PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarter Ended June 30, 2012

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

500 Hills Drive, Suite 300

Bedminster, New Jersey 07921-1538

(Address of principal executive offices, including zip code)

(908) 234-0700

(Registrant’s telephone number, including area code)

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

Yes ý No o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No o.

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

Large accelerated filer o	Accelerated filer ý
	Smaller reporting company o
Non-accelerated filer (do not check if a smaller reporting company) o	

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

Number of shares of Common Stock outstanding as of August 1, 2012:

8,875,171

PEAPACK-GLADSTONE FINANCIAL CORPORATION

PART 1 FINANCIAL INFORMATION

PART 2 OTHER INFORMATION

Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	(unaudited) June 30, 2012	(audited) December 31, 2011
ASSETS		
Cash and due from banks	$5,639	$ 7,097
Federal funds sold	100	100
Interest-earning deposits	29,024	35,856
Total cash and cash equivalents	34,763	43,053
Investment securities held to maturity (fair value $84,627 in 2012 and $99,427 in 2011)	84,779	100,719
Securities available for sale	257,318	319,520
FHLB and FRB stock, at cost	4,818	4,569
Loans held for sale, at fair value	2,259	2,841
Loans	1,106,382	1,038,345
Less: Allowance for loan losses	13,686	13,223
Net loans	1,092,696	1,025,122
Premises and equipment	30,979	31,941
Other real estate owned	3,073	7,137
Accrued interest receivable	3,447	4,078
Bank owned life insurance	30,688	27,296
Deferred tax assets, net	26,430	26,731
Other assets	7,355	7,328
TOTAL ASSETS	$1,578,605	$ 1,600,335
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$304,651	$ 297,459
Interest-bearing deposits:		
Checking	323,813	341,180
Savings	104,631	92,322
Money market accounts	495,929	516,920
Certificates of deposit $100,000 and over	78,268	71,783
Certificates of deposit less than $100,000	115,793	124,228
Total deposits	1,423,085	1,443,892

Federal home loan bank advances	16,451	17,680
Capital lease obligation	9,076	9,178
Accrued expenses and other liabilities	15,758	6,614
TOTAL LIABILITIES	1,464,370	1,477,364
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; issued 14,341 at December 31, 2011; liquidation preference of $1,000 per share)	—	13,979
Common stock (no par value; $0.83 per share; authorized 21,000,000 shares; issued shares, 9,283,349 at June 30, 2012 and 9,240,889 at December 31, 2011; outstanding shares, 8,875,171 at June 30, 2012 and 8,832,711 at December 31, 2011)	7,720	7,685
Surplus	96,651	96,323
Treasury stock at cost, 408,178 shares at June 30, 2012 and December 31, 2011	(8,988)	(8,988)
Retained earnings	18,313	13,868
Accumulated other comprehensive income, net of income tax	539	104
TOTAL SHAREHOLDERS' EQUITY	114,235	122,971
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$1,578,605	$ 1,600,335

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Interest and fees on loans	$12,098	$11,655	$23,989	$23,385
Interest on investment securities:				
Taxable	376	606	811	1,217
Tax-exempt	46	91	112	184
Interest on securities available for sale:				
Taxable	1,394	1,603	3,011	3,261
Tax-exempt	156	119	321	240
Interest on loans held for sale	18	5	41	21
Interest-earning deposits	14	20	31	48
Total interest income	14,102	14,099	28,316	28,356
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	360	925	806	1,904
Interest on certificates of deposit over $100,000	222	268	449	553
Interest on other time deposits	341	445	710	935
Interest on borrowed funds	168	198	340	401
Interest on capital lease obligation	108	80	217	159
Total interest expense	1,199	1,916	2,522	3,952
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	12,903	12,183	25,794	24,404
Provision for loan losses	1,500	2,000	3,000	4,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,403	10,183	22,794	20,404
OTHER INCOME				
Trust department income	3,259	2,829	6,435	5,547
Service charges and fees	702	755	1,379	1,458
Bank owned life insurance	264	261	528	512
Securities gains, net	107	277	497	473
Other income	339	202	555	503
Total other income	4,671	4,324	9,394	8,493
OPERATING EXPENSES				
Salaries and employee benefits	6,408	5,817	12,521	11,790
Premises and equipment	2,413	2,386	4,744	4,736
Other operating expenses (See footnote 8)	2,883	2,832	5,519	5,752
Total operating expenses	11,704	11,035	22,784	22,278

INCOME BEFORE INCOME TAX EXPENSE	4,370	3,472	9,404	6,619
Income tax expense	1,647	1,304	3,598	2,310
NET INCOME	2,723	2,168	5,806	4,309
Dividends on preferred stock and accretion	—	219	474	789
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$2,723	$1,949	$5,332	$3,520
EARNINGS PER COMMON SHARE				
Basic	$0.31	$0.22	$0.61	$0.40
Diluted	$0.31	$0.22	$0.61	$0.40
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	8,775,111	8,739,444	8,773,188	8,737,717
Diluted	8,820,878	8,739,696	8,806,841	8,738,218

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 2,723	$ 2,168	$ 5,806	$ 4,309
Other comprehensive income:				
Unrealized gains on available for sale securities:				
Unrealized holding gains arising during the period	1,226	2,572	1,119	2,691
Less: Reclassification adjustment for gains Included in net income	107	277	497	473
	1,119	2,295	622	2,218
Tax effect	(458)	(934)	(254)	(942)
Net of tax	661	1,361	368	1,276
Unrealized losses on the noncredit, other-than temporarily impaired held to maturity securities and on securities transferred from available for sale to held to maturity	57	10	113	19
Tax effect	(23)	(4)	(46)	(8)
Net of tax	34	6	67	11
Total comprehensive income	$ 3,418	$ 3,535	$ 6,241	$ 5,596

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Six Months Ended June 30, 2012

(In thousands, except per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2012 8,832,711 common shares outstanding	$13,979	$ 7,685	$96,323	$(8,988)	$13,868	$ 104	$122,971
Net income					5,806		5,806
Net change in accumulated other comprehensive income						435	435
Issuance of restricted stock 36,263 shares		30	(30)				—
Amortization of restricted stock			221				221
Redemption of preferred stock 14,341 shares	(14,341)						(14,341)
Warrant repurchase 150,296 shares			(109)				(109)
Accretion of discount on preferred stock	362				(362)		—
Cash dividends declared on common stock ($0.05 per share)					(887)		(887)
Cash dividends declared on preferred stock					(112)		(112)
Common stock option expense			169				169
Sales of shares (Dividend Reinvestment Program), 6,197 shares		5	77				82
Balance at June 30, 2012 8,875,171 common shares outstanding	$—	$ 7,720	$96,651	$(8,988)	$18,313	$ 539	$114,235

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30,	
OPERATING ACTIVITIES:	2012	2011
Net income:	$ 5,806	$ 4,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,481	1,432
Amortization of premium and accretion of discount on securities, net	1,147	1,390
Amortization of restricted stock	221	124
Provision for loan losses	3,000	4,000
Provision for deferred taxes	—	445
Stock-based compensation	169	212
Gains on security sales, available for sale	(497)	(473)
Loans originated for sale	(33,273)	(15,616)
Proceeds from sales of loans	34,322	14,050
Gains on loans sold	(467)	(247)
Loss/(gains) on sale of other real estate owned	84	(47)
(Gain) on disposal of fixed assets	(7)	—
Increase in cash surrender value of life insurance, net	(396)	(463)
Decrease/(increase) in accrued interest receivable	631	(153)
(Increase)/Decrease in other assets	(24)	324
(Increase) in accrued expenses and other liabilities	(70)	(284)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,127	9,003
INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities held to maturity	20,588	12,761
Proceeds from maturities of securities available for sale	45,261	30,320
Proceeds from calls of investment securities held to maturity	136	10,105
Proceeds from calls of securities available for sale	14,848	40,000
Proceeds from sales of securities available for sale	22,393	33,246
Purchase of investment securities held to maturity	(2,821)	(23,421)
Purchase of securities available for sale, including FHLB and FRB stock	(20,317)	(81,627)
Net increase in loans	(61,430)	(31,723)
Proceeds from sales of other real estate owned	1,836	1,238
Purchases of premises and equipment	(512)	(710)
Purchase of life insurance	(2,996)	—
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	16,986	(9,811)
FINANCING ACTIVITIES:		
Net (decrease/increase in deposits	(20,807)	10,165

Net increase in overnight borrowings	—	—
Repayments of Federal Home Loan Bank advances	(1,229)	(3,221)
Redemption of preferred stock	(14,341)	(7,172)
Repurchase of warrants	(109)	—
Cash dividends paid on preferred stock	(112)	(465)
Cash dividends paid on common stock	(887)	(882)
Sales of shares (DRIP Program)	82	80
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(37,403)	(1,495)
Net decrease in cash and cash equivalents	(8,290)	(2,303)
Cash and cash equivalents at beginning of period	43,053	62,687
Cash and cash equivalents at end of period	$ 34,763	$ 60,384

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 audited 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 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on form 10-K for the period ended December 31, 2011 for Peapack-Gladstone Financial Corporation (the "Corporation"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of June 30, 2012 and the results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011.

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

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

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

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

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

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

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

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

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

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

If and when a residential mortgage is placed on nonaccrual status and in the process of collections, such as through a foreclosure action, then they are evaluated for impairment on a individual basis and the loan is reported, net, at the fair value of the collateral less estimated disposition costs.

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A troubled debt restructuring is a renegotiated loan with concessions made by the lender to a borrower who is experiencing financial difficulty. Troubled debt restructurings are separately identified for impairment and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral, less estimated disposition costs. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on Federal call report codes. The following portfolio segments have been identified:

a) Primary Residential Mortgage – represents all loans collateralized by the borrower's primary residence. These are closed-end loans secured by 1-4 family residential properties that are secured by first liens. The Bank retains in its portfolio most conventional mortgage loans that have maturities of 15 years or less and generally sells most loans with maturities greater than 15 years. The Bank does not engage in sub-prime lending.
b) Home Equity Lines of Credit – These are revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.
c) Junior Lien Loan on Residence – These are closed-end loans secured by 1-4 family residential properties that are secured by junior liens.
d) Multifamily Property – These are loans secured by multifamily (5 or more) residential properties.
e) Owner-Occupied Commercial Real Estate – These are loans secured by owner-occupied nonfarm nonresidential properties.
f) Investment Commercial Real Estate – These are loans secured by nonfarm nonresidential properties that are not owner-occupied.
g) Commercial and Industrial – These are commercial and industrial loans not secured by real estate.
h) Farmland – These are farm residential loans and other improvements on farmland.
i) Agricultural Production – These are loans to finance agricultural production and other loans to farmers.
j) Commercial Construction – These are loans for construction, land development and other land loans.
k) Consumer and Other – These are loans to individuals for household, family and other personal expenditures as well as obligations of states and political subdivisions in the U.S. This also represents all other loans that cannot be categorized in any of the previously mentioned loan segments.

Stock-Based Compensation: The Corporation has stock option plans that allow the granting of shares of the Corporation's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights to directors, officers, employees and independent contractors of the Corporation and its subsidiaries. The options granted under these plans are exercisable at a price equal to the fair market value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant.

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For the three months ended June 30, 2012 and 2011, the Corporation recorded total compensation cost for stock options of $84 thousand and $105 thousand respectively, with a recognized tax benefit of $15 thousand for the quarter ended June 30, 2012 and $18 thousand for the June 30, 2011 quarter. The Corporation recorded total compensation cost for stock options for the six months ended June 30, 2012 and 2011, of $169 thousand and $212 thousand, respectively, with a recognized tax benefit of $30 thousand for the six months ended June 30, 2012 and $36 thousand for the six months ended June 30, 2011.

There was approximately $679 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans at June 30, 2012. That cost is expected to be recognized over a weighted average period of 1.5 years.

For the Corporation's stock option plans, changes in options outstanding during the six months ended June 30, 2012 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Balance, January 1, 2012	577,782	$ 23.45		
Granted during 2012	62,360	11.00		
Exercised during 2012	(190)	13.53		
Expired during 2012	(11,437)	25.54		
Forfeited during 2012	(718)	15.35		
Balance, June 30, 2012	627,797	$ 22.19	4.54 years	$ 610
Vested and expected to vest (1)	598,842	$ 22.69	4.54 years	$ 419
Exercisable at June 30, 2012	455,827	$ 25.59	3.04 years	$ 80

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

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the second quarter of 2012 and the exercise price, multiplied by the number of in-the-money options). The Corporation's closing stock price on June 30, 2012 was $15.51.

For the second quarter of 2012, the per share weighted-average fair value of stock options granted was $5.53 as compared to $4.65 for the same quarter of 2011. The per share weighted-average fair value of stock options granted during the first six months of 2012 and 2011 was $3.90 and $3.92, respectively on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Dividend Yield	1.29 %	1.70 %	1.47 %	1.51 %
Expected volatility	39 %	38 %	39 %	30 %
Expected life	7 years	7 years	7 years	7 years
Risk-free interest rate	1.46 %	2.84 %	1.43 %	2.04 %

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In January 2012 and 2011, the Corporation issued 36,263 and 28,732 restricted stock awards, respectively, at a fair value equal to the market price of the Corporation's common stock at a date of the grant. The awards vest 40 percent after two years and 20 percent each year thereafter until fully vesting on the fifth anniversary of the grant date. The Corporation recorded total compensation cost for restricted stock awards of $110 thousand for the second quarter of 2012 and $66 thousand for the same quarter of 2011. For the six months ended June 30, 2012 and 2011, the Corporation recorded total compensation cost for restricted stock awards of $221 thousand and $124 thousand, respectively.

As of June 30, 2012, there was approximately $900 thousand of unrecognized compensation cost related to non-vested restricted stock awards granted under the Corporation's stock incentive plans. That cost is expected to be recognized over a weighted average period of 1.6 years.

Changes in non-vested, restricted common shares for 2012 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	84,725	$ 13.46
Granted during 2012	36,263	10.72
Vested during 2012	(22,393)	10.75
Balance, June 30, 2012	98,595	$ 13.07

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 available 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 common shares underlying potentially dilutive stock options were issued during the reporting period utilizing the Treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2012	2011	2012	2011
Net income to common shareholders	$2,723	$1,949	$5,332	$3,520
Basic weighted-average common shares outstanding	8,775,111	8,739,444	8,773,188	8,737,717
Plus: common stock equivalents	45,767	252	33,653	501

Diluted weighted-average common shares outstanding	8,820,878	8,739,696	8,806,841	8,738,218
Net income per common share				
Basic	$0.31	$0.22	$0.61	$0.40
Diluted	0.31	0.22	0.61	0.40

Stock options and restricted stock totaling 570,301 and 591,635 shares were not included in the computation of diluted earnings per share in the second quarters of 2012 and 2011, respectively, because they were considered antidilutive. Stock options and restricted stock totaling 595,018 and 574,995 shares were not included in the computation of diluted earnings per share in the six months ended June 30, 2012 and 2011, respectively, because they were considered antidilutive.

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

The Corporation is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2008 or by New Jersey tax authorities for years prior to 2007.

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 June 30, 2012.

Reclassification: Certain reclassifications may have been made in the prior periods' financial statements in order to conform to the 2012 presentation.

2. INVESTMENT SECURITIES HELD TO MATURITY

A summary of amortized cost and estimated fair value of investment securities held to maturity included in the consolidated statements of condition as of June 30, 2012 and December 31, 2011 follows:

	June 30, 2012			
(In thousands)	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage-backed securities – residential	$56,849	$ 1,755	$ —	$58,604
State and political subdivisions	19,483	22	—	19,505
Trust preferred pooled securities	8,447	2,380	(4,309)	6,518
Total	$84,779	$ 4,157	$ (4,309)	$84,627

	December 31, 2011			
(In thousands)	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage-backed securities – residential	$67,394	$ 1,393	$ (1)	$68,786
State and political subdivisions	24,608	52	—	24,660
Trust preferred pooled securities	8,717	2,170	(4,906)	5,981
Total	$100,719	$ 3,615	$ (4,907)	$99,427

The following tables present the Corporation's investment securities held to maturity with continuous unrealized losses and the estimated fair value of these investments as of June 30, 2012 and December 31, 2011.

	June 30, 2012					
	Duration of Unrealized Loss					
	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Trust preferred pooled securities	$—	$ —	$ 3,232	$ (4,309)	$3,232	$ (4,309)
Total	$—	$ —	$ 3,232	$ (4,309)	$3,232	$ (4,309)

	December 31, 2011					
	Duration of Unrealized Loss					
	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Mortgage-backed securities-residential	$3,194	$ (1)	$ —	$ —	$3,194	$ (1)
Trust preferred pooled securities	—	—	2,729	(4,906)	2,729	(4,906)
Total	$3,194	$ (1)	$ 2,729	$ (4,906)	$5,923	$ (4,907)

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

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

As of each year end since December 2008, the Corporation again worked with a third party to model the securities and review its cash flows. The modeling process and related assumptions were similar to the process and related assumptions employed as of December 31, 2008. No additional impairment charges were recorded for the three and six months ended June 30, 2012.

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

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3. INVESTMENT SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of securities available for sale included in the consolidated statements of condition as of June 30, 2012 and December 31, 2011 follows:

	June 30, 2012			
(In thousands)	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	$32,400	$ 209	$ —	$32,609
Mortgage-backed securities – residential	184,969	5,140	(14)	190,095
State and political subdivisions	27,698	1,225	—	28,923
Other securities	5,999	73	(595)	5,477
Marketable equity securities	210	4	—	214
Total	$251,276	$ 6,651	$ (609)	$257,318

	December 31, 2011			
(In thousands)	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	$46,729	$ 149	$ —	$46,878
Mortgage-backed securities – residential	232,240	4,891	(147)	236,984
State and political subdivisions	28,539	1,314	(2)	29,851
Other securities	5,999	40	(832)	5,207
Marketable equity securities	593	7	—	600
Total	$314,100	$ 6,401	$ (981)	$319,520

The following tables present the Corporation’s available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of June 30, 2012 and December 31, 2011.

	June 30, 2012					
	Duration of Unrealized Loss					
	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Mortgage-backed securities - residential	$708	$ (6)	$ 89	$ (8)	$797	$ (14)
Other securities	—	—	2,404	(595)	2,404	(595)
Total	$708	$ (6)	$ 2,493	$ (603)	$3,201	$ (609)

	December 31, 2011					
	Duration of Unrealized Loss					
	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Mortgage-backed securities-residential	$32,931	$ (120)	$ 317	$ (27)	$33,248	$ (147)
State and political subdivisions	736	(2)	—	—	736	(2)
Other securities	—	—	2,167	(832)	2,167	(832)
Total	$33,667	$ (122)	$ 2,484	$ (859)	$36,151	$ (981)

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

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At June 30, 2012, the unrealized loss on other securities, $595 thousand, is related to a debt security issued by a large bank holding company that has experienced declines in all its securities due to the turmoil in the financial markets and a merger. The security, a single-issuer trust preferred security, was downgraded to below investment grade by Moody's and is currently rated Ba1. Management monitors the performance of the issuer on a quarterly basis to determine if there are any credit events that could result in deferral or default of the security. Management believes the depressed valuation is a result of the nature of the security, a trust preferred bond, and the bond's very low yield. As Management does not intend to sell this security nor is it likely that it will be required to sell the security before its anticipated recovery, the security is not considered other-than-temporarily impaired at June 30, 2012.

4. LOANS

Loans outstanding, by general ledger classification, as of June 30, 2012 and December 31, 2011, consisted of the following:

(In thousands)	June 30, 2012	% of Total Loans	December 31, 2011	% of Total Loans
Residential mortgage	$526,726	47.61 %	$ 498,482	48.01 %
Commercial mortgage	384,289	34.73	330,559	31.84
Commercial loans	116,493	10.53	123,845	11.93
Construction loans	6,804	0.62	13,713	1.32
Home equity lines of credit	49,057	4.43	50,291	4.84
Consumer loans, including fixed rate home equity loans	20,885	1.89	19,439	1.87
Other loans	2,128	0.19	2,016	0.19
Total loans	$1,106,382	100.00%	$ 1,038,345	100.00%

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on federal call report codes. The following portfolio classes have been identified as of June 30, 2012 and December 31, 2011:

(In thousands)	June 30, 2012	% of Total Loans	December 31, 2011	% of Total Loans
Primary residential mortgage	$540,043	48.96 %	$ 511,418	49.40 %
Home equity lines of credit	49,057	4.45	50,394	4.87
Junior lien loan on residence	12,773	1.16	13,053	1.26
Multifamily property	126,515	11.47	104,056	10.05
Owner-occupied commercial real estate	105,149	9.53	107,852	10.42
Investment commercial real estate	228,344	20.70	186,998	18.06
Commercial and industrial	21,022	1.90	29,825	2.88
Secured by farmland	210	0.02	—	N/A

Agricultural production loans	16	N/A	18	N/A
Commercial construction loans	6,798	0.62	19,208	1.85
Consumer and other loans	13,135	1.19	12,516	1.21
Total loans	$1,103,062	100.00%	$ 1,035,338	100.00%
Net deferred fees	3,320		3,007	
Total loans including net deferred costs	$1,106,382		$ 1,038,345	

Included in the totals above for June 30, 2012 are $355 thousand of unamortized discount as compared to $691 thousand of unamortized discount for December 31, 2011.

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The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses as of June 30, 2012 and December 31, 2011:

June 30, 2012

(In thousands)	Total Loans Individually Evaluated for Impairment	Ending ALLL Attributable to Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated for Impairment	Ending ALLL Attributable to Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALLL
Primary residential mortgage	$ 8,868	$ 430	$ 531,175	$ 2,172	$ 540,043	$ 2,602
Home equity lines of credit	98	—	48,959	208	49,057	208
Junior lien loan on residence	466	—	12,307	55	12,773	55
Multifamily property	107	—	126,408	839	126,515	839
Owner-occupied commercial real estate	10,686	554	94,463	2,864	105,149	3,418
Investment commercial real estate	5,687	384	222,657	4,400	228,344	4,784
Commercial and industrial	746	46	20,276	871	21,022	917
Secured by farmland	—	—	210	3	210	3
Agricultural production	—	—	16	1	16	1
Commercial construction	—	—	6,798	234	6,798	234
Consumer and other	—	—	13,135	77	13,135	77
Unallocated	—	—	—	548	—	548
Total ALLL	$ 26,658	$ 1,414	$ 1,076,404	$ 12,272	$ 1,103,062	$ 13,686

December 31, 2011

(In thousands)	Total Loans Individually Evaluated for Impairment	Ending ALLL Attributable to Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated for Impairment	Ending ALLL Attributable to Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALLL

Primary residential mortgage	$ 8,878	$ 345	$ 502,540	$ 2,069	$ 511,418	$ 2,414
Home equity lines of credit	489	—	49,905	204	50,394	204
Junior lien loan on residence	680	9	12,373	55	13,053	64
Multifamily property	550	52	103,506	653	104,056	705
Owner-occupied commercial real estate	9,054	322	98,798	2,786	107,852	3,108
Investment commercial real estate	5,986	509	181,012	3,672	186,998	4,181
Commercial and industrial	576	51	29,249	1,240	29,825	1,291
Agricultural production	—	—	18	1	18	1
Commercial construction	—	—	19,208	669	19,208	669
Consumer and other	—	—	12,516	78	12,516	78
Unallocated	—	—	—	508	—	508
Total ALLL	$ 26,213	$ 1,288	$ 1,009,125	$ 11,935	$ 1,035,338	$ 13,223

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Impaired loans include nonaccrual loans of $19.0 million at June 30, 2012 and $18.9 million at December 31, 2011. Impaired loans also include performing commercial mortgage and commercial troubled debt restructured loans of $6.1 million at June 30, 2012 and $7.3 million at December 31, 2011. The allowance allocated to troubled debt restructured loans which are nonaccrual totaled $300 thousand as of June 30, 2012 and $280 thousand at December 31, 2011, respectively. All accruing troubled debt restructured loans were paying in accordance with restructured terms as of June 30, 2012. The Corporation has not committed to lend additional amounts as of June 30, 2012 to customers with outstanding loans that are classified as loan restructurings.

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2012 and December 31, 2011:

June 30, 2012

(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	$7,895	$ 5,647	$ —	$6,514	$ 50
Multifamily property	264	107	—	337	—
Owner-occupied commercial real estate	9,313	7,844	—	7,736	127
Investment commercial real estate	1,183	738	—	895	3
Commercial and industrial	723	656	—	634	16
Home equity lines of credit	98	98	—	346	5
Junior lien loan on residence	655	466	—	774	—
Total loans with no related allowance	$20,131	$ 15,556	$ —	$17,236	$ 201
With related allowance recorded:					
Primary residential mortgage	$3,409	$ 3,221	$ 430	$2,893	$ 40
Owner-occupied commercial real estate	3,291	2,842	554	1,729	19
Investment commercial real estate	4,949	4,949	384	4,949	162
Commercial and industrial	90	90	46	99	4
Junior lien loan on residence	—	—	—		