PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
November 09, 2015

UNITED STATES
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 September 30, 2015

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 requirement for the past 90 days.

Yes x 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 or 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 x 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 x
Non-accelerated filer (do not check if a smaller reporting company) o	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 x

Number of shares of Common Stock outstanding as of October 30, 2015:

15,808,875

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

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Item 1. Financial Statements (Unaudited)

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

	(unaudited) September 30, 2015	(audited) December 31, 2014
ASSETS		
Cash and due from banks	$ 10,695	$ 6,621
Federal funds sold	101	101
Interest-earning deposits	65,402	24,485
Total cash and cash equivalents	76,198	31,207
Securities available for sale	220,930	332,652
FHLB and FRB stock, at cost	11,737	11,593
Loans held for sale, at fair value	501	839
Loans held for sale, at lower of cost or fair value	27,023	—
Loans	2,855,227	2,250,267
Less: Allowance for loan losses	24,374	19,480
Net loans	2,830,853	2,230,787
Premises and equipment	31,310	32,258
Other real estate owned	330	1,324
Accrued interest receivable	6,839	5,371
Bank owned life insurance	32,727	32,634
Deferred tax assets, net	14,613	10,491
Other assets	15,902	13,241
TOTAL ASSETS	$ 3,268,963	$ 2,702,397
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 399,200	$ 366,371
Interest-bearing deposits:		
Interest-bearing deposits checking	829,970	600,889
Savings	117,665	112,878
Money market accounts	792,685	700,069
Certificates of deposit - Retail	411,335	198,819
Subtotal deposits	2,550,855	1,979,026
Interest-bearing demand – Brokered	243,000	188,000
Certificates of deposit - Brokered	93,690	131,667
Total deposits	2,887,545	2,298,693
Overnight borrowings with Federal Home Loan Bank	—	54,600

Federal Home Loan Bank advances	83,692	83,692
Capital lease obligation	10,350	10,712
Accrued expenses and other liabilities	19,448	12,433
Due to brokers, securities settlements	1,528	—
TOTAL LIABILITIES	3,002,563	2,460,130
SHAREHOLDERS’ EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of $1,000 per share)	—	—
Common stock (no par value; stated value $0.83 per share; authorized 21,000,000 shares; issued shares, 16,213,993 at September 30, 2015 and 15,563,895 at December 31, 2014; outstanding shares, 15,805,815 at September 30, 2015 and 15,155,717 at December 31, 2014	13,497	12,954
Surplus	207,788	195,829
Treasury stock at cost, 408,178 shares at September 30, 2015 and December 31, 2014	(8,988)	(8,988)
Retained earnings	54,570	41,251
Accumulated other comprehensive(loss)/ income, net of income tax	(467)	1,221
TOTAL SHAREHOLDERS’ EQUITY	266,400	242,267
TOTAL LIABILITIES & SHAREHOLDERS’ EQUITY	$ 3,268,963	$ 2,702,397

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME				
Interest and fee on loans	$24,663	$17,969	$68,274	$51,059
Interest on securities available for sale:				
Taxable	959	960	3,178	2,998
Tax-exempt	128	162	395	555
Interest on loans held for sale	10	10	44	35
Interest-earning deposits	46	109	128	142
Total interest income	25,806	19,210	72,019	54,789
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	919	677	2,546	1,620
Interest on certificates of deposit	1,296	357	3,010	1,081
Interest on borrowed funds	399	377	1,219	1,149
Interest on capital lease obligation	125	117	379	354
Subtotal - interest expense	2,739	1,528	7,154	4,204
Interest-bearing demand – brokered	857	84	1,700	198
Interest on certificates of deposits – brokered	504	550	1,532	845
Total Interest expense	4,100	2,162	10,386	5,247
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	21,706	17,048	61,633	49,542
Provision for loan losses	1,600	1,150	5,150	3,625
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,106	15,898	56,483	45,917
OTHER INCOME				
Wealth management fee income	4,169	3,661	12,732	11,420
Service charges and fees	832	829	2,474	2,231
Bank owned life insurance	260	276	1,045	818
Gain on loans held for sale at fair value (Mortgage banking)	102	87	411	310
Gain on loans held for sale at lower of cost or fair value	—	(7)	—	169
Other income	164	167	802	356
Securities gains, net	83	39	527	216
Total other income	5,610	5,052	17,991	15,520
OPERATING EXPENSES				
Salaries and employee benefits	10,322	9,116	29,619	27,053
Premises and equipment	2,785	2,564	8,179	7,336
Other operating expense	3,792	3,013	11,135	9,573

Total operating expenses	16,899	14,693	48,933	43,962
INCOME BEFORE INCOME TAX EXPENSE	8,817	6,257	25,541	17,475
Income tax expense	3,434	2,393	9,912	6,797
NET INCOME	$5,383	$3,864	$15,629	$10,678
EARNINGS PER SHARE				
Basic	$0.35	$0.33	$1.04	$0.91
Diluted	$0.35	$0.32	$1.02	$0.90
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	15,253,009	11,841,777	15,083,006	11,723,873
Diluted	15,435,939	11,956,356	15,293,747	11,833,507

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 5,383	$ 3,864	$ 15,629	$ 10,678
Other comprehensive income:				
Unrealized gains/(losses) on available for sale securities:				
Unrealized holding gains/(losses) arising during the period	751	(477)	849	1,972
Less: Reclassification adjustment for net gains included in net income	83	39	527	216
	668	(516)	322	1,756
Tax effect	(252)	190	(111)	(675)
Net of tax	416	(326)	211	1,081
Unrealized loss on cash flow hedges:				
Unrealized holding loss	(2,849)	—	(3,210)	—
Reclassification adjustment for losses included in net income	—	—	—	—
	(2,849)	—	(3,210)	—
Tax effect	1,163	—	1,311	—
Net of tax	(1,686)	—	(1,899)	—
Total other comprehensive (loss)/income	(1,270)	(326)	(1,688)	1,081
Total comprehensive income	$ 4,113	$ 3,538	$ 13,941	$ 11,759

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Nine Months Ended September 30, 2015

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance at January 1, 2015 15,155,717 common shares outstanding	$ 12,954	$ 195,829	$ (8,988)	$ 41,251	$ 1,221	$ 242,267
Net income				15,629		15,629
Other comprehensive loss					(1,688)	(1,688)
Issuance of restricted stock, net of forfeitures,157,567 shares	134	(134)				—
Vesting of restricted stock, 2,565 shares	(5)	(49)				(54)
Amortization of restricted stock		1,734				1,734
Cash dividends declared on common stock ($0.15 per share)				(2,310)		(2,310)
Common stock option expense		175				175
Common stock options exercised and related tax benefits,14,388 shares	12	169				181
Common stock options swap and related tax benefits, 7,506 shares	(5)	(147)				(152)
Sales of shares (Dividend Reinvestment Program), 416,040 shares	347	7,777				8,124
Issuance of shares for Employee Stock Purchase Plan, 24,258 shares	20	474				494
Issuance of common stock for acquisition, 47,916 shares	40	960				1,000
Issuance of warrants		1,000				1,000
Balance at September 30, 2015 15,805,815 common shares						

outstanding	$ 13,497	$ 207,788	$ (8,988)	$ 54,570	$ (467)	$ 266,400

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net income	$15,629	$10,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,408	2,205
Amortization of premium and accretion of discount on securities, net	1,337	1,085
Amortization of restricted stock	1,734	1,156
Provision of loan losses	5,150	3,625
Provision for OREO losses	250	400
Provision for deferred taxes	(2,922)	(2,574)
Stock-based compensation, including ESPP	252	177
Gains on securities, available for sale	(527)	(216)
Loans originated for sale at fair value	(26,495)	(20,267)
Proceeds from sales of loans at fair value	27,244	22,227
Gains on loans held for sale at fair value	(411)	(310)
Net gains on loans held for sale at lower of cost or fair value	—	(169)
Losses/(gains) on sale of other real estate owned	—	(139)
Losses/(gains) on disposal of fixed assets	15	(9)
Gain on death benefit	(285)	—
Increase in cash surrender value of life insurance, net	(485)	(566)
Increase in accrued interest receivable	(1,468)	(1,040)
Decrease in other assets	1,466	4,651
Decrease in accrued expenses, capital lease obligations and other liabilities	2,043	1,706
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,935	22,620
INVESTING ACTIVITIES:		
Maturities of securities available for sale	58,098	49,115
Redemptions for FHLB & FRB stock	44,568	24,290
Call of securities available for sale	14,880	4,000
Sales of securities available for sale	46,254	27,416
Purchase of securities available for sale	(6,474)	(63,811)
Purchase of FHLB & FRB stock	(44,712)	(23,380)
Proceeds from sales of loans held for sale at lower of cost or fair value	—	68,025
Net increase in loans	(632,239)	(535.510)
Sales of other real estate owned	744	1,100

Purchase of premises and equipment	(1,475)	(2,813)
Disposal of premises and equipment	—	14
Acquisition of a wealth management company	(800)	—
Proceeds from death benefit	677	—
NET CASH USED IN INVESTING ACTIVITIES	(520,479)	(451,554)
FINANCING ACTIVITIES:		
Net increase in deposits	588,852	556,169
Net decrease in overnight borrowings se in overnight borrowings	(54,600)	(54,900)
Net increase in other borrowings	—	9,000
Cash dividends paid on common stock	(2,310)	(1,800)
Exercise of Stock Options, net of stock swap	29	155
Restricted stock tax expense	(54)	—
Sales of shares (DRIP Program)	8,124	5,914
Purchase of shares for Profit Sharing Plan	494	70
NET CASH PROVIDED BY FINANCING ACTIVITIES	540,535	514,608
Net increase in cash and cash equivalents	44,991	85,674
Cash and cash equivalents at beginning of period	31,207	35,147
Cash and cash equivalents at end of period	$76,198	$120,821

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, 2014 for Peapack-Gladstone Financial Corporation (the "Corporation" or the "Company"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Corporation's financial position as of September 30, 2015 and the results of operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014, and shareholders' equity and cash flow statements for the nine months ended September 30, 2015 and 2014.

Principles of Consolidation and Organization: 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 the Corporation are prepared on the accrual basis and include the accounts of the Corporation and its wholly-owned subsidiary, Peapack-Gladstone Bank (the "Bank"). The consolidated statements also include the Bank's wholly-owned subsidiaries, PGB Trust & Investments of Delaware and Peapack-Gladstone Mortgage Group, Inc. and Peapack-Gladstone Mortgage Group's wholly-owned subsidiary, PG Investment Company of Delaware, Inc. and its wholly-owned subsidiary, Peapack-Gladstone Realty Inc., a New Jersey Real Estate Investment Company. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

Securities: All securities are classified as available for sale and 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 of 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 or 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 Held for Sale: Mortgage loans originated with the intent to sell in the secondary market are carried at fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged in earnings.

Mortgage loans held for sale are generally sold with servicing rights released; therefore, no servicing rights are recorded. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans originated with the intent to hold and subsequently transferred to loans held for sale are carried at the lower of cost or fair value. These are loans that the Corporation no longer has the intent to hold for the foreseeable future.

Loans: Loans that Management has the intent and ability to hold for the foreseeable future or until maturity are stated at the principal amount outstanding. Interest on loans is recognized based upon the principal amount outstanding. Loans are stated at face value, less purchased premium and discounts and net deferred fees. Loan origination fees and certain direct loan origination costs are deferred and recognized over the life of the loan as an adjustment, on a level-yield method, to the loan’s yield. The definition of recorded investment in loans includes accrued interest receivable, however, for the Company’s loan disclosures, accrued interest was excluded as the impact was not material.

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. Payments received on nonaccrual loans are recorded as principal payments. A nonaccrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured, generally when the Bank receives contractual payments for a minimum of six months. 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 reasonably assured, loans are returned to accrual status. Nonaccrual mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding principal balance.

The majority of the Company’s loans are secured by real estate in the New Jersey and New York metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged 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 Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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.

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

A troubled debt restructuring ("TDR") is a renegotiated loan with concessions made by the lender to a borrower who is experiencing financial difficulty. TDRs are impaired and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR 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 TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans 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 experience by the Company on a weighted average basis over the previous three 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; 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. For special mention and substandard loans that are graded as non-impaired, the Company allocates a higher general reserve percentage then pass-rated loans through utilization of a multiple, which is calculated annually through a migration analysis. At September 30, 2015 and December 31, 2014, the multiple was 5 times for non-impaired substandard loans and 2.5 times for non-impaired special mention loans.

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

Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans within or near its primary geographic market area. Loans are secured by first liens on the primary residence or investment property. Primary risk characteristics associated with residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Home Equity Lines of Credit. The Bank provides revolving lines of credit against one to four family residences within or near its primary geographic market. Primary risk characteristics associated with home equity lines of credit typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, home equity lines of credit typically are made with variable or floating interest rates, such as the Prime Rate, which could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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Junior Lien Loan on Residence. The Bank provides junior lien loans against one to four family properties within or near its primary geographic market area. Junior lien loans can be either in the form of an amortizing home equity loan or a revolving home equity line of credit. These loans are subordinate to a first mortgage which may be from another lending institution. Primary risk characteristics associated with junior lien loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Multifamily and Commercial Real Estate Loans. The Bank provides mortgage loans for multifamily properties (i.e. buildings which have five or more residential units) and other commercial real estate that is either owner occupied or managed as an investment property within or near its market area, including New York City. Commercial real estate properties primarily include office and medical buildings, retail space, and warehouse or flex space. Some properties are considered “mixed use” as they are a combination of building types, such as an apartment building that may also have retail space. Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expenses, property management and maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on borrowers and their ability to repay the loan. Commercial real estate loans are generally considered to have a higher degree of credit risk than multifamily loans as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to economic conditions.

Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory, business vehicles and equipment and general commercial assets. Commercial and industrial loans are typically repaid first by the cash flow generated by the borrower’s business operation. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flow. Factors that may influence a business’s profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often uncertain.

Commercial Construction. The Bank has substantially wound down its commercial construction lending activity given the current economic environment. New construction loans would be considered only to experienced and reputable local builders and developers that have the capital and liquidity to carry a project to completion and stabilization. Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly off.

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 segment also represents all other loans that cannot be categorized in any of the previous mentioned loan segments.

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Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company offers Facility Specific/Loan Level Swaps to its customers and offsets its exposure from such contracts by entering into mirror image swaps with a financial institution/swap counterparty. The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge account ("standalone derivatives"). The notional amount of the swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual contracts. The fair value of the swaps is recorded as both an asset and a liability, in Other Assets and Other Liabilities, respectively, in equal amounts for these transactions.

Stock-Based Compensation: The Company's 2006 Long-Term Stock Incentive Plan and 2012 Long-Term Stock Incentive Plan allow the granting of shares of the Company's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights to directors, officers and employees of the Company and its subsidiaries. Restricted stock units are also available for grant under the 2012 Long-Term Incentive Plan. The options granted under these plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair 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. Some options granted to officers at or above the senior vice president level were immediately exercisable at the date of grant. The Company has a policy of using new shares to satisfy option exercises.

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For the three months ended September 30, 2015 and 2014, the Company recorded total compensation cost for stock options of $54 thousand and $53 thousand respectively, with a recognized tax benefit of $7 thousand and $5 thousand for the quarters ended September 30, 2015 and 2014, respectively. The Company recorded total compensation cost for stock options for the nine months ended September 30, 2015 and 2014, of $175 thousand and $159 thousand, respectively, with a recognized tax benefit of $19 thousand for the nine months ended September 30, 2015 and $15 thousand for the nine months ended September 30, 2014. There was approximately $171 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans at September 30, 2015. That cost is expected to be recognized over a weighted average period of 0.66 years.

For the Company's stock option plans, changes in options outstanding during the nine months ended September 30, 2015 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2015	345,189	$ 17.38		
Granted during 2015	—	—		
Exercised during 2015	(14,388)	12.60		
Expired during 2015	(45,419)	18.48		
Forfeited during 2015	(8,314)	14.53		
Balance, September 30, 2015	277,068	17.13	4.72 years	$ 1,120
Vested and expected to vest (1)	263,809	17.33	4.72 years	$ 1,013
Exercisable at September 30, 2015	227,961	17.86	4.28 years	$ 104

(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 Company's closing stock price on the last trading day of the third quarter of 2015 and the exercise price, multiplied by the number of in-the-money options). The Company's closing stock price on September 30, 2015 was $21.17.

There were no stock options granted in the three and nine months ended September 30, 2015. For the third quarter and nine months ended September 30, 2014, the per share weighted-average fair value of stock options granted was $7.77 using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended	Nine Months Ended

	September 30, 2014		September 30, 2014	
Dividend Yield	1.13	%	1.02	%
Expected volatility	40	%	40	%
Expected life	7 years		7 years	
Risk-free interest rate	2.19	%	2.18	%

The Company did not issue any restricted or performance stock awards in the third quarter of 2015. As of September 30, 2015, there was $6.2 million of total unrecognized compensation cost related to nonvested shares, which is expected to vest over 4.3 years.

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Changes in nonvested shares dependent on performance criteria for the nine months ended September 30, 2015 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	92,767	$ 18.12
Granted during 2015	—	—
Vested during 2015	—	—
Forfeited during 2015	—	—
Balance, September 30, 2015	92,767	$ 18.12

Changes in nonvested shares not dependent on performance criteria for the nine months ended September 30, 2015 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	252,328	$ 17.34
Granted during 2015	160,764	20.94
Vested during 2015	(67,350)	16.37
Forfeited during 2015	(3,197)	20.33
Balance, September 30, 2015	342,545	$ 19.19

For the three months ended September 30, 2015 and 2014, the Company recorded total compensation cost for stock awards of $636 thousand and $435 thousand respectively.

For the nine months ended September 30, 2015 and 2014, the Company recorded total compensation cost for stock awards of $1.7 million and $1.2 million respectively.

Employee Stock Purchase Plan: On April 22, 2014, the shareholders of Peapack-Gladstone Financial Corporation approved the Peapack-Gladstone Financial Corporation 2014 Employee Stock Purchase Plan (“ESPP”). The ESPP provides for the granting of purchase rights of up to 150,000 shares of Company common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods. Each participant in the offering period is granted an option to purchase a number of shares and may contribute between 1% and 15% of their compensation. Purchases under the ESPP will be made on the last trading day of each offering period, and the number of shares to be purchased by the employee is determined by dividing the employee’s contributions accumulated during the offering period by the applicable purchase price. The purchase price is an amount equal to 85% of the closing market price of a share of Company common stock on the purchase date.

Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time during the offering period without penalty.

For the three months ended September 30, 2015, the Company recorded $26 thousand of share based compensation expense related to the ESPP. Total shares issued under the ESPP during the third quarter of 2015 were 8,799 shares. For the nine months ended September 30, 2015, the Company recorded $77 thousand of share based compensation expense related to the ESPP. Total shares issued under the ESPP for the nine months ended September 30, 2015 were 24,258 shares.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2015	2014	2015	2014
Net income to common shareholders	$5,383	$3,864	$15,629	$10,678
Basic weighted-average common shares outstanding	15,253,009	11,841,777	15,083,006	11,723,873
Plus: common stock equivalents	182,930	114,579	210,741	109,634
Diluted weighted-average common shares outstanding	15,435,939	11,956,356	15,293,747	11,833,507
Net income per common share				
Basic	$0.35	$0.33	$1.04	$0.91
Diluted	0.35	0.32	1.02	0.90

Stock options totaling 85,083 and 178,149 shares were not included in the computation of diluted earnings per share in the third quarters of 2015 and 2014, respectively, because they were considered antidilutive. Stock options and stock warrants totaling 174,662 and 191,945 shares were not included in the computation of diluted earnings per share in the nine months ended September 30, 2015 and 2014, respectively, because they were considered antidilutive.

Income Taxes: The Company files a consolidated Federal income tax return. Separate state income tax returns are filed for each subsidiary based on current laws and regulations.

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on the enacted tax rates. Such tax assets and liabilities are adjusted for the effect of a change in tax rates in the period of enactment.

The Company recognizes a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2012 or by New Jersey tax authorities for years prior to 2011.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

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2. 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 September 30, 2015 and December 31, 2014 follows:

	September 30, 2015			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored entities	$4,832	$ 14	$ —	$4,846
Mortgage-backed securities – residential	170,465	2,379	(63)	172,781
Small business administration pool securities	7,717	—	(74)	7,643
State and political subdivisions	29,438	475	—	29,913
Single-issuer trust preferred security	2,999	—	(224)	2,775
CRA investment	3,000	—	(28)	2,972
Total	$218,451	$ 2,868	$ (389)	$220,930

	December 31, 2014			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored entities	$35,664	$ 55	$ (49)	$35,670
Mortgage-backed securities – residential	239,975	2,725	(411)	242,289
Small business administration pool securities	8,015	—	(71)	7,944
State and political subdivisions	40,842	553	(1)	41,394
Single-issuer trust preferred security	2,999	—	(599)	2,400
CRA investment	3,000	—	(45)	2,955
Total	$330,495	$ 3,333	$ (1,176)	$332,652

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 September 30, 2015 and December 31, 2014.

September 30, 2015		
Duration of Unrealized Loss		
Less Than 12 Months	12 Months or Longer	Total
Approximate	Approximate	Approximate

(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities-residential	$3,770	$ (20)	$ 9,648	$ (43)	$13,418	$ (63)
Small business administration pool securities	2,845	(12)	4,798	(62)	7,643	(74)
Single-issuer trust preferred security	—	—	2,775	(224)	2,775	(224)
CRA investment fund	—	—	2,972	(28)	2,972	(28)
Total	$6,615	$ (32)	$ 20,193	$ (357)	$26,808	$ (389)

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	December 31, 2014					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government sponsored entities	$19,119	$ (20)	$ 2,963	$ (29)	$22,082	$ (49)
Mortgage-backed securities-residential	65,368	(191)	20,428	(220)	85,796	(411)
Small business administration pool securities	7,944	(71)	—	—	7,944	(71)
State and political subdivisions	505	(1)	—	—	505	(1)
Single-issuer trust Preferred security	—	—	2,400	(599)	2,400	(599)
CRA investment fund	—	—	2,955	(45)	2,955	(45)
Total	$92,936	$ (283)	$ 28,746	$ (893)	$121,682	$ (1,176)

Management believes that the unrealized losses on investment securities available for sale are temporary and are due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. As of September 30, 2015, the Company does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; therefore, none of the securities in unrealized loss position were determined to be other-than-temporarily impaired.

At September 30, 2015, the unrealized loss on the single-issuer trust preferred security of $224 thousand was 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 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 September 30, 2015.

3. LOANS

Loans outstanding, by general ledger classification, as of September 30, 2015 and December 31, 2014, consisted of the following:

(In thousands)	September 30, 2015	% of Totals Loans	December 31, 2014	% of Total Loans
Residential mortgage	$ 469,865	16.45 %	$ 466,760	20.74 %
Multifamily mortgage	1,444,334	50.59	1,080,256	48.00
Commercial mortgage	399,592	14.00	308,491	13.71
Commercial loans	456,611	15.99	308,743	13.72
Construction loans	1,409	0.05	5,998	0.27
Home equity lines of credit	50,370	1.76	50,141	2.23
Consumer loans, including fixed rate home equity loans	32,563	1.14	28,040	1.25
Other loans	483	0.02	1,838	0.08
Total loans	$ 2,855,227	100.00%	$ 2,250,267	100.00%

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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 September 30, 2015 and December 31, 2014:

(In thousands)	September 30, 2015	% of Totals Loans	December 31, 2014	% of Total Loans
Primary residential mortgage	$ 481,788	16.88 %	$ 480,149	21.37 %
Home equity lines of credit	50,528	1.77	50,302	2.24
Junior lien loan on residence	11,320	0.40	11,808	0.52
Multifamily property	1,444,334	50.62	1,080,256	48.07
Owner-occupied commercial real estate	149,470	5.24	105,446	4.69
Investment commercial real estate	559,386	19.61	405,771	18.06
Commercial and industrial	122,758	4.30	81,362	3.62
Secured by farmland/agricultural production	182	0.01	364	0.02
Commercial construction loans	150	0.01	4,715	0.21
Consumer and other loans	33,235	1.16	27,084	1.20
Total loans	$ 2,853,151	100.00 %	$ 2,247,257	100.00 %
Net deferred fees	2,076		3,010	
Total loans including net deferred costs	$ 2,855,227		$ 2,250,267	

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses (ALLL) as of September 30, 2015 and December 31, 2014:

	September 30, 2015					
(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 ALL
Primary residential mortgage	$ 8,670	$256	$473,118	$ 2,178	$481,788	$2,434
Home equity lines of credit	299	44	50,229	113	50,528	157
Junior lien loan on residence	194	—	11,126	71	11,320	71
Multifamily						

property	—	—	1,444,334	9,167	1,444,334	9,167
Owner-occupied commercial real estate	1,301	—	148,169	2,643	149,470	2,643
Investment commercial real estate	11,519	63	547,867	8,109	559,386	8,172
Commercial and industrial	241	142	122,517	1,485	122,758	1,627