 5.02% | \$ 372,494         |
| Tax-exempt (1) (2)            | 56,549             | 1,479              | 5.23  | 54,540             |
| Loans (2) (3)                 | 880,978            | 26,783             | 6.08  | 792,182            |
| Federal funds sold            | 16,468             | 436                | 5.30  | 3,090              |
| Interest-earning deposits     | 807                | 21                 | 5.36  | 927                |
|                               | -----              | -----              | ----- | -----              |
| Total interest-earning assets | 1,231,588          | \$ 35,663          | 5.79% | 1,223,233          |
|                               | -----              | -----              | ----- | -----              |
| Noninterest -earning assets:  |                    |                    |       |                    |
| Cash and due from banks       | 22,926             |                    |       | 22,205             |
| Allowance for loan losses     | (6,833)            |                    |       | (6,458)            |

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|  |              |           |       |              |
|--|--------------|-----------|-------|--------------|
| Premises and equipment                     | 24,765       |           |       | 22,478       |
| Other assets                               | 26,748       |           |       | 23,304       |
|  | -----        |           |       | -----        |
| Total noninterest-earning assets           | 67,606       |           |       | 61,529       |
|  | -----        |           |       | -----        |
| Total assets                               | \$ 1,299,194 |           |       | \$ 1,284,762 |
|  | =====        |           |       | =====        |
| LIABILITIES:                               |              |           |       |              |
| Interest-bearing deposits:                 |              |           |       |              |
| Checking                                   | \$ 137,740   | \$ 585    | 0.85% | \$ 143,153   |
| Money markets                              | 374,825      | 7,506     | 4.01  | 292,257      |
| Savings                                    | 71,397       | 246       | 0.69  | 86,274       |
| Certificates of deposit                    | 387,618      | 9,391     | 4.85  | 333,866      |
|  | -----        | -----     | ----- | -----        |
| Total interest-bearing deposits            | 971,580      | 17,728    | 3.65  | 855,550      |
| Borrowings                                 | 25,564       | 467       | 3.65  | 141,490      |
|  | -----        | -----     | ----- | -----        |
| Total interest-bearing liabilities         | 997,144      | 18,195    | 3.65  | 997,040      |
|  | -----        | -----     | ----- | -----        |
| Noninterest bearing liabilities            |              |           |       |              |
| Demand deposits                            | 185,368      |           |       | 181,612      |
| Accrued expenses and other liabilities     | 11,101       |           |       | 6,577        |
|  | -----        |           |       | -----        |
| Total noninterest-bearing liabilities      | 196,469      |           |       | 188,189      |
| Shareholders' equity                       | 105,581      |           |       | 99,533       |
|  | -----        |           |       | -----        |
| Total liabilities and shareholders' equity | \$ 1,299,194 |           |       | \$ 1,284,762 |
|  | =====        |           |       | =====        |
| Net Interest income                        |              |           |       |              |
| (tax-equivalent basis)                     |              | 17,468    |       |              |
| Net interest spread                        |              |           | 2.14% |              |
|  |              |           | ===== |              |
| Net interest margin (4)                    |              |           | 2.84% |              |
|  |              |           | ===== |              |
| Tax equivalent adjustment                  |              | (474)     |       |              |
|  |              | -----     |       |              |
| Net interest income                        |              | \$ 16,994 |       |              |
|  |              | =====     |       |              |

- (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.

OTHER INCOME: In the second quarter of 2007, other income was \$3.6 million as compared to \$3.0 million in the second quarter of 2006, an increase of \$569 thousand, or 19.0 percent. PGB Trust and Investments, the Bank's trust division, generated \$2.5 million in fee income in the second quarter of 2007, an increase of \$381 thousand or 18.3 percent over the same quarter of 2006. At June 30, 2007, the market value of trust assets under administration was in excess of

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\$2.0 billion, an increase of \$259.8 million or 14.7 percent over the market value at June 30, 2006.

The Corporation recorded \$220 thousand of securities gains in the second quarter of 2007 as compared to \$5 thousand in the same quarter of 2006. Other income, excluding trust fee income and securities gains, totaled \$881 thousand for the second quarter in 2007 as compared to \$908 thousand for the same period a year ago.

Other income for the first six months in 2007 and 2006 was \$6.7 million and \$6.2 million, respectively, a \$571 thousand, or 9.2 percent, increase between such periods. PGB Trust and Investments generated fee income of \$4.6 million for the first half of 2007 as compared to \$4.3 million for the same period in 2006, an increase of 278 thousand or 6.4 percent. While all other income categories in 2007 remained flat to the first six months of 2006 at \$1.8 million, the Corporation recorded \$382 thousand of securities gains in the first half of 2007 as compared to \$56 thousand in the same six months of 2006.

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

| (In thousands)            | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|---------------------------|--------------------------------|-----------------|------------------------------|-----------------|
|                           | 2007                           | 2006            | 2007                         | 2006            |
| Trust department income   | \$ 2,459                       | \$ 2,078        | \$ 4,601                     | \$ 4,323        |
| Service charges and fees  | 513                            | 489             | 1,003                        | 960             |
| Bank owned life insurance | 221                            | 207             | 437                          | 411             |
| Other non-interest income | 68                             | 130             | 162                          | 238             |
| Safe deposit rental fees  | 56                             | 55              | 121                          | 118             |
| Fees for other services   | 23                             | 27              | 42                           | 71              |
| Securities gains          | 220                            | 5               | 382                          | 56              |
| <b>Total other income</b> | <b>\$ 3,560</b>                | <b>\$ 2,991</b> | <b>\$ 6,748</b>              | <b>\$ 6,177</b> |

**OTHER EXPENSES:** Other expenses totaled \$8.0 million for the second quarter of 2007, as compared to \$7.4 million recorded in the same quarter of 2006, an increase of \$633 thousand or 8.6 percent. Salaries and benefits, the Corporation's largest non-interest expense, was \$4.4 million for the second quarter of 2007 as compared to \$3.9 million for the same period of 2006, an increase of \$427 thousand or 10.9 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.

Premises and equipment expense increased \$54 thousand, or 3.2 percent, from the second quarter of 2006 to \$1.7 million in the second quarter in 2007. Excluding salaries and benefits and premises and equipment expenses, all other expense categories in total rose to \$1.9 million from \$1.8 million, an increase of \$152 thousand, or 8.6 percent. For the three months ended June 30, 2007, professional services increased \$187 thousand, more than doubling due to increased legal and other professional fees, as well as higher recruitment fees to fill new lending positions. Advertising expense rose \$174 thousand, or 76.7 percent, to \$401 thousand for the second quarter of 2007 as compared to the same period a year ago due to the additional advertising for the new Summit Branch and trust advertising. Expenses, including stationery and supplies, delivery, postage, telephone, etc., declined \$209 thousand or 15.3 percent to \$1.2 million for the first half of 2007 as compared to the same period in 2006.

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For the six months ended June 30, 2007, other expenses totaled \$15.6 million, an increase of \$1.1 million or 7.4 percent over the same period in 2006. Salaries and benefits expense was \$8.6 million for the first half of 2007 as compared to \$7.8 million for the same six months in 2006, an increase of \$823 thousand or 10.6 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 half of 2007, premises and equipment expense was \$3.6 million as compared to \$3.4 million for the same period in 2006, an increase of \$184 thousand, or 5.4 percent. The increase is due in part to the additional expenses, such as depreciation, utilities and various equipment associated with a new branch and additional employees.

Excluding salaries and benefits and premises and equipment expenses, all other expense categories totaled \$3.4 million and \$3.3 million for the six months ended June 30, 2007 and 2006, respectively, an increase of \$65 thousand, or 2.0 percent. For this year-to-date period, professional services increased \$264 thousand, or 73.5 percent, as compared to the first six months of 2006, due to increased legal, recruitment and other professional fees. Advertising expense rose \$104 thousand, or 25.4 percent, to \$514 thousand for the second quarter 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, stationery and supplies, delivery, postage, telephone, etc. These other expenses totaled \$2.2 million and \$2.5 million for the six months ended June 30, 2007 and 2006, respectively. Although postage remained flat for the first half of the year, we anticipate it increasing comparatively, in the coming quarters due to the postage increase that took effect in May.

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.

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

| (In thousands)                 | Three Months Ended |          | Six Months Ended |           |
|--------------------------------|--------------------|----------|------------------|-----------|
|                                | 2007               | 2006     | 2007             | 2006      |
| Salaries and employee benefits | \$ 4,360           | \$ 3,933 | \$ 8,614         | \$ 7,791  |
| Premises and equipment         | 1,748              | 1,694    | 3,603            | 3,419     |
| Professional fees              | 350                | 163      | 623              | 359       |
| Advertising                    | 401                | 227      | 514              | 410       |
| Telephone                      | 105                | 105      | 211              | 197       |
| Trust department expense       | 131                | 122      | 230              | 237       |
| Postage                        | 82                 | 84       | 166              | 169       |
| Stationery and supplies        | 117                | 115      | 195              | 223       |
| Other expense                  | 725                | 943      | 1,421            | 1,700     |
| Total other expense            | \$ 8,019           | \$ 7,386 | \$ 15,577        | \$ 14,505 |

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 \$5.9 million and \$3.9 million at June 30, 2007 and 2006 respectively. Loans past due in excess of 90 days and

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still accruing are in the process of collection and we believe to be well secured. The balance of non-performing assets at June 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. 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 mortgage loan portfolio.

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

| (In thousands)  | June 30, |          |
|---|----------|----------|
|   | 2007     | 2006     |
|   | -----    | -----    |
| Loans past due in excess of 90 days and still accruing                      | \$ 237   | \$ 2     |
| Non-accrual loans   | 5,674    | 3,874    |
|   | -----    | -----    |
| Total non-performing assets   | \$ 5,911 | \$ 3,876 |
| Non-performing loans as a % of total loans                                  | 0.66%    | 0.46%    |
| Non-performing assets as a % of total loans plus<br>other real estate owned | 0.66%    | 0.46%    |
| Allowance as a % of total loans   | 0.78%    | 0.78%    |

PROVISION FOR LOAN LOSSES: The provision for loan losses was \$100 thousand for the second quarters of 2007 and 2006, while the provision for loan losses for the first six months of 2007 and 2006 was \$225 thousand and \$139 thousand, respectively. In 2006, the provision for loan losses was offset by \$61 thousand, representing the provision for losses on letters of credit and unfunded lines of credit, which was recorded in other expenses.

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

For the second quarter of 2007 and the second quarter of 2006, there were no net charge-offs or recoveries. Net recoveries for the six months ended June 30, 2007 was \$1 thousand as compared to net charge-offs of \$3 thousand for the six months ended June 30, 2006.

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

| (In thousands)               | 2007     | 2006     |
|------------------------------|----------|----------|
|                              | -----    | -----    |
| Balance, January 1,          | \$ 6,768 | \$ 6,378 |
| Provision charged to expense | 225      | 139      |
| Charge-offs                  | (2)      | (4)      |
| Recoveries                   | 3        | 1        |
|                              | -----    | -----    |
| Balance, June 30,            | \$ 6,994 | \$ 6,514 |
|                              | =====    | =====    |

INCOME TAXES: Income tax expense as a percentage of pre-tax income was 31.6 percent and 26.8 percent for the quarters ended June 30, 2007 and 2006, respectively. Pre-tax income increased to \$4.1 million for the second quarter in 2007 from \$3.7 million for the same period in of 2006. For the first six months

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in 2007 and 2006, income tax expense as a percentage of pre-tax income was 30.7 percent and 28.3 percent, respectively. The higher effective tax rate in both periods in 2007 is primarily 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 June 30, 2007, total shareholders' equity, including net unrealized losses on securities available for sale, was \$106.1 million, representing an increase in total shareholders' equity from what was recorded at December 31, 2006, of \$2.4 million or 2.3 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 June 30, 2007, the Corporation's Tier 1 Capital and Total Capital ratios were 15.43 percent and 16.42 percent, respectively.

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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 June 30, 2007, was 8.42 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 \$46.8 million at June 30, 2007. In addition, the Corporation has \$267.5 million in securities designated as available for sale. These securities can be sold in response to liquidity concerns or pledged as collateral for borrowings as discussed below. Book value as of June 30, 2007, of investment securities and securities available for sale maturing within one year amounted to \$10.8 million and \$18.4 million, respectively.

The primary source of funds available to meet liquidity needs is the Corporation's core deposit base, which excludes certificates of deposit greater than \$100 thousand. As of June 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 of sales of loans. The Corporation also generates liquidity from the regular principal payments made on its mortgage-backed securities and loan portfolios.

**RECENT ACCOUNTING PRONOUNCEMENTS:** In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." Statement 159 provides companies with an option to report selected financial assets and liabilities at fair value. Statement 159's objective is to reduce both complexity in accounting for

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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.

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.

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

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140." Statement 156 provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing



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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 (June 30, 2007).

### ITEM 4. Controls and Procedures

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

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

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

## PART II. OTHER INFORMATION

### ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the six months ended June 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.

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

#### Issuer Purchases of Equity Securities

| Period           | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>Or Programs | Maximum Nu<br>Of Shares Th<br>Yet be Purc<br>Under the Pl<br>Program |
|------------------|---|------------------------------------|---|--|
| April 1-30, 2007 | --  | \$ --                              | --  | 89,100   |
| May 1-31, 2007   | --  | --                                 | --  | 89,100   |
| June 1-30, 2007  | --  | --                                 | --  | 89,100   |
| Total            | --  | \$ --                              | --  |  |

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.

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### ITEM 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of shareholders held on April 24, 2007, in the Borough of Peapack-Gladstone, New Jersey, the following persons were elected as directors of Peapack-Gladstone Financial Corporation for a term of one year:

| DIRECTORS             | FOR       | WITHHELD |
|-----------------------|-----------|----------|
| Anthony J. Consi II   | 6,704,850 | 105,101  |
| Pamela Hill           | 6,715,301 | 94,650   |
| Frank A. Kissel       | 6,744,031 | 65,920   |
| John D. Kissel        | 6,741,309 | 68,642   |
| James R. Lamb         | 6,539,713 | 270,238  |
| Edward A. Merton      | 6,712,284 | 97,667   |
| F. Duffield Meyercord | 6,735,837 | 74,114   |
| John R. Mulcahy       | 6,699,556 | 110,395  |
| Robert M. Rogers      | 6,744,373 | 65,578   |
| Philip W. Smith III   | 6,736,959 | 72,992   |
| Craig C. Spengeman    | 6,738,166 | 71,785   |

### ITEM 6. Exhibits

- 3      Articles of Incorporation and By-Laws:
- A.      Restated Certificate of Incorporation as in effect on

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the date of this filing is incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

B. Amended By-Laws of the Registrant as in effect on the date of this filing are incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2007.

- 31.1 Certification of Frank A. Kissel, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
- 31.2 Certification of Arthur F. Birmingham, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002, signed by Frank A. Kissel, Chief Executive Officer of the Corporation, and Arthur F. Birmingham, Chief Financial Officer of the Corporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEAPACK-GLADSTONE FINANCIAL CORPORATION  
(Registrant)

DATE: August 9, 2007 By: /s/ Frank A. Kissel  
-----  
Frank A. Kissel  
Chairman of the Board and Chief Executive Officer

DATE: August 9, 2007 By: /s/ Arthur F. Birmingham  
-----  
Arthur F. Birmingham  
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

| Number | Description                            |
|--------|--|
| -----  | -----                                  |
| 3      | Articles of Incorporation and By-Laws: |

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- 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.
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