BCB BANCORP INC
Form 10-Q
August 01, 2006

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 quarterly period ended June 30, 2006.

Or

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

Commission File Number: 0-50275

BCB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

New Jersey	26-0065262
(State or other jurisdiction of incorporation or organization)	(IRS Employer I.D. No.)
104-110 Avenue C Bayonne, New Jersey	07002
(Address of principal executive offices)	(Zip Code)

(201) 823-0700

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

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.

[X] Yes [ ] No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

[ ] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 1, 2006, BCB Bancorp, Inc., had 5,005,754 shares of common stock, no par value, issued and outstanding.

BCB BANCORP INC., AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENT

BCB BANCORP INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition at
June 30, 2006 and December 31, 2005
(Unaudited)
(in thousands except for share data)

	At 30-Jun-06	At 31-Dec-05
ASSETS		
Cash and amounts due from depository institutions	$ 2,810	$ 2,987
Interest-earning deposits	6,767	22,160
Total cash and cash equivalents	9,577	25,147
Securities held to maturity	149,877	140,002
Loans held for sale	1,779	780
Loans receivable, net	313,787	284,451
Premises and equipment	5,377	5,518
Federal Home Loan Bank of New York stock	3,274	2,778
Interest receivable, net	3,339	3,104
Subscriptions Receivable	--	2,353
Deferred income taxes	1,180	997
Other assets	753	1,112
Total assets	488,943	466,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	371,099	362,851
Long-term Debt	64,124	54,124
Other Liabilities	3,092	1,420
Total Liabilities	438,315	418,395
STOCKHOLDERS' EQUITY		
Common stock, stated value $0.06 10,000,000 shares authorized; 5,060,480 and 5,050,552 shares, respectively, issued	324	323
Additional paid-in capital	45,611	45,518
Treasury stock, at cost, 54,820 and 51,316 shares,		

respectively	(851)	(795)
Retained Earnings	5,544	2,801
Total stockholders' equity	50,628	47,847
Total liabilities and stockholders' equity	$ 488,943	$ 466,242

See accompanying notes to consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARY
Consolidated Statements of Income
For the three and six months ended
June 30, 2006 and 2005
(Unaudited)
(in thousands except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest income:				
Loans	$ 5,717	$ 4,623	$11,059	8,882
Securities	1,874	1,471	3,690	2,905
Other interest-earning assets	104	4	279	14
Total interest income	7,695	6,098	15,028	11,801
Interest expense:				
Deposits:				
Demand	86	82	168	167
Savings and club	663	1,028	1,476	2,076
Certificates of deposit	1,757	821	3,272	1,503
	2,506	1,931	4,916	3,746
Borrowed money	553	189	1,045	310
Total interest expense	3,059	2,120	5,961	4,056
Net interest income	4,636	3,978	9,067	7,745
Provision for loan losses	325	300	575	560
Net interest income after provision for loan losses	4,311	3,678	8,492	7,185
Non-interest income:				

Fees and service charges	141	136	290	257
Gain on sales of loans originated for sale	196	56	338	105
Gain on sale of securities	--	28	--	28
Other	6	6	13	12
Total non-interest income	343	226	641	402
Non-interest expense:				
Salaries and employee benefits	1,253	1,089	2,552	2,114
Occupancy expense of premises	220	163	438	325
Equipment	442	367	892	734
Advertising	95	39	156	78
Other	392	314	725	621
Total non-interest expense	2,402	1,972	4,763	3,872
Income before income tax provision	2,252	1,932	4,370	3,715
Income tax provision	838	723	1,627	1,361
Net Income	$ 1,414	$ 1,209	$ 2,743	$ 2,354
Net Income per common share-basic and diluted				
basic	$ 0.28	$ 0.32	$ 0.55	$ 0.63
diluted	$ 0.27	$ 0.31	$ 0.53	$ 0.60
Weighted average number of common shares outstanding-				
basic	5,003	3,736	5,003	3,739
diluted	5,185	3,908	5,172	3,915

See accompanying notes to consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
For the six months ended June 30, 2006
(Unaudited)
(in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retain Earnin
Balance, December 31, 2005	$ 323	$ 45,518	$ (795)	$ 2
Stock-based compensation	--	20	--	
Exercise of Stock Options	1	82	--	

Issuance of stock (stock offering costs)	--	(9)	--	
Treasury Stock Purchases	--	--	(56)	
Net income for the six months ended June 30, 2006	--	--	--	2
Balance, June 30, 2006	$ 324	$ 45,611	$ (851)	$ 5

See accompanying notes to consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the six months ended
June 30, 2006 and 2005
(Unaudited)
(in thousands)

	Six
	2006
Cash flows from operating activities :	
Net Income	$ 2,7
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1
Amortization and accretion, net	(3
Provision for loan losses	5
Stock-based compensation	
Deferred income tax	(1
Loans originated for sale	(19,0
Proceeds from sale of loans originated for sale	18,3
(Gain) on sale of loans originated for sale	(3
(Gain) on sale of securities held to maturity	
(Increase) Decrease in interest receivable	(2
Decrease in subscriptions receivable	2,3
(Increase) Decrease in other assets	3
Increase in accrued interest payable	1
Increase in other liabilities	1,5
Net cash provided by operating activities	6,1
Cash flows from investing activities:	
Purchase of FHLB stock	(4
Proceeds from calls of securities held to maturity	
Proceeds from maturation of securities held to maturity	5,0
Proceeds from sales of securities held to maturity	

Purchases of securities held to maturity	(17,5
Proceeds from repayments on securities held to maturity	2,6
Net (increase) in loans receivable	(29,5
Additions to premises and equipment	(
Net cash (used in) investing activities	(39,9
Cash flows from financing activities:	
Net increase in deposits	8,2
Net change in short-term debt	
Proceeds of long-term debt	10,0
Purchases of treasury stock	(
Net proceeds from sales of common stock	
Stock issuance costs	
Net cash provided by financing activities	18,2
Net (decrease) increase in cash and cash equivalents	(15,5
Cash and cash equivalents-begininng	25,1
Cash and cash equivalents-ending	$ 9,5
Supplemental disclosure of cash flow information: Cash paid during the year for:	
Income taxes	$ 7
Interest	$ 5,8

See accompanying notes to consolidated financial statements.

BCB Bancorp Inc., and Subsidiary
Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the "Company") and the Company's wholly owned subsidiaries, Bayonne Community Bank (the "Bank"), BCB Holding Company Investment Company, and BCB Equipment Leasing Company. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the fiscal year ended December 31, 2006 or any other future interim period.

These statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2005, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Note 2 - Earnings Per Share

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method.

In October 2005, the Company's Board of Directors authorized a 25% stock dividend to stockholders of record on October 13, 2005. Such dividend was distributed on October 27, 2005. The weighted average number of common shares outstanding and the net income per share data for the three and six months ended June 30, 2005, have been restated to give the retroactive effect to the stock dividend.

Note 3 - Stock Compensation Plans

The Company has two stock-related compensation plans, the 2002 Stock Option Plan and the 2003 Stock Option Plan, which are described in Note 11 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2005. Through December 31, 2005, the Company accounted for its stock option plans using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations. Under APB No. 25, generally, when the exercise price of the Company's stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. As described in Note 11 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2005, the Company's Board of Directors approved, on December 14, 2005, the acceleration of vesting for all 218,195 outstanding unvested options so that all such options would become fully vested effective December 20, 2005. Absent the acceleration of vesting, these options would have become vested from time to time through 2008. As required, the Company has estimated the number of options that will be exercised in the future which would not have been exercisable under their original vesting terms and recorded an expense therefore. This estimate will be updated on a quarterly basis and is not expected to be significant.

The Company adopted SFAS No. 123R, using the modified-prospective transition method, beginning on January 1, 2006, and therefore, began to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and instituted a procedure to expense the fair value of all options granted subsequent to December 31, 2005 over their requisite service periods.

Since all outstanding options were fully vested by December 31, 2005, no expenses were recorded for stock-based compensation during the six months ended June 30, 2006, except for $20,000 recorded during the quarter ended March 31, 2006, related to a revision of the termination rate estimate to 12% annually as it relates to the previously discussed option vesting acceleration.

SFAS No. 123R also requires that the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense is to be reported as a financing cash flow (none recognized during the

six months ended June 30, 2006) rather than an operating cash flow, as previously required. In accordance with Staff Accounting Bulletin ("SAB") No. 107, the Company classifies share-based compensation within salaries and employee benefits and directors compensation expenses to correspond with the same line item as the cash compensation paid to such individuals.

Options granted generally vest over a four-year service period 20% immediately upon grant and an additional 20% at each of the four succeeding grant anniversary dates. Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards' respective requisite service periods. The fair values relating to all options granted were estimated using a Black-Scholes option pricing model. Expected volatilities are based on historical volatility of our stock and other factors, such as implied market volatility. As permitted by SAB No. 107, we used the mid-point of the original vesting period and original option life to estimate the options' expected term, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We will recognize compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of these awards. We did not grant any options during the six months ended June 30, 2006 and 2005.

During the six months ended June 30, 2006, the Company recorded $20,000 of share-based compensation expense, all of which related to the aforementioned revision of the estimated termination rate. The Company does not expect to record significant share-based compensation expense in fiscal 2006. This estimate may be impacted by potential changes to the structure of the Company's share-based compensation plans which could impact the number of stock options granted in fiscal 2006, changes in valuation assumptions, and changes in the market price of the Company's common stock, among other things and, as a result, the actual share-based compensation expense in fiscal 2006 may differ from the Company's current estimate.

The following table illustrates the impact of share-based compensation on reported amounts:

Three and six months ended June 30, 2006
(in thousands,except per share data)

	As Reported		Impact of Share-Based Compensation	
	Quarter	YTD	Quarter	YTD
Income before income taxes	$ 2,252	$ 4,370	$ --	$ (20)
Net Income	$ 1,414	2,743	$ --	(20)
Earnings per share:				
Basic	$ 0.28	0.55	$ 0.00	(0.01)
Diluted	$ 0.27	0.53	$ 0.00	0.00

A summary of the Company's stock option activity and related information for its option plans for the six months ended June 30, 2006, was as follows:

	Options	Wtd. Avg. Exercise Price	Wtd. Avg. Rem. Contractual Term	Aggregate Intrinsic Value
Outstanding at 12/31/2005	428,454	$ 9.79		
Granted	0	0.00		
Exercised	(9,958)	8.19		
Forfeited or Cancelled	0	0.00		
Outstanding at 6/30/2006	418,496	$ 9.83	7.3 years	$ 2,338,000
Exercisable at 6/30/2006	418,496	$ 9.83	7.3 years	$ 2,338,000

The total intrinsic value of the options exercised during the three and six months ended June 30, 2006, was $26,000 and $73,000, respectively. There were no stock options granted during the six months ended June 30, 2006 and 2005. The Company had no non-vested options outstanding as of June 30, 2006, and during the six months then ended.

For purposes of pro forma disclosures, the estimated fair value of the stock are amortized to expense over their assumed vesting periods. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to all stock-related compensation prior to January 1, 2006.

	Three and six months ended June 30, 2005 (in thousands, except per share data)	
Net income, as reported	$ 1,209	$ 2,354
Add: Stock related compensation expense included in reported net income, net of income taxes	0	0
Deduct: Stock related compensation expense determined under the fair value method, net of income taxes	(121)	(242)
Pro forma net income	$ 1,088	$ 2,112
Earnings per share:		
Basic, as reported	$ 0.32	$ 0.63
Basic, pro forma	$ 0.29	$ 0.56
Diluted, as reported	$ 0.31	$ 0.60
Diluted, pro forma	$ 0.29	$ 0.54

ITEM 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Total assets increased by $22.7 million or 4.9% to $488.9 million at June 30, 2006 from $466.2 million at December 31, 2005 as the Bank continued to grow assets primarily through the origination of real estate loans funded primarily through cash flow provided by retail deposit growth, repayments and prepayments of loans as well as the mortgage backed security portfolio and the utilization of Federal Home Loan Bank advances. Asset growth has stabilized as management is concentrating on controlled loan growth as opposed to increasing assets through the purchase of investments. Growth is expected to occur at a more measured pace than in the past and in a manner consistent with our capital levels.

Total cash and cash equivalents decreased by $15.5 million or 61.8% to $9.6 million at June 30, 2006 from $25.1 million at December 31, 2005. This decrease was primarily attributable to the deployment of the proceeds of the common stock offering that the Company conducted during the fourth quarter of 2005. Securities classified as held-to-maturity increased by $9.9 million or 7.1% to $149.9 million at June 30, 2006 from $140.0 million at December 31, 2005. The increase was primarily attributable to the purchase of $17.5 million of callable agency securities during the six months ended June 30, 2006, partially offset by the maturity of a $5.0 million agency security and $2.6 million of repayments and prepayments in the mortgage backed securities portfolio.

Loans receivable increased by $29.3 million or 10.3% to $313.8 million at June 30, 2006 from $284.5 million at December 31, 2005. The increase resulted primarily from a $28.7 million or 11.5% increase in real estate mortgages comprising residential, commercial, construction and participation loans with other financial institutions, net of amortization, and a $3.8 million or 15.5% increase in consumer loans, net of amortization, partially offset by a $1.5 million decrease in commercial loans comprising business loans and commercial lines of credit, net of amortization and a $507,000 or 16.4% net increase in the allowance for loan losses to $3.6 million at June 30, 2006 from $3.1 million at December 31, 2005. At June 30, 2006, the allowance for loan losses was $3.6 million or 240.0% of non-performing loans.

Deposits increased by $8.2 million or 2.3% to $371.1 million at June 30, 2006 from $362.9 million at December 31, 2005. The increase resulted primarily from an increase during the six months ended June 30, 2006 of $38.6 million in time deposit accounts and an increase of $674,000 in transaction accounts, partially offset by a $31.1 million decrease in savings and club accounts as the Bank has experienced a change in the composition of deposits with savings and club balances being reduced in favor of higher cost time deposits. Time deposit rates have continued to rise commensurate with

increases in short term rates by the Federal Reserve during the six months ended June 30, 2006 and the resultant increase in competitive rates by financial institutions.

Borrowed money increased by $10.0 million or 18.5% to $64.1 million at June 30, 2006 from $54.1 million at December 31, 2005. The increase in borrowings reflects the use of Federal Home Loan Bank advances to augment deposits as the Bank's funding source for originating loans as well as assisting in the facilitation of a leverage transaction the Bank engaged in during the six months ended June 30, 2006.

Stockholders' equity increased by $2.8 million or 5.9% to $50.6 million at June 30, 2006 from $47.8 million at December 31, 2005. The increase was primarily attributable to net income for the six months ended June 30, 2006 of $2.7 million and $83,000 received from the proceeds of certain individuals exercising stock options, partially offset by $56,000 utilized to repurchase 3,504 shares of common stock under the Company's stock repurchase plan. At June 30, 2006 the Bank's Tier 1, Tier 1 Risk-Based and Total Risk Based Capital Ratios were 10.65%, 16.56% and 17.73% respectively.

Results of Operations
Three Months

Net income increased by $205,000 or 17.0% to $1.4 million for the three months ended June 30, 2006 from $1.2 million for the three months ended June 30, 2005. The increase in net income was due to increases in net interest income and non-interest income partially offset by increases in non-interest expense, the provision for loan losses and income taxes. Net interest income increased by $658,000 or 16.5% to $4.6 million for the three months ended June 30, 2006 from $4.0 million for the three months ended June 30, 2005. This increase resulted primarily from an increase in average interest earning assets of $85.4 million or 22.0% to $473.4 million for the three months ended June 30, 2006 from $388.0 million for the three months ended June 30, 2005, funded primarily through an increase in average interest bearing liabilities of $58.6 million or 17.1% to $400.7 million for the three months ended June 30, 2006 from $342.1 million for the three months ended June 30, 2005 and an increase in average stockholders' equity of $22.2 million or 80.7% to $49.7 million for the three months ended June 30, 2006 from $27.5 million for the three months ended June 30, 2005, partially offset by a decrease in the net interest margin to 3.92% for the three months ended June 30, 2006 from 4.10% for the three months ended June 30, 2005.

Interest income on loans receivable increased by $1.1 million or 23.9% to $5.7 million for the three months ended June 30, 2006 from $4.6 million for the three months ended June 30, 2005. The increase was primarily attributable to an increase in average loans receivable of $46.9 million or 17.4% to $316.1 million for the three months ended June 30, 2006 from $269.2 million for the three months ended June 30, 2005, and an increase in the average yield on loans receivable to 7.24% for the three months ended June 30, 2006 from 6.87% for the three months ended June 30, 2005. The increase in average loans reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns. The

increase in average yield reflects the increase in loan yields tied to the prime lending rate which has been increasing consistent with the Federal Reserve's more restrictive interest rate policy over the last twenty-four months.

Interest income on securities held-to-maturity increased by $403,000 or 27.4% to $1.87 million for the three months ended June 30, 2006 from $1.47 million for the three months ended June 30, 2005. This increase was primarily due to an increase in the average balance of securities held-to-maturity of $29.8 million or 25.8% to $145.5 million for the three months ended June 30, 2006 from $115.7 million for the three months ended June 30, 2005, and an increase in the average

yield on securities held-to-maturity to 5.15% for the three months ended June 30, 2006 from 5.09% for the three months ended June 30, 2005. The increase in average balance reflects management's philosophy to deploy funds in investments, absent an opportunity to originate higher yielding loans, in an effort to achieve higher returns.

Interest income on other interest-earning assets increased by $100,000 to $104,000 for the three months ended June 30, 2006 from $4,000 for the three months ended June 30, 2005. This increase was primarily due to an $8.8 million increase in the average balance of other interest-earning assets to $11.9 million for the three months ended June 30, 2006 from $3.1 million for the three months ended June 30, 2005 and an increase in the average yield on other interest-earning assets to 3.51% for the three months ended June 30, 2006 from 0.51% for the three months ended June 30, 2005. The increase in the average yield reflects the higher short-term interest rate environment for overnight deposits in 2006 as compared to 2005. The increase in the average balance primarily reflects the, as yet, undeployed net proceeds from our offering of common stock.

Total interest expense increased by $939,000 or 44.3% to $3.06 million for the three months ended June 30, 2006 from $2.12 million for the three months ended June 30, 2005. The increase resulted primarily from an increase in average interest bearing liabilities of $58.6 million or 17.1% to $400.7 million for the three months ended June 30, 2006 from $342.1 million for the three months ended June 30, 2005, and an increase in the average cost of interest bearing liabilities to 3.05% for the three months ended June 30, 2006 from 2.48% for the three months ended June 30, 2005.

The provision for loan losses totaled $325,000 and $300,000 for the three-month periods ended June 30, 2006 and 2005, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) significant level of loan growth and (5) the existing level of reserves for loan losses that are probable and estimable. During the three months ended June 30, 2006 and June 30, 2005, the Bank recorded no charge-offs. The Bank had non-performing loans totaling $1.5 million or 0.47% of gross loans at June 30, 2006, $1.9 million or 0.58% of gross loans at March 31, 2006 and $1.17 million or 0.42% of gross loans at June 30, 2005. The allowance for loan losses was $3.6 million or 1.13% of gross loans at June 30, 2006, $3.3 million or 1.05% of gross loans at March 31, 2006 and $3.0 million or 1.07% of gross loans at June 30,

2005. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at June 30, 2006, March 31, 2006 and June 30, 2005.

Total non-interest income increased by $117,000 or 51.8% to $343,000 for the three months ended June 30, 2006 from $226,000 for the three months ended June 30, 2005. The increase in non-interest income resulted primarily from a $140,000 increase in gain on sales of loans originated for sale to $196,000 for the three

months ended June 30, 2006 from $56,000 for the three months ended June 30, 2005, and a $5,000 increase in general fees and service charges to $141,000 for the three months ended June 30, 2006 from $136,000 for the three months ended June 30, 2005, partially offset by a $28,000 decrease in gain on sales of securities as the Bank did not engage in any securities sales during the quarter ended June 30, 2006 as opposed to a gain of $28,000 recorded in the three months ended June 30, 2005. As the sales consummated during the three months ended June 30, 2005 were from the held-to-maturity category, certain language located in the text of FASB 115 was invoked to allow the sale of those securities to occur.

Total non-interest expense increased by $430,000 or 21.8% to $2.40 million for the three months ended June 30, 2006 from $1.97 million for the three months ended June 30, 2005. Salaries and employee benefits expense increased by $164,000 or 15.0% to $1.25 million for the three months ended June 30, 2006 from $1.09 million for the three months ended June 30, 2005. This increase was primarily attributable to annual salary increases in conjunction with annual reviews and an increase in health care benefits expense. Equipment expense increased by $75,000 to $442,000 for the three months ended June 30, 2006 from $367,000 for the three months ended June 30, 2005. The primary component of this expense item is data service provider expense which increases with the growth of the Bank's assets. Occupancy expense increased by $57,000 to $220,000 for the three months ended June 30, 2006 from $163,000 for the three months ended June 30, 2005 primarily as a result of the Bank securing a lease for the opening of a branch office in Hoboken, New Jersey. It is anticipated that this office will commence operations during the second half of 2006. Advertising expense increased by $56,000 to $95,000 for the three months ended June 30, 2006 from $39,000 for the three months ended June 30, 2005. The increase in advertising expense relates to advertisements for deposit and loan promotions in an effort to attract additional business during the three months ended June 30, 2006. Other non-interest expense increased by $78,000 to $392,000 for the three months ended June 30, 2006 from $314,000 for the three months ended June 30, 2005. The increase in other non-interest expense is primarily attributable to increases in expenses commensurate with a growing franchise. Other non-interest expense is

comprised of directors' fees, stationary, forms and printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses.

Income tax expense increased $115,000 to $838,000 for the three months ended June 30, 2006 from $723,000 for the three months ended June 30, 2005 reflecting increased pre-tax income earned during the three month time period ended June 30, 2006. The consolidated effective income tax rate for the three months ended June 30, 2006 was 37.2% as compared to 37.4% for the three months ended June 30, 2005.

Six Months of Operations

Net income increased by $389,000 or 16.5% to $2.74 million for the six months ended June 30, 2006 from $2.35 million for the six months ended June 30, 2005. The increase in net income was due to increases in net interest income and non-interest income partially offset by increases in the provision for loan losses, non-interest expense and income taxes. Net interest income increased by $1.32 million or 17.0% to $9.07 million for the six months ended June 30, 2006 from $7.75 million for the six months ended June 30, 2005. This increase resulted primarily from an increase in average interest earning assets of $88.0 million or 23.1% to $468.7 million for the six months ended June 30, 2006 from $380.7 million for the six months ended June 30, 2005 funded primarily through an increase in average interest bearing liabilities of $61.8 million or 18.4% to $398.3 million for the six months ended June 30, 2006 from $336.5 million for

the six months ended June 30, 2005 and an increase in average stockholders' equity of $22.2 million or 82.2% to $49.2 million for the six months ended June 30, 2006 from $27.0 million for the six months ended June 30, 2005, partially offset by a decrease in the net interest margin to 3.87% for the six months ended June 30, 2006 from 4.07% for the six months ended June 30, 2005.

Interest income on loans receivable increased by $2.2 million or 24.7% to $11.1 million for the six months ended June 30, 2006 from $8.9 million for the six months ended June 30, 2005. The increase was primarily attributable to an increase in average loans receivable of $46.3 million or 17.6% to $309.0 million for the six months ended June 30, 2006 from $262.7 million for the six months ended June 30, 2005, and an increase in the average yield on loans receivable to 7.16% for the six months ended June 30, 2006 from 6.76% for the six months ended June 30, 2005. The increase in average loans reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns.

Interest income on securities held-to-maturity increased by $785,000 or 27.0% to $3.7 million for the six months ended June 30, 2006 from $2.9 million for the six months ended June 30, 2005. The increase was primarily due to an increase in the average balance of securities held-to-maturity of $29.6 million or 25.9% to $144.0 million for the six months ended June 30, 2006 from $114.4 million for the six months ended June 30, 2005 and an increase in the average yield on securities held-to-maturity to 5.13% for the six months ended June 30, 2006 from 5.08% for the six months ended June 30, 2005. The

increase in average balance reflects management's philosophy to deploy funds in investments absent the opportunity to invest in higher yielding loans in an effort to achieve higher returns.

Interest income on other interest-earning assets increased by $265,000 to $279,000 for the six months ended June 30, 2006 from $14,000 for the six months ended June 30, 2005. This increase was primarily due to an increase of $12.1 million in the average balance of other interest-earning assets to $15.7 million for the six months ended June 30, 2006 from $3.6 million for the six months ended June 30, 2005 and an increase in the average yield on other interest-earning assets to 3.55% for the six months ended June 30, 2006 from 0.77% for the six months ended June 30, 2005. The increase in the average yield reflects the higher short-term interest rate environment for overnight deposits in 2006 as compared to 2005. The increase in the average balance primarily reflects the undeployed portion of net proceeds from our offering of common stock.

Total interest expense increased by $1.9 million or 46.3% to $6.0 million for the six months ended June 30, 2006 from $4.1 million for the six months ended June 30, 2005. The increase resulted primarily from an increase in average interest bearing liabilities of $61.8 million or 18.4% to $398.3 million for the six months ended June 30, 2006 from $336.5 million for the six months ended June 30, 2005, and an increase in the average cost of interest bearing liabilities to 2.99% for the six months ended June 30, 2006 from 2.41% for the six months ended June 30, 2005.

The provision for loan losses totaled $575,000 and $560,000 for the six-month periods ended June 30, 2006 and 2005, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) significant level of loan growth and (5) the existing level of reserves for loan losses that are probable and

estimable. During the six months ended June 30, 2006, the Bank recorded $68,000 in net loan charge-offs. During the six months ended June 30, 2005, the Bank recorded $75,000 in loan charge-offs. The Bank had non-performing loans totaling $1.5 million or 0.47% of gross loans at June 30, 2006, $1.03 million or 0.36% of gross loans at December 31, 2005 and $1.17 million or 0.42% of gross loans at June 30, 2005. The allowance for loan losses was $3.6 million or 1.13% of gross loans at June 30, 2006, $3.1 million or 1.07% of gross loans at December 31, 2005 and $3.0 million or 1.07% of gross loans at June 30, 2005. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management

believes that the allowance for loan losses was adequate at June 30, 2006, December 31, 2005 and June 30, 2005.

Total non-interest income increased by $239,000 or 59.5% to $641,000 for the six months ended June 30, 2006 from $402,000 for the six months ended June 30, 2005. The increase in non-interest income resulted primarily from a $233,000 increase in gain on sales of loans originated for sale to $338,000 for the six months ended June 30, 2006 from $105,000 for the six months ended June 30, 2005, and a $33,000 increase in general fees and service charges to $290,000 for the six months ended June 30, 2006 from $257,000 for the six months ended June 30, 2005, partially offset by a $28,000 decrease in gain on sales of securities as the Bank did not engage in any securities sales during the six months ended June 30, 2006 as opposed to a gain of $28,000 recorded during the six months ended June 30, 2005. As the sales consummated during the six months ended June 30, 2005 were from the held-to-maturity category, certain language located in the text of FASB 115 was invoked to allow the sale of those securities to occur.

Total non-interest expense increased by $891,000 or 23.0% to $4.76 million for the six months ended June 30, 2006 from $3.87 million for the six months ended June 30, 2005. Salaries and employee benefits expense increased by $438,000 or 20.8% to $2.55 million for the six months ended June 30, 2006 from $2.11 million for the six months ended June 30, 2005. This increase was primarily attributable to annual salary increases in conjunction with annual reviews and an increase in health care benefits expense as well as an increase in the number of full time equivalent employees to 84 for the six months ended June 30, 2006 from 75 for the six months ended June 30, 2005. Equipment expense increased by $158,000 to $892,000 for the six months ended June 30, 2006 from $734,000 for the six months ended June 30, 2005. The primary component of this expense item is data service provider expense which increases with the growth of the Bank's assets. Occupancy expense increased by $113,000 to $438,000 for the six months ended June 30, 2006 from $325,000 for the six months ended June 30, 2005 primarily as a result of the Bank securing a lease for the opening of a branch office in Hoboken, New Jersey. It is anticipated that this office will commence operations during the second half of 2006. Advertising expense increased by $78,000 to $156,000 for the six months ended June 30, 2006 from $78,000 for the six months ended June 30, 2005. The increase in advertising expense relates to advertisements for deposit and loan promotions in an effort to attract additional business during the six months ended June 30, 2006. Other non-interest expense increased by $104,000 to $725,000 for the six months ended June 30, 2006 from $621,000 for the six months ended June 30, 2005. The increase in other non-interest expense

is primarily attributable to increases in expenses commensurate with a growing franchise. Other non-interest expense is comprised of directors' fees, stationary, forms and printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses.

Income tax expense increased $266,000 or 19.5% to $1.63 million for the six months ended June 30, 2006 from $1.36 million for the six months ended June 30, 2005 reflecting increased pre-tax income earned during the six month time period ended June

30, 2006. The consolidated effective income tax rate for the six months ended June 30, 2006 was 37.2% as compared to 36.6% for the six months ended June 30, 2005.

Item 3. Quantitative and Qualitative Analysis of Market Risk

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, one of most significant forms of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior Management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee, which consists of senior management and outside directors operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of March 31, 2006, the latest data for which this information is available. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions were

made in preparation of the NPV table includes prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and noninterest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 300 basis points has been excluded since it would not be meaningful, in the interest rate environment as of March 31, 2006. The following sets forth the Company's NPV as of March 31, 2006.

Change in Calculation	Net Portfolio Value	$ Change from PAR	% Change from PAR	NPV as a % of Assets	
				NPV Ratio	Change
+300bp	$ 35,061	$ (29,171)	-45.41%	8.12%	-541 bps
+200bp	45,478	(18,754)	-29.20	10.21	-332 bps
+100bp	55,144	(9,088)	-14.15	12.00	-153 bps
PAR	64,232	--	--	13.53	-- bps
-100bp	70,528	6,296	9.80	14.46	93 bps
-200bp	68,228	3,996	6.22	13.85	32 bps

bp - basis points

The table above indicates that at March 31, 2006, in the event of a 100 basis point decrease in interest rates, we would experience a 9.80% increase in NPV. In the event of a 100 basis point increase in interest rates, we would experience a 14.15% decrease in NPV.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in NPV require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of our interest rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income, and will differ from actual results.

ITEM 4.

Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure

controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no changes in the Company's risk factors since the filing of the Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Securities sold within the past three years without registering the securities under the Securities Act of 1933

On June 17, 2004 the Company sold $4.1 million in debentures in connection with its participation in a pooled trust preferred offering. The proceeds of the offering were used to fund asset growth and qualify as regulatory capital.

Other than as stated below, the Company has not sold any securities during the past three years. In connection with the Plan of Acquisition completed on May 1, 2003 the Bank reorganized into the holding company form of ownership and each share of Bank common stock became a share of Company common stock. No new capital was received in the reorganization.

The Company conducted a secondary public stock offering during the fourth quarter of 2005. The Company sold 1,265,000 shares of its common stock for an aggregate offering price of $19.3 million. The Company offered 1,100,000 shares of its common stock, (with an over-allotment option of 165,000 shares) to the public at a price of $15.25. The stock offering was underwritten by Janney Montgomery Scott LLC on a firm commitment basis. The Company's registration statement on Form S-1 (Commission File No. 333-128214) was declared effective by the Securities and Exchange Commission on December 13, 2005. The Company also filed a rule 462 registration statement on Form S-1 (Commission File No. 333-130307) which was effective upon filing December 14, 2005. The sale of 1.1 million shares was completed on December 19, 2005, and the over-allotment was exercised in full on January 5, 2006.

Last year, the Company announced a stock repurchase plan which provides for the purchase of up to 187,096 shares, adjusted for the 25% stock dividend paid on October 27, 2005. The Company's stock purchases during the last three months are as follows:

Period	Shares Purchased	Average Price	Total Number of Shares Purchased	Maximum Number of Shares That May Yet be Purchased
4/1 - 4/30	--------	-----	---------	134,280
5/1 - 5/31	2,004	$16.25	2,004	132,276
6/1 - 6/30	--------	-----	---------	132,276

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders occurred on April 27, 2006. At this meeting there were two items put to a vote of security holders; Election of Directors and Ratification of the Independent Auditors. The number of shares outstanding was 5,053,897, the number of shares entitled to vote was 5,002,581 and the number of shares present at the meeting or by proxy was 3,874,436.

1. The vote with respect to the election of four directors was as follows:

NAME	FOR	WITHHELD
Thomas M. Coughlin	3,792,076	82,360
Joseph Lyga	3,784,227	90,209
Alexander Pasiechnik	3,784,886	89,550
Joseph Tagliareni	3,790,941	83,495

2. The vote with respect to the ratification of Beard Miller Company LLP as Independent Auditors for the Company for the year ending December 31, 2006 was:

FOR	AGAINST	ABSTAIN
3,808,118	12,222	54,096

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit 31.1 and 31.2 Officers' Certification filed pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Officers' Certification filed pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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