PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended March 31, 2006

OR

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

Commission File No. 001-16197

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

New Jersey	22-3537895
(State or other jurisdiction of incorporation or organization)	(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 X 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 _X_ Non-accelerated filer___

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

Number of shares of Common Stock outstanding as of May 1, 2006:
8,270,252

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

PART 1 FINANCIAL INFORMATION

PART 2 OTHER INFORMATION

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

	March 31, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 24,012	$ 19,573
Federal funds sold	1,437	2,631
Interest-earning deposits	1,583	1,295
Total cash and cash equivalents	27,032	23,499
Investment Securities Held to Maturity (approximate market value $70,715 in 2006 and $77,286 in 2005)	71,771	78,084
Securities Available for Sale	351,742	341,584
Loans:		
Loans secured by real estate	749,770	728,122
Other loans	39,717	40,351
Total loans	789,487	768,473
Less: Allowance for loan losses	6,414	6,378
Loans, net	783,073	762,095

Premises and equipment, net	22,872	21,412
Accrued interest receivable	5,339	4,828
Cash surrender value of life insurance	18,135	17,957
Other assets	7,477	5,924
TOTAL ASSETS	$ 1,287,441	$ 1,255,383
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 183,791	$ 185,854
Interest-bearing deposits:		
Checking	145,846	176,175
Savings	87,934	90,744
Money market accounts	298,835	281,068
Certificates of deposit over $100,000	105,945	93,903
Certificates of deposit less than $100,000	223,848	214,252
Total deposits	1,046,199	1,041,996
Short-Term Borrowings	103,000	77,500
Long-Term Debt	31,275	31,705
Accrued expenses and other liabilities	7,895	5,027
TOTAL LIABILITIES	1,188,369	1,156,228
SHAREHOLDERS' EQUITY		
Common stock (no par value; stated value $0.83 per share; authorized 20,000,000 shares; issued shares, 8,479,942 at March 31, 2006 and 8,473,718 at December 31, 2005; outstanding shares, 8,270,155 at March 31, 2006 and 8,284,715 at December 31, 2005)	7,066	7,061
Surplus	89,090	88,973
Treasury Stock at cost, 209,787 shares in 2006 and 189,003 shares in 2005	(4,590)	(4,022)
Retained Earnings	12,187	10,100
Accumulated other comprehensive loss, net of income tax	(4,681)	(2,957)
TOTAL SHAREHOLDERS' EQUITY	99,072	99,155
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 1,287,441	$ 1,255,383

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 March 31, 2006	2005
INTEREST INCOME		
Interest and fees on loans	$ 11,248	$ 8,274

Interest on investment securities:		
Taxable	298	498
Tax-exempt	369	276
Interest on securities available for sale:		
Taxable	3,767	3,505
Tax-exempt	87	90
Interest-earning deposits	9	10
Interest on federal funds sold	16	3
Total interest income	15,794	12,656
INTEREST EXPENSE		
Interest on savings and interest-bearing deposit accounts	2,492	1,559
Interest on certificates of deposit over $100,000	2,084	498
Interest on other time deposits	1,014	1,135
Interest on borrowed funds	1,628	437
Total interest expense	7,218	3,629
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	8,576	9,027
Provision for loan losses	39	131
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,537	8,896
OTHER INCOME		
Trust department income	2,245	2,013
Service charges and fees	472	465
Bank owned life insurance	204	197
Securities gains	51	298
Other income	214	177
Total other income	3,186	3,150
OTHER EXPENSES		
Salaries and employee benefits	3,859	3,652
Premises and equipment	1,725	1,566
Other expense	1,534	1,356
Total other expenses	7,118	6,574
INCOME BEFORE INCOME TAX EXPENSE	4,605	5,472
Income tax expense	1,359	1,769
NET INCOME	$ 3,246	$ 3,703
EARNINGS PER SHARE		
Basic	$ 0.39	$ 0.45
Diluted	$ 0.39	$ 0.44
Average basic shares outstanding	8,279,156	8,261,692
Average diluted shares outstanding	8,397,319	8,405,073

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)

	Three Months Ended March 31, 2006	2005
Balance, Beginning of Period	$ 99,155	$ 94,669
Comprehensive income:		
Net Income	3,246	3,703
Unrealized holding losses on securities arising during the period, net of tax	(1,691)	(3,182)
Less: Reclassification adjustment for gains included in net income, net of tax	33	194
	(1,724)	(3,376)
Total Comprehensive income	1,522	327
Common Stock Options Exercised	91	243
Purchase of Treasury Stock	(568)	(209)
Cash Dividends Declared	(1,158)	(909)
Stock-Based Compensation Expense	14	--
Tax Benefit on Disqualifying and Nonqualifying Exercise of Stock Options	16	150
Balance, March 31,	$ 99,072	$ 94,271

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2006	2005
OPERATING ACTIVITIES:		
Net Income:	$ 3,246	$ 3,703
Adjustments to reconcile net income to net cash		

provided by operating activities:		
Depreciation	508	474
Amortization of premium and accretion of discount on securities, net	151	310
Provision for loan losses	39	131
Gains on security sales	(51)	(298)
Gain on loans sold	(1)	(7)
Gain on disposal of fixed assets	--	(10)
Increase in cash surrender value of life insurance, net	(178)	(173)
Increase in accrued interest receivable	(511)	(997)
Increase in other assets	(441)	(755)
Increase in accrued expenses and other liabilities	2,862	2,701
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,624	5,079
INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities	6,339	7,109
Proceeds from maturities of securities available for sale	14,241	8,173
Proceeds from calls of investment securities	--	3,185
Proceeds from calls of securities available for sale	--	2,000
Proceeds from sales of securities available for sale	228	1,489
Purchase of investment securities	(64)	(9,073)
Purchase of securities available for sale	(27,517)	(33,845)
Proceeds from sales of loans	226	607
Purchase of loans	(6,448)	(28,972)
Net increase in loans	(14,794)	(13,630)
Purchases of premises and equipment	(1,968)	(353)
Disposal of premises and equipment	--	21
NET CASH USED IN INVESTING ACTIVITIES	(29,757)	(63,289)
FINANCING ACTIVITIES:		
Net increase in deposits	4,203	51,016
Net increase in short-term borrowings	25,500	16,750
Repayments of long-term debt	(430)	(417)
Stock-based compensation	14	--
Cash dividends paid	(1,160)	(906)
Tax benefit on stock option exercises	16	150
Exercise of stock options	91	243
Purchase of Treasury Stock	(568)	(209)
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,666	66,627
Net increase in cash and cash equivalents	3,533	8,417
Cash and cash equivalents at beginning of period	23,499	16,518
Cash and cash equivalents at end of period	$ 27,032	$ 24,935
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 6,986	$ 3,469
Income taxes	--	943

See accompanying notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the Corporation's loan portfolio. The allowance is based on management's evaluation of the loan portfolio considering, among other things, current economic conditions, the volume and nature of the loan portfolio, historical loan loss experience, and individual credit situations. The allowance is increased by provisions charged to expense and reduced by charge-offs net of recoveries.

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

As of January 1, 2006, the Corporation adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (Revised 2004), Share-Based Payment, (Statement 123R), under the modified prospective transition method. Statement 123R requires public companies to recognize compensation expense related to stock-based compensation awards over the period during which an employee is required to provide service for the award. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after January 1, 2006. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in salaries and benefits expense over the remaining requisite service period. Results from prior periods have not been restated. The following table represents the impact of the adoption of Statement 123R on the Corporation's financial statements for the quarter ended March 31, 2006.

(Dollars In Thousands Except Share Data)	Under Statement 123R	Under APB 25	D

Net income before income tax expense	$ 4,605	$ 4,619
Net income	3,246	3,260
Earnings per share - Basic	$ 0.39	$ 0.39
Earnings per share - Diluted	0.39	0.39

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

(Dollars In Thousands Except Share Data)	Three Months Ended March 31, 2005
Net Income:	
As Reported	$3,703
Less: Total Stock-Based Compensation Expense determined under the Fair Value Based Method on all Stock Options, Net of Related Tax Effects	98
Pro Forma	$3,605
Earnings Per Share - As Reported	
Basic	$ 0.45
Diluted	0.44
Earnings Per Share - Pro Forma	
Basic	$ 0.44
Diluted	0.43

As of March 31, 2006, there was approximately $192 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans. That cost is expected to be recognized over a weighted average period of 1.7 years.

For the Corporation's stock option plans for employees, changes in options outstanding during the first quarter of 2006 were as follows:

(Dollars In Thousands Except Share Data)	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2005	441,363	$11.85-$32.14	$22.61
Granted	1,000	27.90	27.90
Exercised	(2,515)	11.85	11.85
Forfeited	(22)	27.36	27.36

Balance, March 31, 2006	439,826	$11.85-$32.14	$22.54
Options Exercisable, March 31, 2006	404,050		

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 first quarter of 2006 and the exercise price, multiplied by the number of in the money options).

The aggregate intrinsic value of options exercised during the quarters ended March 31, 2006 and 2005 was $40 thousand and $304 thousand, respectively.

The following table summarizes information about stock options outstanding at March 31, 2006.

Exercise Price	Shares Outstanding	Remaining Contractual Life	Shares Exercisable
<$12.00	65,547	1.4 years	65,547
12.01 - 16.05	17,380	4.9 years	16,280
16.06 - 19.20	120,449	4.0 years	112,690
19.21 - 26.00	2,589	6.8 years	1,301
26.01 - 28.90	217,881	7.8 years	195,996
28.91 - 32.14	15,980	8.5 years	12,236
$22.54 *	439,826	5.6 years	404,050

* Weighted average exercise price

The Corporation also has non-qualified stock option plans for non-employee directors. Changes in options outstanding during the first quarter of 2006 were as follows:

(Dollars In Thousands Except Share Data)	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price	A I
Balance, December 31, 2005	197,730	$15.68-$28.89	$22.91	
Exercised	(3,709)	15.68-17.53	16.62	
Balance, March 31, 2006	194,021	$15.68-$28.89	$23.03	
Options Exercisable, March 31, 2006	194,021			

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 first quarter of 2006 and the exercise price, multiplied by the number of in the money options).

The aggregate intrinsic value of options exercised during the quarters ended March 31, 2006 and 2005 was $40 thousand and $367 thousand, respectively.

The following table summarizes information about stock options outstanding at March 31, 2006.

Exercise Price	Shares Outstanding	Remaining Contractual Life	Shares Exercisable
<$16.00	28,750	4.9 years	28,750
16.01 - 20.00	66,272	2.2 years	66,272
20.01 - 28.89	98,999	8.0 years	98,999
$22.91 *	194,021	5.5 years	194,021

* Weighted average exercise price

The per share weighted-average fair value of stock options granted during the first quarters of 2006 and 2005 for all plans was $9.50 and $10.23, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2006	2005
Dividend yield	2.19%	1.63%
Expected volatility	40%	40%
Expected life	5 years	5 years
Risk-free interest rate	4.30%	3.71%

Earnings per Common Share - Basic and Diluted: Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings

per share includes any additional common shares as if all potentially dilutive common shares were issued (i.e., stock options) utilizing the treasury stock method.

Comprehensive Income: The difference between the Corporation's net income and total comprehensive income for the three months ended March 31, 2006 and 2005 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 three months ended March 31, 2006 and 2005 was $1.5 million and $327 thousand, respectively.

Reclassification: Certain reclassifications have been made in the prior periods' financial statements in order to conform to the 2006 presentation.

2. LOANS

Loans outstanding as of March 31, consisted of the following:

(In Thousands)	2006	2005
Loans Secured by 1-4 Family	$512,854	$402,732
Commercial Real Estate	205,397	164,399
Construction Loans	31,518	16,246
Commercial Loans	31,947	21,829

Consumer Loans	6,242	6,299
Other Loans	1,529	2,668
Total Loans	$789,487	$614,173

3. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (FHLB) totaled $31.3 million and $33.0 million at March 31, 2006 and 2005, respectively, with a weighted average interest rate of 3.56 percent and 3.42 percent, respectively. These advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $232.8 million at March 31, 2006. Advances totaling $23.0 million at March 31, 2006, have fixed maturity dates, while advances totaling $8.3 million were amortizing advances with monthly payments of principal and interest.

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

(In Thousands)	
2006	$ 6,000
2007	4,000
2008	1,297
2009	2,000
2010	10,949
Over 5 Years	7,029
Total	$31,275

At March 31, 2006, short-term borrowings at FHLB, with an average maturity of 90 days or less, were $95.0 million, while the Corporation had no short-term borrowings at March 31, 2005. The weighted average interest rate for short-term borrowings for the quarter ended March 31, 2006 was 4.55 percent.

Overnight borrowings totaled $8.0 million at March 31, 2006 as compared to overnight borrowings of $16.8 million at March 31, 2005. For the quarters ended, March 31, 2006 and 2005, overnight borrowings at FHLB averaged $37.9 million with a weighted average interest rate of 4.53 percent and $23.4 million with a weighted average interest rate of 2.63 percent, respectively.

4. BENEFIT PLANS

The Corporation has a defined benefit pension plan covering substantially all of its salaried employees.

The net periodic expense for the three months ended March 31 included the following components:

	Three Months Ended March 31,	
(In Thousands)	2006	2005
Service Cost	$ 417	$ 351
Interest Cost	165	146
Expected Return on Plan Assets	(224)	(133)
Amortization of:		
Net Loss	19	17
Unrecognized Prior Service Cost	--	--

Unrecognized Remaining Net Assets	(2)	(2)
Net Periodic Benefit Cost	$ 375	$ 379

As previously disclosed in the financial statements for the year ended December 31, 2005, the Corporation expects to contribute $1.1 million to its pension plan in 2006. As of March 31, 2006, contributions of $285 thousand had been made for the current year.

ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the three months ended March 31, 2006 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, 2005.

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:

- Unanticipated changes or no change in interest rates.
- Competitive pressure in the banking industry causes unanticipated adverse changes.
- An unexpected decline in the economy of New Jersey causes customers to default in the payment of their loans or causes loans to become impaired.
- Enforcement of the Highlands Water Protection and Planning Act
- Loss of key managers or employees.
- Loss of major customers or failure to develop new customers.
- A decrease in loan quality and loan origination volume.
- An increase in non-performing loans.
- A decline in the volume of increase 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 included in the December 31, 2005 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.

OVERVIEW: The Corporation realized earnings of $0.39 per diluted share in the first quarter of 2006 as compared to $0.44 per diluted share for the first quarter of 2005. Net income for the first quarters of 2006 and 2005 was $3.2 million and $3.7 million, respectively, a decline of $457 thousand, or 12.3 percent between these periods. Annualized return on average assets for the quarter was 1.02 percent and annualized return on average equity was 13.04 percent for the first quarter of 2006.

EARNINGS ANALYSIS

NET INTEREST INCOME: Net interest income, on a tax-equivalent basis, before the provision for loan losses, was $8.9 million for the first quarter of 2006 as compared to $9.3 million for the first quarter of 2005, a decline of $386 thousand or 4.2 percent. The decline in net interest income during the quarter was primarily the result of higher rates paid on deposits, higher deposit and borrowings balances offset in part by higher loan volume and slightly higher rates earned on loans. The net interest margin on a fully tax-equivalent basis was 2.94 percent and 3.53 percent in the first quarter of 2006 and 2005, respectively, a decrease of 59 basis points. Net interest income for the first quarter of 2006, when compared to the fourth quarter of 2005, increased $62 thousand, or 0.7 percent, from $8.8 million on a tax-equivalent basis. This increase marks the first sequential quarterly gain in net interest income since the fourth quarter of 2004. The net interest margin, on a fully tax equivalent basis declined from 3.02 percent in the fourth quarter of 2005, to 2.94 percent in the first quarter of 2006, an eight basis point decrease.

For the first quarter of 2006, average interest-earning assets increased $159.8 million or 15.2 percent to $1.21 billion as compared to $1.05 billion for the same quarter in 2005. This was due to the increase in average loan balances of $182.0 million, or 30.7 percent, in the first quarter of 2006 compared to the first quarter of 2005, offset in part by a decline in average investment securities, federal funds sold and interest-earning deposits balances of $22.2 million, or 4.9 percent, in the first quarter of 2006 compared to the first quarter of 2005. The increase in loan balances during the first quarter of 2006 was the result of growth in residential real estate, commercial mortgage, commercial and installment loans. The majority of residential real estate loan origination was due to the purchase of adjustable rate loans from a third-party mortgage origination entity. All of the loans purchased are secured by properties located in the State of New Jersey and many are within the Bank's market area.

Average interest-bearing liabilities increased $145.5 million or 17.3 percent for the quarter ended March 31, 2006, to $988.4 million from $842.9 million in the same quarter in 2005. Average balances of money market accounts increased $55.0 million or 24.1 percent and certificate of deposits rose $70.8 million or 28.1 percent. Average interest-bearing checking deposits declined $56.5 million or 28.1 percent, while average savings deposits declined $17.3 million or 16.4 percent. In addition to opening two new branches since first quarter 2005, several new deposit products have been introduced in the past year, which have been well received by customers, including the Fed Flyer CD and the Fed Tracker Money Market Account. For the first quarter of 2006, Federal Home Loan Bank advances averaged $150.1 million as compared to $56.5 million for the first quarter of 2005. Average non-interest-bearing demand deposits totaled $176.4 million and $166.3 million for the first quarters of 2006 and 2005, respectively, a $10.1 million or 6.0 percent increase.

On a tax-equivalent basis, average interest rates earned on interest-earning assets rose 41 basis points to 5.33 percent for the first quarter of 2006, from 4.92 percent for the first quarter of 2005. Average interest rates earned on loans rose 23 basis points in the first quarter of 2006 to 5.81 percent from 5.58 percent for the same quarter in 2005, despite a flattened yield curve and competitive pressure. For the quarter ended March 31, 2006, the average interest rates earned on investment securities rose 40 basis points to 4.46 percent from 4.06 percent in the same period in 2005. The average interest rate paid on interest-bearing liabilities in the first quarter of 2006 and 2005 was 2.92 percent and 1.72 percent, respectively, a 120 basis point increase. The average rate paid on certificate of deposits in the first quarter of 2006 rose 125 basis points to 3.84 percent while average rates paid on money market accounts increased 154 basis points to 3.03 percent when compared with the same quarter in 2005. While almost all categories of liabilities are paying higher rates, certificates of deposit and money markets accounts grew at a faster pace due to the growth in the adjustable-rate Fed Flyer CD and the Fed Tracker Money Market products. Rates for these two products are tied to the Federal Funds rate, which increased many times during 2005 and has continued to rise in 2006. The cost of funds for the quarter increased to 2.48 percent as compared to 1.44 percent for the first quarter of 2005. Net interest income also continues to be negatively affected by the narrowing gap between short and long term interest rates despite strong loan and deposit growth.

The following tables reflect the components of net interest income for the three months ended March 31, 2006 and 2005:

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

	March 31, 2006			March 31	
	Average Balance	Income/ Expense	Yield	Average Balance	Inc Exp
ASSETS:					
Interest-Earning Assets:					
Investments:					
Taxable (1)	$ 374,043	$ 4,065	4.35%	$ 402,107	$
Tax-Exempt (1) (2)	57,635	752	5.22	51,741	
Loans (2) (3)	775,015	11,261	5.81	593,063	
Federal Funds Sold	1,479	16	4.33	1,772	
Interest-Earning Deposits	904	9	4.03	622	
Total Interest-Earning Assets	1,209,076	$ 16,103	5.33%	1,049,305	$ 1
Noninterest-Earning Assets:					
Cash and Due from Banks	21,893			20,968	
Allowance for Loan Losses	(6,501)			(6,027)	
Premises and Equipment	21,716			20,176	
Other Assets	23,113			25,203	
Total Noninterest-Earning Assets	60,221			60,320	
Total Assets	$ 1,269,297			$ 1,109,625	
LIABILITIES:					
Interest-Bearing Deposits					
Checking	$ 144,319	$ 196	0.54%	$ 200,839	$
Money Markets	283,022	2,146	3.03	228,065	
Savings	88,395	150	0.68	105,701	
Certificates of Deposit	322,649	3,098	3.84	251,807	
Total Interest-Bearing Deposits	838,385	5,590	2.67	786,412	
Borrowings	150,054	1,628	4.34	56,536	
Total Interest-Bearing Liabilities	988,439	7,218	2.92	842,948	
Noninterest Bearing Liabilities					
Demand Deposits	176,398			166,339	
Accrued Expenses and Other Liabilities	4,893			4,833	
Total Noninterest-Bearing Liabilities	181,291			171,172	
Shareholders' Equity	99,567			95,505	

Total Liabilities and Shareholders' Equity	$ 1,269,297			$ 1,109,625
Net Interest Income (tax-equivalent basis)		8,885		
Net Interest Spread			2.41%	
Net Interest Margin (4)			2.94%	
Tax equivalent adjustment		(309)		
Net Interest Income		$ 8,576		$

(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.

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OTHER INCOME: For the first quarter of 2006, other income was $3.19 million as compared to $3.15 million in the first quarter of 2005, an increase of $36 thousand or 1.1 percent. Income from PGB Trust and Investments, the Bank's trust division, was $2.25 million, an increase of $232 thousand or 11.5 percent over last year's first quarter. The market value of trust assets increased $112.7 million or 6.8 percent from the first quarter of 2005 to 2006. Other non-interest income increased from $86 thousand in the first quarter of 2005 to $107 thousand in the first quarter of 2006, in part due to nonrecurring commercial and construction loan fees of $60 thousand.

Security gains of $51 thousand were recorded in the first quarter of 2006 as compared to $298 thousand for the same quarter of 2005. The first quarter of 2005 included the recognition of a $249 thousand gain on the non-monetary exchange of an equity security.

The following table presents the components of other income for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,	
(In Thousands)	2006	2005
Trust department income	$2,245	$2,013
Service charges and fees	472	465
Bank owned life insurance	204	197
Other non-interest income	107	86
Safe deposit rental fees	63	61
Securities gains	51	298
Fees for other services	44	30
Total other income	$3,186	$3,150

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OTHER EXPENSES: For the first quarter of 2006, other expenses increased $544 thousand or 8.3 percent to $7.12 million compared to $6.57 million for the first quarter of 2005. During the first quarter of 2006, salaries and benefits expense was $3.86 million as compared to $3.65 million for the first quarter of 2005, an increase of $207 thousand or 5.7 percent. Normal salary increases, branch expansion, higher group health insurance and pension plan costs, offset in part by lower profit sharing plan contributions, accounted for the increase.

Premises and equipment expense recorded in the first quarter of 2006 was $1.73 million as compared to $1.57 million recorded in the same period in 2005, an increase of $159 thousand or 10.2 percent. In the past year, premises and equipment expenses have increased due to the investment in new branches and equipment.

Professional fees have increased for the first quarter of 2006 to $197 thousand from $96 thousand for the first quarter of 2005 due to additional accruals for audits, regulatory exams and professional services related to employee benefits. Advertising expense increased $29 thousand or 18.8 percent to $183 thousand in the first quarter of 2006 when compared to the same period in 2005 as the Bank continues to advertise deposit products and branch openings. The Corporation strives to operate in an efficient manner and control costs as a means of increasing earnings.

The following table presents the components of other expense for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,	
(In Thousands)	2006	2005
Salaries and employee benefits	$3,859	$3,652
Premises and equipment	1,725	1,566
Professional fees	197	96
Advertising	183	154
Trust department expense	115	107
Stationery and supplies	107	158
Telephone	92	103
Postage	85	68
Other expense	755	670
Total other expense	$7,118	$6,574

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 $106 thousand and $255 thousand at March 31, 2006 and 2005, respectively. Loans past due in excess of 90 days and still accruing are in the process of collection and are considered well secured.

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

	March 31,	
(In thousands)	2006	2005
Other real estate owned	$ --	$ --
Loans past due in excess of 90 days and still accruing	38	12

Non-accrual loans	68	243
Total non-performing assets	$ 106	$ 255
Non-performing loans as a % of total loans	0.01%	0.04%
Non-performing assets as a % of total loans plus other real estate owned	0.01%	0.04%
Allowance as a % of total loans	0.81%	1.00%

PROVISION FOR LOAN LOSSES: The provision for loan losses was $39 thousand for the first quarter of 2006 as compared to $131 thousand for the first quarter of 2005. 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 first quarter of 2006, net charge-offs were $3 thousand as compared to net recoveries of $7 thousand during the first quarter of 2005.

A summary of the allowance for loan losses for the three-month period ended March 31, follows:

(In thousands)	2006	2005
Balance, January 1,	$ 6,378	$5,989
Provision charged to expense	39	131
Charge-offs	(4)	--
Recoveries	1	7
Balance, March 31,	$ 6,414	$6,127

INCOME TAXES: Income tax expense as a percentage of pre-tax income was 29.5 percent and 32.3 percent for the three months ended March 31, 2006 and 2005, respectively. Taxable income declined from $5.5 million for the first quarter of 2005 to $4.6 million for the first quarter of 2006. The effective tax rate in 2006 decreased due to increased

tax-exempt income, as well as a decline in state income tax due to higher taxable income in the Real Estate Investment Trust subsidiary, which has a lower effective state tax rate.

CAPITAL RESOURCES: The Corporation is committed to maintaining a strong capital position. At March 31, 2006, total shareholders' equity, including net unrealized losses on securities available for sale, was $99.1 million, representing a decline in total shareholders' equity recorded at December 31, 2005, of $83 thousand or 0.08 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, 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 March 31, 2006, the Corporation's Tier 1 Capital and Total Capital ratios were 16.17 percent and 17.18 percent, respectively.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets of 3 percent for banks that meet certain specified criteria, including having the highest regulatory rating. All other banks are generally required to maintain a leverage ratio of at least 3 percent plus an additional 100 to 200 basis points. The Corporation's leverage ratio at March 31, 2006, was 8.13 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 $27.0 million at March 31, 2006. In addition, the Corporation has $351.7 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 March 31, 2006, of investment securities and securities available for sale maturing within one year amounted to $23.6 million and $15.8 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 March 31, 2006, core deposits equaled $940.3 million.

Another source of liquidity is borrowing capacity. The Corporation has a variety of sources of short-term liquidity available, including federal funds purchased from correspondent banks, short-term and long-term borrowings from the Federal Home Loan Bank of New York, access to the Federal Reserve Bank discount window and loan participations or sales of loans. The Corporation also generates liquidity from the regular principal payments made on its mortgage-backed security and loan portfolios.

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 (March 31, 2006).

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 reasonably likely to materially affect, the Corporation's internal control over financial reporting.

The Corporation's management, including the CEO and CFO, does not expect that our disclosure controls and procedures or 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 and 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2006	2,826	$ 27.83	--	120,000
February 1-28, 2006	14,000	27.26	14,000	106,000
March 1-31, 2006	3,958	27.09	3,500	102,500
Total	20,784	$ 27.31	17,500	

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 14, 2006, the Board of Directors authorized an extension of the stock buyback program for an additional twelve months to April 15, 2007.

Note: All shares not purchased as part of the 2005 stock repurchase plan were repurchased as a result of the cashless exercise of employee and director stock options as provided in the Corporation's Stock Option Plans.

ITEM 6. Exhibits

a. Exhibits

3 Articles of Incorporation and By-Laws:

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

B. By-Laws of the Registrant as in effect on the date of this filing are incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

10 H. 2006 Long-Term Stock Incentive Plan

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: May 10, 2006 By: /s/ Frank A. Kissel

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

DATE: May 10, 2006 By: /s/ Arthur F. Birmingham

Arthur F. Birmingham
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

Number	Description
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