CENTER BANCORP INC
Form 10-Q
November 09, 2004

UNITED STATES OF AMERICA SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2004

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 2-81353

CENTER BANCORP, INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY	52-1273725
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

2455 MORRIS AVENUE, UNION, NEW JERSEY 07083

(Address of principal executives offices) (Zip Code)

(908) 688-9500

(Registrant's telephone number, including area code)

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

Yes|X| No|_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-12 of the Exchange Act).

Yes|X| No|_|

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

COMMON STOCK, NO PAR VALUE:	9,910,562
(Title of Class)	(Outstanding at October 31, 2004)

CENTER BANCORP, INC.

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PART I- FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2004 or for any other interim period. The Center Bancorp Inc. 2003 annual report on Form 10-K should be read in conjunction with these statements.

PART 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION

	SEPTEMBER 30,	DE
(DOLLARS IN THOUSANDS)	2004	
	(UNAUDITED)	
ASSETS		
Cash and due from banks	$ 17,257	$
Investment securities held to maturity (approximate market value of $132,035 in 2004 and $159,989 in 2003)	127,899	
Investment securities available-for-sale	364,623	
Total investment securities	492,522	
Loans, net of unearned income	379,097	
Less-Allowance for loan losses	3,644	
Net loans	375,453	
Premises and equipment, net	16,933	
Accrued interest receivable	4,943	
Bank owned separate account life insurance	17,660	
Other assets	4,106	
Goodwill	2,091	
Total assets	$ 930,965	$
LIABILITIES		
Deposits:		
Non-interest bearing	$ 124,746	$
Interest bearing:		
Certificates of deposit $100,000 and over	91,354	
Savings and time deposits	392,849	
Total deposits	608,949	
Federal funds purchased and securities sold under agreements to repurchase	132,360	
Federal Home Loan Bank advances	100,000	
Subordinated debentures	15,000	
Accounts payable and accrued liabilities	6,943	
Total liabilities	863,252	
STOCKHOLDERS' EQUITY		
PREFERRED STOCK, NO PAR VALUE, Authorized 5,000,000 shares; None Issued	0	

COMMON STOCK, NO PAR VALUE: Authorized 20,000,000 shares; issued 10,919,418 and 10,003,580 shares in 2004 and 2003, respectively	30,326	
Additional paid in capital	4,524	
Retained earnings	35,900	
Treasury stock at cost (1,009,055 and 1,059,138 shares in 2004 and 2003 respectively)	(3,783)	
Restricted stock	0	
Accumulated other comprehensive income	746	
Total stockholders' equity	67,713	
Total liabilities and stockholders' equity	$ 930,965	$

All per common share amounts have been adjusted retroactively for common stock splits and common stock dividends impacting the periods presented.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30	
(IN THOUSANDS, EXCEPT PER SHARE DATA)	2004	2003	2004	
INTEREST INCOME:				
Interest and fees on loans	$4,705	$3,840	$13,571	$10
Interest and dividends on investment securities:				
Taxable interest income	4,167	3,063	12,267	13
Non-taxable interest income	925	880	2,658	1
Dividends	324	369	927	
Total interest income	10,121	8,152	29,423	26
INTEREST EXPENSE:				
Interest on certificates of deposit $100,000 and over	345	117	538	
Interest on other deposits	1,490	1,570	4,692	5
Interest on borrowings	1,696	1,424	4,721	4
Total interest expense	3,531	3,111	9,951	9
Net interest income	6,590	5,041	19,472	17
Provision for loan losses	205	103	615	
Net interest income after provision for loan losses	6,385	4,938	18,857	16
OTHER INCOME:				
Service charges, commissions and fees	513	401	1,471	1
Other income	133	173	344	
Annuity & Insurance	5	0	25	

Bank Owned Life Insurance	188	268	546	
Gain (Loss) on securities sold	0	(17)	157	
TOTAL OTHER INCOME	839	825	2,543	2
Other expense:				
Salaries and employee benefits	2,685	2,507	7,963	7
Occupancy, net	455	393	1,477	1
Premises and equipment	457	384	1,377	1
Stationery and printing	127	131	423	
Marketing and advertising	112	120	408	
Other	914	880	2,997	2
TOTAL OTHER EXPENSE	4,750	4,415	14,645	13
Income before income tax expense	2,474	1,348	6,755	5
Income tax expense (benefit)	457	(167)	1,232	
Net income	$2,017	$1,515	$5,523	$4
EARNINGS PER SHARE: (Note 4)				
Basic	$0.22	$0. 17	$0.61	$
Diluted	$0.22	$0. 17	$0.61	$
Weighted average common shares outstanding:				
Basic	9,033,839	8,904,684	8,986,150	8,885
Diluted	9,076,188	8,999,418	9,045,639	8,979

All per common share amounts have been adjusted retroactively for common stock splits and common stock dividends impacting the periods presented.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF CASH FLOW

	NINE
(Unaudited)	SE
(DOLLARS IN THOUSANDS)	2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 5,5
Adjustments to reconcile net income to net cash	
Provided by operating activities:	
Depreciation and amortization	1,1
Provision for loan losses	6
Gain on sales of investment securities available for sale	(1
Increase in accrued interest receivable	(4
(Increase)/decrease in other assets	(1,3
Increase in Cash Surrender Value of Bank Owned Life Insurance	(5
Increase/(decrease) in other liabilities	1,9
Amortization of premium and accretion of discount on investment securities, net	6
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,3

CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from maturities of securities available for sale	66,4
Proceeds from redemption of FRB & FHLB stock	3,2
Proceeds from maturities of securities held-to-maturity	30,0
Proceeds from sales of securities available-for-sale	34,5
Purchase of securities available-for-sale	(101,5
Purchase of securities held-to-maturity	(3,2
Purchase of FRB and FHLB stock	(3,9
Net increase in loans	(29,5
Bank owned life insurance	(2,5
Property and equipment expenditures, net	(2,4
NET CASH USED IN INVESTING ACTIVITIES	(8,9
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (decrease) in deposits	(23,9
Dividends paid	(2,3
Proceeds from issuance of common stock	10,9
Net increase in borrowings	17,6
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,2
NET INCREASE IN CASH AND CASH EQUIVALENTS	7
Cash and cash equivalents at beginning of period	$ 16,5
Cash and cash equivalents at end of period	$ 17,2
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest paid on deposits and short-term borrowings	$ 9,8
Income Taxes	$ 1,2

See Accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLDIATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Center Bancorp, Inc. (the Corporation) are prepared on the accrual basis and include the accounts of the Corporation and its wholly owned subsidiary, Union Center National Bank (the Bank). All significant inter-Corporation accounts and transactions have been eliminated from the Corporation's consolidated financial statements.

BUSINESS

The Bank provides a full range of banking services to individual and corporate customers through branch locations in Union and Morris Counties, New Jersey. The Bank is subject to competition from other financial institutions, is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

BASIS OF FINANCIAL STATEMENT PRESENTATION AND USE OF ESTIMATES

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, as of the date of the statement of condition, and revenues and expenses for the applicable period. Actual results could differ significantly from those estimates.

In the opinion of Management, all adjustments necessary for a fair presentation of the Corporation's financial condition and results of operations for the interim periods have been made. Such adjustments are of a normal recurring nature. Certain reclassifications have been made for 2003 to conform to the classifications presented in 2004. Results for the period ended September 30, 2004 are not necessarily indicative of results for any other interim period or for the entire fiscal year. Reference is made to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003 for information regarding accounting principles.

STOCK BASED COMPENSATION

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of FASB Statement No. 123, accounting for Stock-Based Compensation, to our stock option plans.

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED SEPTEMBER 30, 2004	2003
Net income, as reported	$ 2,017	$ 1,515
Add: compensation expense recognized for restricted stock award, net of related tax effect	0	0
Deduct: Total Stock-based employee compensation expense determined under fair value based method all awards, net of related tax effects	27	11
Pro forma net income	$ 1,990	$ 1,504
Earnings per share:		
Basic - as reported	$ 0.22	$ 0.17
Basic - pro forma	$ 0.22	$ 0.17
Diluted - as reported	$ 0.22	$ 0.17
Diluted - pro forma	$ 0.22	$ 0.17

All common stock and per share amounts have been restated to reflect the 5% common stock dividend declared April 20, 2004, to common stockholders of record May 18, 2004 and distributed on June 1, 2004.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

OTHER-THAN-TEMPORARY IMPAIRMENT

In March 2004, the Emerging Issues Task Force ("EITF"), a standard setting body working under the auspices of the Financial Accounting Standards Board ("FASB"), revised ETIF No.03-01, "The Meaning of Other than temporary Impairment and its Application to Certain Investments." In the revised guidance the EITF reached a consensus regarding the model to be used in determining whether an investment is other-than-temporarily impaired, and the required disclosures about unrealized losses on available-for-sale debt and equity securities. The other-than-temporary impairment accounting guidance would have been effective for reporting periods beginning after June 15, 2004; the disclosure requirements for annual reporting periods ending after June 15, 2004. In September, FASB approved to delay the requirement to record impairment losses under EITF 03-1 and is expected to issue final guidance by December 31, 2004. Management is currently evaluating the effect of this guidance on the Corporation's consolidated financial statements and results of operations.

NOTE 3 - COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) includes all changes in equity during a period from transactions and other events and circumstances from non-owner sources. The Bank's other comprehensive income (loss) is comprised of unrealized holding gains and losses on securities available-for-sale.

	THREE MONTHS ENDED SEPTEMBER 30,		NIN ENDED
(DOLLARS IN THOUSANDS)	2004	2003	2004
Net Income	$ 2,017	$ 1,515	$ 5,523
OTHER COMPREHENSIVE INCOME			
Unrealized holding gains/(losses) arising during the period, net of taxes	5,428	(5,486)	(76)
Less reclassification adjustment for (gains)/losses included in net income (net of taxes)	0	11	(104)
Other total comprehensive income (loss)	5,428	(180)	(2,967)
Total comprehensive income (loss)	$ 7,445	$(3,982)	$ 5,343

NOTE 4 - EARNINGS PER SHARE RECONCILEMENT

Basic Earnings per Share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS includes any additional common shares as if all potentially dilutive common shares were issued (e.g. stock options). The Corporation's weighted average common shares outstanding for diluted EPS include the effect of stock options outstanding using the Treasury Stock Method, which are not included in the calculation of basic EPS.

Earnings per common share have been computed based on the following:

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	END 200
Net income	$2,017	$1,515	$5,52
Average number of common shares outstanding	9,034	8,905	8,98
Effect of dilutive options	42	94	5
Effect of restricted stock awards	0	0	
Average number of common shares outstanding used to calculate diluted earnings per common share	9,076	8,999	9,04
Net income per share:			
Basic	$ .22	$ .17	$ .6
Diluted	$ .22	$ .17	$ .6

All common stock and per share amounts have been restated to reflect the 5% common stock dividend declared April 20, 2004, to common stockholders of record May 18, 2004 and distributed on June 1, 2004.

NOTE 5 - COMPONENTS OF NET PERIOD BENEFIT COST

	NINE MONTHS ENDED SEPTEMBER 30,			
	PENSION BENEFIT		OTHER POSTRETIREMENT BENEF	
(DOLLARS IN THOUSANDS)	2004	2003	2004	200
Service Cost	$ 509	$ 450	$ 33	$ 5
Interest Cost	372	318	48	6
Expected return on plan assets	(333)	(288)	0	
Amortization of prior service cost	3	3	9	
Amortization of the net loss	33	18	30	8
Net periodic benefit cost	$ 584	$ 501	$ 120	$ 21

CONTRIBUTIONS

The Corporation previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute $760,000 to its Pension Trust in 2004. As of September 30, 2004, $550,000 of contributions has been made. The Company presently does not anticipate increasing its total contributions for the year to fund its pension plan obligations in 2004.

NOTE 6 - VARIABLE INTEREST ENTITIES

During 2001 and 2003, the Corporation issued $10.0 million and $5.0 million, respectively, of subordinated debentures and formed statutory business trusts, which exist for the exclusive purpose of (i) issuing trust securities representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the trust securities in junior subordinated deferrable interest debentures (subordinated debentures) of the Corporation; and (iii) engaging in only those activities necessary or incidental thereto. These subordinated debentures and the related income effects are not eliminated in the consolidated financial statements as the statutory business trusts are not consolidated in accordance with FASB interpretation No.46 "Consolidation of Variable interest Entities." Distributions on the subordinated debentures owned by the subsidiary trusts below have been classified as interest expense in the Consolidated Statement of Income.

In July 2003, the Board of Governors of the Federal Reserve System instructed bank holding companies to continue to include trust preferred securities in their Tier 1 capital for regulatory capital purposes until notice is given to the contrary. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier 1 capital for regulatory capital purposes. As of September 30, 2004, assuming the Corporation was not allowed to include the $15 million in subordinated debentures in Tier 1 capital, the Corporation had a Tier 1 capital ratio of 6.95% and a total risk based capital ratio of 13.30%.

ITEM 2-MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of operations, plans, objectives, future performance and business of Center Bancorp, including statements preceded by, followed by or that include words or phrases such as "believes," "expects," "anticipates," "plans," "trend," "objective," "continue," "remain," "pattern" or similar expressions or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions. Such forward-looking statements involve inherent risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from historical performance and from these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) competitive pressures among depository institutions may increase significantly; (2) changes in the interest rate environment may occur more rapidly or more significantly than anticipated; (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions may reduce interest margins; (4) general economic conditions may be less favorable than expected; (5) political developments, wars or other hostilities may disrupt or increase volatility in securities markets; (6) legislative or regulatory changes or actions may adversely affect the businesses in which Center Bancorp is engaged; (7) changes and trends in the securities markets may affect the Corporation's common stock; (8) a delayed or incomplete resolution of regulatory issues may negatively impact the services provided by the Bank; (9) the developments discussed above may have a material adverse effect on the Corporation's business generation and retention, funding and liquidity; and (10) the outcome of regulatory and legal investigations and proceedings cannot always be predicted accurately. Further information on other factors that could affect the financial results of Center Bancorp are included in Center Bancorp's filings with the Securities and Exchange Commission. These documents are available free of charge at the Commission's website at http://www.sec.gov and/or from Center Bancorp. The Corporation assumes no obligation for updating any such forward-looking statement at any time.

LOOKING FORWARD

One of the Corporation's primary objectives is to achieve balanced asset and revenue growth, and at the same time expand market presence and diversify its financial products. However, it is recognized that objectives, no matter how focused, are subject to factors beyond the control of the Corporation, which can impede its ability to achieve these goals. The following factors should be considered when evaluating the Corporation's ability to achieve its objectives:

The financial market place is rapidly changing. Banks are no longer the only place to obtain loans, nor the only place to keep financial assets. The banking industry has lost market share to other financial service providers. The future is predicated on the Corporation's ability to adapt its products, provide superior customer service and compete in an ever-changing marketplace.

Net interest income, the primary source of earnings, is impacted favorably or unfavorably by changes in interest rates. Although the impact of interest rate fluctuations is mitigated by ALCO strategies, significant changes in interest rates can have an adverse impact on profitability.

The ability of customers to repay their obligations is often impacted by changes in the regional and local economy. Although the Corporation sets aside loan loss provisions toward the allowance for loan losses, significant unfavorable changes in the economy could impact the assumptions used in the determination of the adequacy of the allowance.

Technological changes will have a material impact on how financial service companies compete for and deliver services. It is recognized that these changes will have a direct impact on how the marketplace is approached and ultimately on profitability. The Corporation has already taken steps to improve its traditional delivery channels. However, continued success will likely be measured by the ability to react to future technological changes.

This "Looking Forward" description constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the Corporation's forward-looking statements due to numerous known and unknown risks and uncertainties, including the factors referred to above and in other sections of this quarterly report and the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003.

CRITICAL ACCOUNTING POLICIES

The Corporation's business is dynamic and complex. Consequently, management must exercise judgment in choosing and applying accounting policies and methodologies. These choices are important; not only are they necessary to comply with accounting principles generally accepted in the United States of America, but they also reflect the exercise of management's judgment in determining the most appropriate manner in which to record and report the Corporation's overall financial performance. All accounting policies are important, and all policies contained in Note 1 ("Summary of Significant Accounting Policies") of the Corporation's 2003 Annual Report on Form 10-K, should be reviewed for greater understanding of how the Corporation's financial performance is recorded and reported.

In management's opinion, some areas of accounting are likely to have a more significant effect than others on the Corporation's financial results and expose those results to potentially greater volatility. This is because they apply to areas of relatively greater business importance and/or require management to exercise judgment in making assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may change over time or prove to be inaccurate based on actual experience. For the Corporation, the accounting issues that are most directly impacted by the use of assumptions and estimates is the accounting for the allowance for loan losses. The Corporation's accounting policies related to this issue are discussed in Note 1 of the Corporation's Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003 and further described on page 17 of this Quarterly Report on Form 10-Q under "Allowance for Loan Losses and Related Provision." See also "Estimates of Fair Value" set forth on page 22 of this Quarterly Report on Form 10-Q.

EARNINGS ANALYSIS

Net income for three-months ended September 30, 2004 amounted to $2.017 million compared to $1.515 million earned for the comparable three-month period ended September 30, 2003. On a fully diluted per share basis, earnings increased to $.22 per fully diluted share as compared with $.17 per fully diluted share for the three months ended September 30, 2003. All common stock per share amounts have been restated to reflect all previously declared and paid common stock splits and common stock dividends. The annualized return on average assets increased to .86 percent compared with .68 percent for the comparable three-month period in 2003. The annualized return on average stockholders' equity was 14.88 percent for the three-month period ended September 30, 2004 as compared to 11.67 percent for the three-months ended September 30, 2003. Earnings performance for the third quarter of 2004 primarily reflects a higher level of net interest income, net of the provision for loan losses, offset in part by increased non-interest expense.

Net income for the nine-months ended September 30, 2004 amounted to $5.523 million compared to $4.708 million earned for the comparable nine-month period ended September 30, 2003. On a fully diluted per share basis, earnings increased to $.61 per share as compared with $.52 per fully diluted share for the nine months ended September 30, 2003. All common stock per share amounts have been restated to reflect all previously declared and paid common stock splits and common stock dividends. The annualized return on average assets increased to .80 percent compared with .73 percent for the comparable nine month period in 2003. The annualized return on average stockholders' equity was 13.52 percent for the nine month period ended September 30, 2004 as compared to 12.05 percent for the nine months ended September 30, 2003. Earnings performance for the first nine months of 2004 primarily reflects a higher level of net interest income, net of the provision for loan losses, offset in part by increased non-interest expense.

NET INTEREST INCOME/ MARGIN

Net interest income is the difference between the interest earned on the portfolio of earning-assets (principally loans and investments) and the interest paid for deposits and short-term borrowings, which support these assets. Net interest income is presented below first on a fully tax-equivalent basis by adjusting tax-exempt income (primarily interest earned on various obligations of state and political subdivisions) by the amount of income tax which would have been paid had the assets been invested in taxable issues and then in accordance with the Corporation's consolidated financial statements.

Financial institutions typically analyze earnings performance on a tax equivalent basis as a result of certain disclosure obligations, which require the presentation of tax equivalent data and in order to assist financial statement readers in comparing data from period to period.

NET INTEREST INCOME
(DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	PERCENT CHANGE	NIN S 2004
Interest income:				
Investments	$ 5,893	$ 4,765	23.67	$ 17,221
Loans, including fees	4,705	3,840	22.53	13,571
Total interest income	10,598	8,605	23.16	30,792
Interest expense:				
Certificates $100,000 or more	345	117	194.87	538
Deposits	1,490	1,570	(5.10)	4,692
Borrowings	1,503	1,304	15.26	4,186
Subordinated Debentures	193	120	60.83	535
Total interest expense	3,531	3,111	13.50	9,951
Net interest income on a fully tax-equivalent basis	7,067	5,494	28.63	20,841
Tax-equivalent adjustment	(477)	(453)	5.30	(1,369)
NET INTEREST INCOME *	$ 6,590	$ 5,041	30.73	$ 19,472

* BEFORE THE PROVISION FOR LOAN LOSSES.
NOTE: THE TAX-EQUIVALENT ADJUSTMENT WAS COMPUTED BASED ON AN ASSUMED STATUTORY FEDERAL INCOME TAX RATE OF 34 PERCENT. ADJUSTMENTS WERE MADE FOR INTEREST EARNED ON SECURITIES OF STATE AND POLITICAL SUBDIVISIONS.

For the three-month period ended September 30, 2004 interest income on a tax-equivalent basis increased by $2.0 million or 23.16 percent over the comparable three-month period in 2003. This increase primarily reflects an increase in average earning assets. The Corporation's loan portfolio increased on average $81.8 million to $370.6 million from $288.8 million in the same quarter in 2003, primarily driven by growth in commercial loans and residential mortgages. The loan portfolio represented approximately 42.4 percent of the Corporation's interest earning-assets (on average) during the third quarter of 2004 and 35.1 percent in the same quarter in 2003. Average investment volume decreased during the period by $30.9 million on average compared to 2003. The growth in loan volume was funded primarily through cash flow from the Corporation's investment portfolio.

For the nine-month period ended September 30, 2004 interest income on a tax-equivalent basis increased by $3.2 million or 11.45 percent over the comparable nine-month period in 2003. This increase primarily reflects an increase in the level and mix of average earning assets. The Corporation's loan portfolio increased on average $101.9 million to $360.0 million from $258.1 million in the same period in 2003, primarily driven by growth in commercial loans and commercial and residential mortgages. The loan portfolio represented approximately 41.7 percent of the Corporation's interest earning assets (on average) during the first nine months of 2004 and 32.2 percent in the same period in 2003. Average investment volume decreased during the period by $40.9

million compared to 2003. The growth in loan volume was funded primarily through cash flow from the Corporation's investment portfolio.

Net interest income on a fully tax-equivalent basis increased $1.6 million or 28.63 percent to approximately $7.1 million for the three-months ended September 30, 2004, from $5.5 million for the comparable period in 2003. For the three months ended September 30, 2004, the net interest margin increased 56 basis points to 3.23 percent from 2.67 percent due primarily to an increase in the yield on earning-assets coupled with the increased volume of loans. For the three-months ended September 30, 2004, the average cost of interest-bearing liabilities increased by 13 basis points while the average yield on interest earning-assets increased by 67 basis points, which resulted in an improvement in the Corporation's net interest margins.

Net interest income on a fully tax-equivalent basis increased $2.8 million or 15.30 percent to approximately $20.841 million for the nine-months ended September 30, 2004, from approximately $18.1 million for the comparable period in 2003. For the nine months ended September 30, 2004, the net interest margin increased 22 basis points to 3.22 percent FROM 3.00 percent due primarily to the increased volume of loans and a decline in the cost of total interest bearing liabilities. For the nine months ended September 30, 2004, a decrease in the average cost of interest-earning liabilities of 5 basis points and an increase in the average yield of interest-earning assets of 16 basis points resulted in an improvement in the Corporation's net interest margins.

The factors underlying the year-to-year changes in net interest income are reflected in the tables appearing on pages 13,14 and 15, each of which has been presented on a tax-equivalent basis (assuming a 34 percent tax rates). The tables on pages 14 and 15 (Average Statements of Condition Sheet with Interest and Average Rates) shows the Corporation's consolidated average balance of assets, liabilities, and stockholders' equity, the amount of income produced from interest-earning assets and the amount of expense resulting from interest-bearing liabilities and interest income as a percentage of average interest-earning assets, for the three and nine month periods ended September 30, 2004 and 2003. The table presented on page 14 (Analysis of Variance in Net Interest Income Due to Volume and Rates) quantifies the impact on net interest income resulting from changes in average balances and average rates over the periods presented; any change in interest income or expense attributable to both changes in volume and changes in rate has been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

For the three-months ended September 30, 2004, the Corporation's net interest spread on a tax-equivalent basis increased by 54 basis points to 2.96 percent from 2.42 percent for the three months ended September 30, 2003. The increase in spreads was due primarily to a decline in exceptionally high levels of prepayments and resultant premium amortization on the taxable investment portfolio and prepayments on the loan portfolios as a result of the lower interest rate environment in 2003 as compared to 2004. To a lesser extent, the steepening of the yield curve and bias toward a higher Federal funds target rate by the Federal Reserve Bank also affected the spread for the period. The rate was raised on June 30, August 10 and September 21, 2004 from 1.00% to 1.75%. Cash flow from earning assets was invested at higher rates, while the cost of funds continued to remain stable.

For the nine months ended September 30, 2004, the Corporation's net interest spread on a tax-equivalent basis increased by 21 basis points to 2.95 percent from 2.74 percent for the nine months ended September 30, 2003. The increase in spreads was due primarily to a decline in exceptionally high levels of prepayments and resultant premium amortization on the taxable investment portfolio and prepayments on the loan portfolios as a result of the lower interest rate environment in 2003 as compared to 2004. To a lesser extent, the steepening of the yield curve and bias toward a higher Federal funds target rate by the Federal Reserve Bank also affected the spread for the period. In June 2004, the Federal Reserve Bank began a series of increases in the benchmark funds rate, increasing it for the third time on September 21, 2004 to 1.75%. Cash flow from earning assets was invested at higher rates, while the cost of funds continued to remain stable. The protracted lower interest rate environment that has prevailed throughout much of 2004 had a dampening effect on interest margins.

The Federal Reserve Open Market Committee increased the Federal funds rate by 25 basis points on September 21, following increases of 25 basis points at each of the last Federal Open Market Committee meetings on June 30, and August 10, 2004. This marked the third time in 45 months since the Fed had raised interest rates following a protracted low interest rate environment and a period during which it had lowered interest rates thirteen times, most recently prior to June 30 on June 25, 2003, (a 45-year low of 1.00 percent). The yield on interest-earning assets for the three months ended September 30, 2004 increased to 4.85 percent from 4.18 percent in 2003, a change of 67 basis points. The total cost of interest-bearing liabilities increased to 1.89 percent, a change of 13 basis points, for the three months ended September 30, 2004 from 1.76 percent for the three months ended September 30, 2003.

For the nine months ended September 30, 2004, the Corporation's yield on interest-earning assets increased to 4.75 percent from 4.59 percent in 2003, a change of 16 basis points. This change was partially offset by lower rates paid for interest-bearing liabilities coupled with a change in the mix of interest-bearing liabilities. The total cost of interest-bearing liabilities decreased to 1.80 percent, a change of 5 basis points, for the nine months ended September 30, 2004 from 1.85 percent for the nine months ended September 30, 2003.

For both the three and nine month periods this trend is primarily due to the decrease in rates paid on certain interest-bearing liabilities.

The following table, "Analysis of Variance in Net Interest Income due to Volume and Rates", analyzes net interest income by segregating the volume and rate components of various interest-earning assets and liabilities and the changes in the rates earned and paid by the Corporation.

ANALYSIS OF VARIANCE IN NET INTEREST INCOME DUE TO VOLUME AND RATES

(TAX EQUIVALENT BASIS)

	THREE MONTHS ENDED 9/30/04 2004/2003 INCREASE (DECREASE) DUE TO CHANGE IN:			N 20
(DOLLARS IN THOUSANDS)	AVERAGE VOLUME	AVERAGE RATE	NET CHANGE	AVERA VOLUM
Interest-earning assets:				
Investment securities:				
Taxable	$ (241)	$ 1,300	$ 1,059	$ (2,12
Non-Taxable	(26)	95	69	1,24
Loans, net of unearned discounts	1,045	(180)	865	3,94
Total interest-earning assets	778	1,215	1,993	3,07

Interest-bearing liabilities:				
Money market deposits	1	20	21	3
Savings deposits	(42)	(46)	(88)	(12
Time deposits	265	(90)	175	40
Other interest-bearing deposits	6	34	40	1
Subordinated Debentures	64	9	73	17
Short-term Borrowings	13	186	199	48
Total interest-bearing liabilities	307	113	420	1,00
Change in net interest income	$ 471	$ 1,102	$ 1,573	$ 2,06

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The following table, "Average Balance Sheet with Interest and Average Rates", presents for the nine months ended September 30, 2004 and 2003 the Corporation's average assets, liabilities and stockholders' equity. The Corporation's net interest income, net interest spreads and net interest income as a percentage of interest-earning assets are also reflected.

AVERAGE STATEMENTS OF CONDITION WITH INTEREST AND AVERAGE RATES

	NINE MONTH PERIOD		
	2004		
(TAX-EQUIVALENT BASIS, DOLLARS IN THOUSANDS)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/ RATE
Assets			
Interest-earning assets:			
Investment securities: (1)			
Taxable	$ 411,559	$ 13,194	4.27%
Non-taxable	91,973	4,027	5.84%
Loans, net of unearned income (2)	360,002	13,571	5.03%
Total interest-earning assets	$ 863,534	30,792	4.75%
Non-interest earning assets			
Cash and due from banks	19,477		
BOLI	16,562		
Other assets	27,320		
Allowance for possible loan losses	(3,310)		
Total non-interest earning assets	60,049		
Total assets	$ 923,583		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Money market deposits	$ 97,195	728	1.00%
Savings deposits	141,663	1,027	0.97%
Time deposits	165,898	3,157	2.54%
Other interest - bearing deposits	73,856	318	0.57%

Short-term Borrowings	243,122	4,186	2.30%
Subordinated Debentures	15,000	535	4.76%
Total interest-bearing liabilities	736,734	9,951	1.80%
Non-interest-bearing liabilities:			
Demand deposits	126,056		
Other non-interest-bearing deposits	906		
Other liabilities	5,407		
Total non-interest-bearing liabilities	132,369		
Stockholders' equity	54,480		
Total liabilities and stockholders' equity	$ 923,583		
Net interest income (tax-equivalent basis)		$ 20,841	
Net Interest Spread			2.95%
Net interest income as percent of earning-assets (net interest margin)			3.22%
Tax equivalent adjustment (3)		(1,369)	
Net interest income		$ 19,472	

(1) Average balances for available-for-sale securities are based on amortized cost
(2) Average balances for loans include loans on non-accrual status
(3) The tax-equivalent adjustment was computed based on a statutory Federal income tax rate of 34 percent

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The following table, "Average Balance Sheet with Interest and Average Rates", presents for the three months ended September 30, 2004 and 2003 the Corporation's average assets, liabilities and stockholders' equity. The Corporation's net interest income, net interest spreads and net interest income as a percentage of interest-earning assets are also reflected.

AVERAGE STATEMENTS OF CONDITION WITH INTEREST AND AVERAGE RATES

	THREE MONTH PERIOD ENDE		
	2004		
(TAX-EQUIVALENT BASIS, DOLLARS IN THOUSANDS)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/ RATE
Assets			
Interest-earning assets:			

Investment securities: (1)			
Taxable	$ 409,360	$ 4,491	4.39%
Non-taxable	94,303	1,402	5.95%
Loans, net of unearned income (2)	370,562	4,705	5.08%
Total interest-earning assets	874,225	10,598	4.85%
Non-interest earning assets			
Cash and due from banks	18,759		
BOLI	17,551		
Other assets	28,119		
Allowance for possible loan losses	(3,519)		
Total non-interest earning assets	60,910		
Total assets	$ 935,135		$
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Money market deposits	$ 88,863	230	1.04%
Savings deposits	137,358	335	0.98%
Time deposits	188,675	1,144	2.43%
Other interest - bearing deposits	73,508	126	0.69%
Short-term Borrowings	244,704	1,503	2.46%
Subordinated Debentures	15,000	193	5.15%
Total interest-bearing	748,108	3,531	1.89%
Non-interest-bearing liabilities:			
Demand deposits	127,616		
Other non-interest-bearing deposits	285		
Other liabilities	4,915		
Total non-interest-bearing liabilities	132,816		
Stockholders' equity	54,211		
Total liabilities and stockholders' equity	$ 935,135		$
Net interest income (tax-equivalent basis)		$ 7,067	
Net Interest Spread			2.96%
Net interest income as percent of earning-assets (net interest margin)			3.23%
Tax equivalent adjustment(3)		(477)	
Net interest income		$ 6,590	

(1) Average balances for available-for-sale securities are based on amortized cost
(2) Average balances for loans include loans on non-accrual status
(3) The tax-equivalent adjustment was computed based on a statutory Federal income tax rate of 34 percent

INVESTMENTS

For the three-months ended September 30, 2004, the average volume of investment securities decreased to approximately $503.7 million, or 57.6 percent of average earning assets, a decrease of $30.9 million on average as compared to the same period in 2003. The tax-equivalent yield on investments however increased by 111 basis points to 4.68 percent from a yield of 3.57 percent during the three month period ended September 30, 2003. The 111 basis points increase in yield on the portfolio was attributable to a sharp decline in prepayment speeds in 2004 in comparison to the comparable period in 2003, which had contributed to the acceleration of premium amortization on mortgage-related securities in the portfolio in 2003 further impacting portfolio yields. To a lesser extent, an improved interest rate environment in 2004, steeper yield curve coupled with a change in mix in the portfolio to higher yielding tax-free securities positively impacted the change in portfolio yield. Despite the decrease in average volume, the cash flow which was invested back into the portfolio, resulting from securities which were called from the portfolio coupled with prepayments on mortgage related securities, benefited from the positive changes in rates. The volume related figures during the three-month period ended September 30, 2004 contributed a decrease in revenue of $267,000, while rate related changes produced an increase of $1.4 million. At September 30, 2004, the principal components of the investment portfolio are U.S. Government Federal Agency callable and non-callable securities, including agency issued collateralized mortgage obligations, corporate securities and municipals.

For the nine-months ended September 30, 2004, the average volume of investment securities amounted to approximately $503.5 million, or 58.3 percent of average earning assets, a decrease of $40.9 million on average as compared to the same period in 2003. The tax-equivalent yield on investments increased by 47 basis points to 4.56 percent from a yield of 4.09 percent during the nine month period ended September 30, 2003. The 47 basis points increase in yield on the portfolio was attributable to the sharp decline in prepayment speeds in 2004 in comparison to the comparable period in 2003, which had contributed to the acceleration of premium amortization on mortgage-related securities in the portfolio in 2003 further impacting portfolio yields. To a lesser extent, higher rates prevailed during the nine month period in 2004 as compared to 2003. Additional volume added to the portfolio during the period comprised of purchases made to replace maturing and called investments, benefited from the positive changes in rates. The volume related figures during the nine month period ended September 30, 2004 contributed a decrease in revenue of $877,000, while rate related changes amounted to an increase in revenue of $1.4 million. The decline in the average size of the investment portfolio for both the nine and three months ended September 30, 2004 was due to the funding of loan growth in the Corporation's earning-asset portfolio.

The impact of repricing activity on investment yields was increased to some extent, for the three-month period ended September 30, 2004, by the change in portfolio mix and shortening of portfolio duration. In addition, there was some portfolio extension where risk is relatively minimal within the portfolio, resulting in wider spreads. The Corporation also carried on average $1.7 and $8.5 million, respectively, of short-term money market funds for the three and nine month period ended September 30, 2004 as compared with $5.9 million and $14.0 million, respectively, for the comparable three and nine month periods in 2003. These funds carried significantly lower rates than other securities in the portfolio (on average 1.39 and 1.14 percent, respectively, for the three and nine-month periods in 2004, compared to 1.00 and 1.18 percent on these overnight funds, respectively, for the comparable three and nine month periods in 2003) and contributed to the decline in yield as compared to the comparable period in 2003.

Securities available-for-sale is a part of the Corporation's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, liquidity management and other factors. For the three-month period ended September 30, 2004, the Corporation sold from its available-for-sale portfolio securities totaling approximately $34.5 million.

At September 30, 2004 the net unrealized gain carried as a component of other comprehensive income and included in stockholders' equity net of tax amounted to a net unrealized gain of $746,000 as compared with an unrealized gain of $822,000 at December 31, 2003 and unrealized loss of $782,000 at September 30, 2003. The decrease resulted from an increase in interest rates fostered by the Federal Open Market Committee's bias toward higher rates and subsequent action during the third quarter of 2004 to raise the Federal Funds target rate to 1.75%.

LOANS

Loan growth during the nine months ended September 30, 2004 occurred primarily in the residential 1-4 family home equity loans and commercial loan portfolio. This growth resulted primarily from the Corporation's business development efforts and aggressive marketing campaigns on its home equity and adjustable rate residential mortgage loan products. These have been enhanced in recent years by the Corporation's expanded branch network. The decrease in the loan portfolio yields for the three and nine month period was the result of the continued impact of repricing activity coupled with the addition of lower yielding adjustable rate mortgages to the loan portfolio as compared with the comparable period in 2003. To a lesser extent, yields on new volume were affected by a competitive rate pricing structure maintained by the Corporation to attract new loans and further by the heightened competition for lending relationships that exists in the Corporation's market. The Corporation's desire to grow this segment of the earning-asset mix is reflected in its current business development plan and marketing plans, as well as its short-term strategic plan.

For the three months ended September 30, 2004, average loan volume increased $81.7 million or 28.3 percent, while portfolio yield decreased by 24 basis points as compared with the same period in 2003. The volume related factors during the period-contributed increased revenue of $1.045 million while rate related changes led to a decline in revenue of $180,000. Total average loan volume increased to $370.6 million with a net interest yield of 5.08 percent, as compared to $288.8 million with a net interest yield of 5.32 percent for the three months ended September 30, 2003. The decline in portfolio yield was a result of prepayments and rate modifications of higher yielding loans coupled with lower yields on new volume added to the portfolio in 2004 compared with 2003.

For the nine months ended September 30, 2004, average loan volume increased $101.9 million or 39.5 percent, while portfolio yield decreased by 63 basis points as compared with the same period in 2003. The volume related factors during the period contributed increased revenue of $3.948 million while rate related changes led to a decline in revenue of $1.325 million. Total average loan volume increased to $360.0 million with a net interest yield of 5.03 percent, as compared to $258.1 million with a net interest yield of 5.66 percent for the nine months ended September 30, 2003. The decline in portfolio yield was a result of prepayments and rate modifications of higher yielding loans coupled with lower yields on new volume added to the portfolio in 2004 compared with 2003.

ALLOWANCE FOR LOAN LOSSES

The purpose of the allowance for loan losses is to absorb the impact of losses inherent in the loan portfolio. Additions to the allowance are made through provisions charged against current operations and through recoveries made on loans previously charged-off. The allowance for loan losses is maintained at an amount considered adequate by management to provide for potential credit losses inherent in the loan portfolio based upon a periodic evaluation of the risk characteristics of the loan portfolio. The amount of the loan loss provision and the level of the allowance for loan losses are critical accounting policies of the Corporation. In establishing an appropriate allowance, an assessment of the individual borrowers, a determination of the value of the underlying collateral, a review of historical loss experience, a review of peer group loss experience and an analysis of the levels and trends of loan categories, delinquencies, and problem loans are considered. Such factors as the level and trend of interest rates and current economic conditions are also reviewed. At September 30, 2004, the allowance amounted to $3,644,000 as compared to $3,002,000 at December 31, 2003, and $2,751,000 at September 30, 2003. The Corporation had a provision to the allowance for loan losses during the three and nine month periods ended September 30, 2004 amounting to $205,000 and $615,000 respectively, compared to $103,000 and $262,000 during the three and nine month periods ended September 30, 2003, respectively. The additions to the allowance during the respective nine and three-month periods of 2004 are reflective of the loan volume recorded during the periods and the Corporation's focus on the changing composition of the commercial and residential real estate loan portfolios.

At September 30, 2004, the allowance for loan losses amounted to .96 percent of total loans, as compared with .89 percent at September 30, 2003. In management's view, the level of the allowance as of September 30, 2004 is adequate to cover the risk of loss inherent in the loan portfolio. The Corporation's statements herein regarding the adequacy of the allowance for loan losses constitute "Forward-Looking Statement's" under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management's analysis, based principally upon factors considered by management in establishing the allowance.

Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term changes. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to increase the allowance based on their analysis of information available to them at the time of their examinations. Future adjustments to the allowance may be necessary due to economic, operating, regulatory, and other conditions beyond the Corporation's control. To the extent actual results differ from forecasts or management's judgment, the allowance for loan losses may be greater or less than future charge-offs.

During the three and nine-month periods ended September 30, 2004 and 2003, the Corporation did not experience any substantial credit problems within its loan portfolio. Net recoveries for the nine months ended September 30, 2004 were approximately $27,000 and were comprised of a home equity and installment loan as compared with net charge offs of $9,000 for the comparable period ended September 30, 2003, which were comprised of installment loans.

At September 30, 2004 the Corporation had non-accrual loans amounting to $24,000 as compared with $26,000 at December 31, 2003 and $37,000 of non-accrual loans at September 30, 2003. The Corporation continues to aggressively pursue collections of principal and interest on loans previously charged-off. The decrease in such loans in 2004 compared to September 30, 2003 was attributable to three home equity loans, which were re-paid in full by the borrower.

The value of impaired loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient, at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependant. Impaired loans consist of non-accrual loans and loans internally classified as substandard or below, in each instance above an established dollar threshold of $200,000. All loans below the established dollar threshold are considered homogenous and are collectively evaluated for impairment. At September 30, 2004, total impaired loans were approximately $24,000 compared to $358,000 at December 31, 2003 and $395,000 at September 30, 2003. The reserves allocated to such loans at September 30, 2004, December 31, 2003 and September 30, 2003, were $0, $6,000 and $6,300, respectively. Although classified as substandard, impaired loans (other than those in non-accrual status) were current with respect to principal and interest payments.

Changes in the allowance for possible loan losses for the nine month period ended September 30, 2004 and 2003, respectively, are set forth below.

ALLOWANCE FOR LOAN LOSSES

	NINE MONTHS ENDED SEPTEMBER 30,	
(DOLLARS IN THOUSANDS)	2004	2003
Average loans outstanding	$ 360,002	$ 258,070
Total loans at end of period	$ 379,097	$ 308,634
Analysis of the Allowance for Loan Losses		
Balance at the beginning of year	$ 3,002	$ 2,498
Charge-offs:		
Commercial	0	0
Installment loans	10	25
Total charge-offs	10	25
Recoveries:		
Commercial	0	0
Installment loans	37	16
Total recoveries	37	16
Net (recoveries) charge-offs:	(27)	9
Provision for loan losses	615	262
Balance at end of year	$ 3,644	$ 2,751
Ratio of net charge-offs during the year to average loans outstanding during the year	N/M	N/M
Allowance for loan losses as a percentage of total loans at end of year	0.96%	0.89%

N/M - Not meaningful

ASSET QUALITY

The Corporation manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans and delinquencies, with particular attention to portfolio dynamics and mix. The Corporation strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of current collateral values, and to maintain an adequate allowance for loan losses at all times. These practices have protected the Corporation during economic downturns and periods of uncertainty.

It is generally the Corporation's policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may only be restored to an accruing basis when it again becomes well secured and in the process of collection or all past due amounts have been collected. Loan origination fees and certain direct loan origination costs are deferred and recognized over the life of the loan as an adjustment to the loan's yield. Accruing loans past due 90 days or more are generally well secured and in the process of collection.

At September 30, 2004, December 31, 2003 and September 30, 2003, the Corporation had no restructured loans. Non-accrual loans amounted to $24,000 at September 30, 2004, and was comprised of one fixed rate home equity loan and a personal loan. At December 31, 2003, non-accrual loans amounted to $26,000 and were comprised of a consumer loan, a fixed rate home equity loan and a commercial loan. At September 30, 2003, non-accrual loans amounted to $37,000 and were comprised of three consumer loans and two home equity loans. At September 30, 2004, December 31, 2003, and September 30, 2003 the Corporation did not have any loans 90 days past due and still accruing.

The outstanding balances of accruing loans which are 90 days or more past due as to principal or interest payments, other real estate owned and non-accrual loans at September 30, 2004, December 31, 2003 and September 30, 2003, were as follows:

NON-PERFORMING LOANS AT

	SEPTEMBER 30,	DECEMBER 31,	SEPTEMBER 30,
(DOLLARS IN THOUSANDS)	2004	2003	2003
Non-accrual loans	$24	$26	$37
Accruing loans past due 90 days or more	0	0	0
Other real estate owned	0	0	0
Total non-performing assets	$24	$26	$37

At September 30, 2004, non-performing assets, consisting of loans on non-accrual status plus other real estate owned (OREO), amounted to $24,000 or .006 percent of total loans outstanding as compared to $26,000 or .007 percent at December

31, 2003 and $37,000 or .01 percent at September 30, 2003.

At September 30, 2004, other than the loans set forth above, the Corporation is not aware of any loans which present serious doubts as to the ability of its borrowers to comply with the present loan and repayment terms and which are expected to fall into one of the categories set forth in the table above. At September 30, 2004, December 31, 2003 and September 30, 2003 the Corporation did not have any other real estate owned (OREO) or restructured loans.

OTHER NON-INTEREST INCOME

The following table presents the principal categories of non-interest income during the three and nine months ended September 30, 2004 and 2003.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDE	
(DOLLARS IN THOUSANDS)	2004	2003	% CHANGE	2004	
Service charges, commissions and fees	$513	$401	27.93	$1,471	$1
Annuity and Insurance	5	0	100.00	25	
Bank Owned Life Insurance	188	268	(29.85)	546	
Gain (loss) on securities sold	0	(17)	100.00	157	
Other income	133	173	(23.12)	344	
Total other non-interest income	$839	$825	1.70	$2,543	$2

For the three-month period ended September 30, 2004, total other (non-interest) income increased $14,000 or 1.70 percent as compared to the comparable three-month period in 2003. This increased revenue was primarily driven by the increase in service charges, commissions and fees which increased $112,000 or 27.9% as compared to the comparable quarter in 2003. This increase was attributable to the introduction of the Check Safe program that was introduced during the fourth quarter of 2003, which has resulted in increased overdraft related fees. To a lesser extent there was an increase of $5,000 from annuity and insurance sales, which began in the fourth quarter of 2003, and a decrease in the cash surrender value of bank owned life insurance, which amounted to $188,000 or a decrease of $80,000 for the third quarter in comparison to $268,000 for the comparable quarter in 2003. This decrease was attributable to a death benefit payment of $97,000 paid in the third quarter of 2003. The decrease in other income is attributable to a fee related item recorded in the second quarter of 2003.

For the nine-month period ended September 30, 2004, total other (non-interest) income increased $37,000 or 1.48 percent as compared to the comparable nine-month period in 2003. Other non-interest income, exclusive of gains on securities sold (which decreased $63,000), reflects an increase of $115,000 or 5.03 percent compared with the comparable nine-month period ended September 30, 2003. This increased revenue was primarily driven by an increase in service charges, commissions and fees, which increased $232,000 or 18.72% as compared to the comparable nine month period in 2003. This increase was attributable to the introduction of the Check Safe program that was introduced during the fourth quarter of 2003. To a lesser extent there was a $25,000 increase from annuity and insurance sales as compared with the comparable period in 2003. The decrease in other income is attributable primarily to a nonrecurring fee related item recorded in the second quarter of 2003 and, to a lesser extent, a decrease in letter of credit fees and fees from secondary market activity on mortgage loans originated for sale during the nine months ended September 30, 2004, as compared with the comparable period in 2003. The decrease of $81,000 in cash surrender value of Bank Owned Life Insurance is attributable to a death benefit payment of $97,000 paid in the third quarter of 2003.

For the three-month period ended September 30, 2004, the Corporation recorded a net gain of $0 on securities sold from the available-for-sale investment portfolio compared to a loss of $17,000 for the three-month period ended September 30, 2003. During the nine month period ended September 30, 2004, the Corporation recorded a net gain of $157,000 on securities sold from the available-for-sale investment portfolio compared to gains of $220,000 for the nine-month period ended September 30, 2003. These sales, in both the 2004 and 2003 periods, were made in the normal course of business and proceeds were reinvested in securities.

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OTHER NON-INTEREST EXPENSE

The following table presents the principal categories of non-interest expense during the three and nine-months ended September 30, 2004 and 2003.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED	
(DOLLARS IN THOUSANDS)	2004	2003	% CHANGE	2004	2003
S Salaries and employee benefits	$ 2,685	$ 2,507	7.10	$7,963	$ 7,834
Occupancy expense, net	455	393	15.78	1,477	1,365
Premises & equipment expense	457	384	19.01	1,377	1,278
Stationery & printing expense	127	131	(3.05)	423	436
Marketing & advertising expense	112	120	(6.67)	408	409
Other expense	914	880	3.86	2,997	2,439
Total other non-interest expense	$4,750	$ 4,415	7.59	$14,645	$13,761

Total other non-interest expense for the three-months ended September 30, 2004, increased $335,000 or 7.59 percent over the comparable three-months ended September 30, 2003. This increase is primarily attributable to a $178,000 increase in personnel expense for the three month period ended September 30, 2004, as compared to the comparable quarter in 2003. The Corporation's ratio of other expenses (annualized) to average assets remained relatively stable at 2.03 percent in the third quarter of 2004 from 1.99 percent for the three-months ended September 30, 2003.

For the three-months ended September 30, 2004, salaries and employee benefits increased $178,000 or 7.10 percent as compared to the comparable three-month period ended September 30, 2003. This increase is primarily attributable to costs associated with increased staffing levels. Staffing levels increased to 187 full-time equivalent employees at September 30, 2004 compared to 181 full-time equivalent employees at September 30, 2003.

For the three-months ended September 30, 2004, occupancy and premises and equipment expense increased $135,000 or 17.37 percent over the comparable three-month period in 2003. The increase in such expenses reflects the higher operating costs (utilities, rent, real-estate taxes and general repair and maintenance) of the Corporation's expanded facilities, as well as depreciation expense relating to the expanded Corporation's facilities, which includes a 20,000 square foot operations center acquired during the fourth quarter of 2003.

Total other non-interest expense for the nine-months ended September 30, 2004, increased $884,000 or 6.42 percent over the comparable nine-months ended September 30, 2003. This increase is primarily attributable to a $558,000 increase in other expense for the nine-month period ended September 30, 2004 as compared to the comparable nine months in 2003 and was attributable to increased computer, telephone, audit, legal and consulting fees coupled with a expense reduction of $136,000 recorded in 2003. The Corporation's ratio of other expenses (annualized) to average assets remains stable at 2.11 percent for the nine months ended September 30, 2004 in comparison to 2.12 percent for the nine months ended September 30, 2003.

Salaries and employee benefits increased $129,000 or 1.65 percent for the nine-months ended September 30, 2004 as compared to the comparable nine-month period ended September 30, 2003. This increase is primarily attributable to costs associated with increased staffing levels.

For the nine-months ended September 30, 2004, occupancy and premises and equipment expenses increased $211,000 or 7.98 percent over the comparable nine-month period in 2003. The increase in occupancy expenses reflects higher operating costs (utilities, rent, real-estate taxes and general repair and maintenance) of the Corporation's expanded facilities, as well as depreciation expense of the expanded Corporation's facilities, which includes a 20,000 square foot operations center acquired during the fourth quarter of 2003.

PROVISION FOR INCOME TAXES

For the three-months ended September 30, 2004, the effective tax rate was 18.5 percent as compared to a tax benefit rate of 12.4 percent for the three-months ended September 30, 2003. For the nine-months ended September 30, 2004 the effective tax rate was 18.2 percent as compared with 15.9 percent for the comparable period in 2003. The effective tax rate for the three and nine month periods ended September 30, 2004 and 2003, while increased due to higher levels of taxable income, was less than the combined statutory Federal tax rate of 34.0 percent and the New Jersey State tax rate of 9.0 percent. The difference between the statutory and effective tax rates, for the periods cited, primarily reflects the tax-exempt status of interest income on obligations of states and political subdivisions, the tax-exempt status of the income recorded as a result of a change in cash surrender value of bank owned life insurance and disallowed expense items for tax purposes, such as travel and entertainment expense. Tax-exempt interest income increased by $45,000 or 5.11 percent for the three-month period ended September 30, 2004, and increased by $791,000 or 42.4 percent for the nine-month period ended September 30, 2004, as compared to the comparable three and nine month periods in 2003, respectively.

ASSET LIABILITY MANAGEMENT

The composition and mix of the Corporation's assets and liabilities is planned and monitored by the Asset and Liability Committee (ALCO). Asset and Liability management encompasses the control of interest rate risk (interest sensitivity management) and the ongoing maintenance and planning of liquidity and capital. In general, management's objective is to optimize net interest income and minimize interest rate risk by monitoring these components of the statement of condition.

INTEREST SENSITIVITY

MARKET RISK

"Market risk" represents the risk of loss from adverse changes in market prices and rates. The Corporation's market rate risk arises primarily from interest rate risk inherent in its investing, lending and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure.

The Corporation's profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely affect the Corporation's earnings to the extent that the interest rates borne by assets and liabilities do not similarly adjust. The Corporation's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Corporation's net interest income and capital, while structuring the Corporation's asset-liability structure to obtain the maximum yield-cost spread on that structure. The Corporation relies primarily on its asset-liability structure to control interest rate risk. The Corporation continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. The management of the Corporation believes that hedging instruments currently available are not cost-effective, and, therefore, has focused its efforts on increasing the Corporation's yield-cost spread through wholesale and retail growth opportunities.

The Corporation monitors the impact of changes in interest rates on its net interest income using several tools. One measure of the Corporation's exposure to differential changes in interest rates between assets and liabilities is the Corporation's analysis of its interest rate sensitivity. This test measures the impact on net interest income and on net portfolio value of an immediate change in interest rates in 100 basis point increments. Net portfolio value is defined as the net present value of assets, liabilities and off-balance sheet contracts.

The primary tool used by management to measure and manage interest rate exposure is a simulation model. Use of the model to perform simulations reflecting changes in interest rates over one and two-year time horizons has enabled management to develop and initiate strategies for managing exposure to interest rate risk. In its simulations, management estimates the impact on net interest income of various changes in interest rates. Projected net interest income sensitivity to movements in interest rates is modeled based on both an immediate rise and fall in interest rates ("rate shock"), as well as gradual changes in interest rates over a 12 month time period. The model is based on the actual maturity and repricing characteristics of interest-rate sensitive assets and liabilities. The model incorporates assumptions regarding earning-asset and deposit growth, prepayments, interest rates and other factors. Management believes that both individually and taken together, these assumptions are reasonable, but the complexity of the simulation modeling process results in a sophisticated estimate, not an absolutely precise calculation, of exposure. For example, estimates of future cash flows must be made for instruments without contractual maturity or payment schedules.

The Corporation's rate sensitivity position in each time frame may be expressed as assets less liabilities, as liabilities less assets, or as the ratio between rate sensitive assets (RSA) and rate sensitive liabilities (RSL). For example, a short funded position (liabilities repricing before assets) would be expressed as a net negative position, when period gaps are computed by subtracting repricing liabilities from repricing assets. When using the ratio method, a RSA/RSL ratio of 1 indicates a balanced position, a ratio greater than 1 indicates an asset sensitive position and a ratio less than 1 indicates a liability sensitive position.

A negative gap and/or a rate sensitivity ratio less than 1, tends to expand net interest margins in a falling rate environment and to reduce net interest margins in a rising rate environment. Conversely, when a positive gap occurs, generally margins expand in a rising rate environment and contract in a falling rate environment. From time to time, the Corporation may elect to deliberately mismatch liabilities and assets in a strategic gap position.

At September 30, 2004, the Corporation reflects a negative interest sensitivity gap (or an interest sensitivity ratio) of

.70:1.00 at the cumulative one-year position. Accordingly, based on its interest simulation models at September 30, 2004, the Corporation believes that it would be adversely affected by an increase in interest rates. See Item 3, "Qualitative and Quantitative disclosures about Market Risks" During most of 2003 and at September 30, 2004 the Corporation had a negative interest sensitivity gap. Management's perception is that interest rates will continue to be volatile, therefore emphasis has been, and is expected to continue to be, placed on interest-sensitivity matching with the objective of stabilizing the net interest spread during 2004. However, no assurance can be given that this objective will be met.

ESTIMATES OF FAIR VALUE

The estimation of fair value is significant to a number of the Corporation's assets, including trading account assets, loans held for sale, available for sale investment securities, mortgage servicing rights ("MSR's"), other real estate owned and other repossessed assets. These are all recorded at either fair value or lower of cost or fair value. Fair values are volatile and may be influenced by a number of factors. Circumstances that could cause estimates of the fair value of certain assets and liabilities to change include a change in prepayment speeds, discount rates, or market interest rates. Fair values for trading account assets, most available for sale investment securities and most derivative financial instruments are based on quoted market prices. If quoted market prices are not available, fair values are based on judgments regarding future expected loss experience, current economic condition, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and notes thereto, presented elsewhere herein, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the operations, since unlike most industrial companies, nearly all of the Corporation's assets and liabilities are monetary. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

LIQUIDITY MANAGEMENT

Liquidity risk is the risk of being unable to timely meet obligations as they come due at reasonable cost. The Corporation manages this risk by maintaining borrowing resources to fund increases in assets and replace maturing obligations or deposit withdrawals, both in the normal course of business and in times of unusual events. ALCO sets the policies and reviews adherence to these policies. The Corporation's sources of funds include a large, stable deposit base, secured advances from the Federal Home Loan Bank of New York, and access to capital markets. Increases in rates, economic activity and confidence in the financial markets, may lead to disintermediation of deposits which may need to be replaced with higher cost borrowings.

The Corporation manages reliance on short-term unsecured borrowings as well as total wholesale funding though policy limits reviewed at ALCO. The Corporation maintains access to a diversified base of wholesale funding sources. These sources include Federal Funds purchased; securities sold under agreements to repurchase, jumbo certificates of deposit and Federal Home Loan bank advances. Liquidity is also available through unpledged securities in the investment portfolio and capacity to offer securities and loans, including single-family mortgage loans.

The low rate environment has created heavy refinance activity and prepayments to the Corporation's asset portfolios. The intense competition in the market competing for the subsequent loan re-finance business has affected to some degree the amount of mortgage loans originated by the Corporation. The Corporation sells a portion of these loans into the secondary market and such loans are included in loans held for sale. At September 30, 2004 there were no loans available for sale. For the three months ended September 30, 2004 the Corporation had $761,000 in originations of loans for sale compared with $7.9 million for the three months ended September 30, 2003. For the nine months ended September 30, 2004 the Corporation had originated $2.3 million in loans held for sale as compared to $14.2 million for the comparable period in 2003.

Management believes that the Corporation has the funding capacity to meet the liquidity needs arising from potential events. In addition to pledge able securities, the Corporation also maintains borrowing capacity through the Federal Discount Window and the Federal Home Loan Bank of New York secured with loans and marketable securities.

Liquidity is measured and monitored for the Bank. The Corporation reviews its net short-term mismatch. This measures the ability of the Corporation to meet obligations should access to bank dividends be constrained. At September 30, 2004, the holding company had $11.778 million in cash compared to $6.207 million at December 31, 2003. The increase in cash at the holding company level was due to the proceeds received from the private placement of 888,888 shares of the Corporation's common stock on September 29, 2004. Expenses at the holding company are minimal and management believes that the parent Corporation has adequate liquidity to fund its obligations.

Certain provisions of long-term debt agreements prevent the Corporation from creating liens on, disposing of or issuing voting stock of subsidiaries. As of September 30, 2004 the Corporation was in compliance with all covenants and provisions of these agreements.

Management monitors current and projected cash flows, and adjusts positions as necessary to maintain adequate levels of liquidity. By using a variety of potential funding sources and staggering maturities, the risk of potential funding pressure is somewhat reduced. Management also maintains a detailed liquidity contingency plan designed to adequately respond to situations which could lead to liquidity concerns.

Anticipated cash-flows at September 30, 2004, projected to October 2005, indicates that the Bank's liquidity should remain strong, with an approximate projection of $187.6 million in anticipated cash flows over the next twelve months. This projection represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from this projection depending upon a number of factors, including the liquidity needs of the Bank's customers, the availability of sources of liquidity and general economic conditions.

The Corporation derives a significant proportion of its liquidity from its core deposit base. For the three-month period ended September 30, 2004, core deposits (comprised of total demand, savings accounts (excluding Super Max and money market accounts under $100,000) remained relatively stable and represented 49.4 percent of total deposits as compared with 51.4 percent at September 30, 2003.

The following table depicts the Corporation's core deposit mix at September 30, 2004 and 2003:

CORE DEPOSIT MIX

	SEPTEMBER 30,			
	2004		2003	
(DOLLARS IN THOUSANDS)	BALANCE	%	BALANCE	%
Demand Deposits	$124,743	41.5	$124,236	41.7
Interest-Bearing Demand	72,833	24.2	70,894	23.8
Regular Savings	78,051	26.0	80,451	27.0
Money Market Deposits under $100	24,890	8.3	22,258	7.5
Total core deposits	$300,517	100.0	$297,839	100.0
Total deposits	$608,949		$580,017	
Core deposits to total deposits	49.4%		51.4%	

More volatile rate sensitive deposits, concentrated in time certificates of deposit greater than $100,000, for the nine-month period ended September 30, 2004, increased to 15.00 percent of total deposits from 8.46 percent during the nine-months ended September 30, 2003. This increase is attributable to increases in municipal deposits.

Short-term borrowings can be used to satisfy daily funding needs. Balances in these accounts fluctuate significantly on a day-to-day basis. The Corporation's principal short-term funding sources are securities sold under agreements to repurchase, advances from the Federal Home Loan Bank and Federal funds purchased. Average borrowings during the nine-months ended September 30, 2004 were $243.1 million, an increase of $27.9 million or 12.96 percent from $215.2 million in average borrowings during the nine-months ended September 30, 2003.

Average outstanding subordinated debentures during the nine-months ended September 30, 2004 were $15.0 million, an increase of $5.0 million or 50.0 percent from $10.0 million on average outstanding subordinated debentures during the comparable nine-months ended September 30, 2003. On December 19, 2003 Center Bancorp Statutory Trust II, a statutory business trust and wholly-owned subsidiary of Center Bancorp, Inc., issued $5.0 million of MMCapS capital securities to investors due on January 23, 2034.

During the nine-months ended September 30, 2004, average funding sources increased by approximately $56.8 million or 7.04 percent, compared to the same period in 2003. Interest-bearing deposit liabilities increased approximately $16.1 million on average and were comprised primarily of increases in money market, time deposits, and other interest bearing deposits, offset by a decline in savings deposits. Borrowings and subordinated debentures increased by $27.9 million and $5.0 million, respectively. Non-interest bearing funding sources as a percentage of the total funding mix remained stable at 14.7 percent on average as compared to 14.8 percent for the nine-month period ended September 30, 2003. This reflects a more rapid growth in non-deposit funding sources as a percentage of the funding base as compared with overall deposit growth.

OPERATING, INVESTING AND FINANCING CASH FLOW

The consolidated statements of cash flows present the changes in cash and cash equivalents from operating, investing and financing activities. During the nine-months ended September 30, 2004, cash and cash equivalents (which increased overall by $748,000) were provided (on a net basis) by operating activities in the amount of approximately $7.4 million. The largest component of the cash flow from operating activities is net income of $5.5 million. Approximately $2.3 million in cash flow was provided by financing activities, principally a net increase of $17.6 million in borrowings and $10.9 million from the proceeds from the issuance of common stock. The borrowings were comprised of a reduction of $15.0 million in advances from the Federal Home Loan Bank of New York and an increase in securities sold under agreement to repurchase. These activities were offset by the net decline in deposits. Investing activities, principally securities available for sale, used $8.9 million of the cash flow provided by operating and financing activities.

STOCKHOLDERS' EQUITY

Total stockholders' equity averaged $54.5 million or 5.90 percent of average assets for the nine-month period ended September 30, 2004, as compared to $52.1 million, or 6.03 percent, during the same period in 2003. The Corporation's dividend reinvestment and optional stock purchase plan contributed $981,000 in new capital for the nine-months ended September 30, 2004 as compared with $837,000 for the comparable period in 2003.

At September 30, 2004 the total Tier 1 capital leverage ratio was 8.56% as compared to 6.79 % for the comparable period in 2003. Total Tier 1 capital increased to approximately $79.9 million at September 30, 2004 from $66.3 million at December 31, 2003 and $ 60.1 at September 30, 2003. The increase in Tier 1 capital reflects the issuance of 888,888 common shares to a limited number of accredited investors in a private placement of the Corporation's securities on September 29, 2004. These shares were issued at a purchase price of $11.25 per share. Net proceeds to the Corporation were approximately $9.4 million, after commissions and expenses. The growth in Tier 1 capital additionally reflects the cumulative issuance of $15.0 million in subordinated debentures which are included in Tier 1 capital for regulatory purposes.

Book value per common share was $6.83 at September 30, 2004 as compared to $5.77 at September 30, 2003. Tangible book value (i.e., book value less goodwill) per common share was $6.62 at September 30, 2004 and $5.53 at September 30, 2003. The change in book value for the period resulted primarily from the issuance of additional common stock on September 29, 2004 and a $1.5 million increase in "accumulated other comprehensive income" which primarily reflects the effects of SFAS No. 115. The effect of SFAS No. 115 represents the change in unrealized holding losses, after tax, on the Corporation's securities available-for-sale investment portfolio which increased by $1.5 million for the nine months ended September 30, 2004 as compared with the comparable period ended September 30, 2003.

From January 24, 2002 through September 30, 2004 the Corporation has purchased 54,600 common shares at an average cost per share of $9.85 under the stock buyback program announced on January 24, 2002 for the repurchase of up to 253,575 shares (as adjusted for the stock splits and stock dividends) of the Corporation's outstanding common stock. The repurchased shares were recorded as Treasury Stock, which resulted in a decrease in stockholder's equity. For the three and nine month periods ended September 30, 2004 there were no repurchases made.

CAPITAL

The maintenance of a solid capital foundation continues to be a primary goal for the Corporation. Accordingly, capital plans and dividend policies are monitored on an ongoing basis. The most important objective of the capital planning process is to balance effectively the retention of capital to support future growth and the goal of providing stockholders with an attractive long-term return on their investment.

RISK-BASED CAPITAL/LEVERAGE

Banking regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at September 30, 2004, the Bank was required to maintain (i) a minimum leverage ratio of Tier 1 capital to total adjusted assets of 4.00%, and (ii) minimum ratios of Tier 1 and total capital to risk-weighted assets of 4.00% and 8.00%, respectively.

At September 30, 2004, total Tier 1 capital (defined as tangible stockholders' equity for common stock and certain perpetual preferred stock) amounted to $79.9 million or 8.56 percent of total average assets for the third quarter. Tier I capital excludes the effect of SFAS No. 115, $746,000 of net unrealized gains, after tax, on securities available-for-sale (included as a component of other comprehensive income) and goodwill of approximately $2.1 million as of September 30, 2004. At September 30, 2004, the Corporation's estimated Tier I risk-based and total risk-based capital ratios were 15.51 percent and 16.22 percent, respectively. These ratios are well above the minimum guidelines of capital to risk-adjusted assets in effect as of September 30, 2004.

Under prompt corrective action regulations, bank regulators are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the institution's financial statements. The regulations establish a framework for the classification of financial institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well capitalized if it has a leverage (Tier 1) capital ratio of at least 5.0%; a Tier 1 risk-based capital ratio of at least 6.0%; and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the bank regulators about capital components, risk weightings and other factors. As of September 30, 2004, management believes that each of the Bank and the Corporation meet all capital adequacy requirements to which it is subject.

SUBORDINATED DEBENTURES

On December 19, 2003 Center Bancorp Statutory Trust II, a statutory business trust and wholly-owned subsidiary of Center Bancorp, Inc., issued $5.0 million of MMCapS capital securities to investors due on January 23, 2034. The capital securities have preference over the common securities issued by the trust with respect to liquidation and other distributions and qualify as Tier 1 capital. The trust loaned the proceeds of this offering to the Corporation and received in exchange $5.0 million of the Corporation's subordinated debentures. The subordinate debentures are redeemable in whole or part, prior to maturity but after January 23, 2009. The floating interest rate on the subordinate debentures is three-month LIBOR plus 2.85% and reprices quarterly. The rate at September 30, 2004 was 4.53 %.

On December 18, 2001 Center Bancorp Statutory Trust I, a statutory business trust and wholly-owned subsidiary of Center Bancorp, Inc issued $10.0 million of floating rate capital trust pass through securities to investors due on December 18, 2031. The capital securities have preference over the common securities issued by the trust with respect to liquidation and other distributions and qualify as Tier 1 capital. The subordinated debentures are redeemable in whole or part, prior to maturity but after December 18, 2006. The floating interest rate on the subordinated debentures is three-month LIBOR plus 3.60% and reprices quarterly. The rate at September 30, 2004 was 5.51 %.

The additional capital raised with respect to the issuance of the above-mentioned securities was used to bolster the Corporation's capital and for general corporate purposes, including capital contributions to Union Center National Bank.

For information regarding certain developments that could impact the treatment of the Corporation's subordinated debentures for regulatory capital purposes, see "Recent Accounting Pronouncements - Consolidation of variable - interest entities."

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ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The primary market risk faced by the Corporation is interest rate risk. The Corporation's Asset/Liability Committee ("ALCO") monitors the changes in the movement of funds and rate and volume trends to enable appropriate management responses to changing market and rate conditions.

The Corporation's income simulation model analyzes interest rate sensitivity by projecting net interest income over the next 24 months in a flat rate scenario versus net interest in alternative interest rate scenarios. Management reviews and refines its interest rate risk management process in response to the changing economic climate. The low level of interest rates in recent periods necessitated a modification of the Corporation's standard rate scenario of a shock down 200 basis points over 12 months to down 100 basis points over a 12-month period.

Based on the results of the interest simulation model as of September 30, 2004, and assuming that management does not take action to alter the outcome, the Corporation would expect an increase of 2.34 percent in net interest income if interest rates decreased 100 basis points from the current rates in an immediate and parallel shock over a 12-month period. In a rising rate environment, based on the results of the model as of September 30, 2004, the Corporation would expect a decrease of 4.85% percent in net interest income if interest rates increased by 200 basis points from current rates in an immediate shock over a twelve month period.

The statements in this Quarterly Report regarding the effects of hypothetical interest rate changes represent forward- looking statements under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from these statements. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and duration of deposits, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions that ALCO could undertake in response to changes in interest rates.

ITEM 4 - CONTROLS AND PROCEDURES

(A) Disclosure controls and procedures. As of the end of the Corporation's most recently completed fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) covered by this report, the Corporation carried out an evaluation, with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(B) Changes in internal controls over financial reporting. There have been no changes in the Corporation's internal controls over financial reporting that occurred during the Corporation's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

(C) Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2004, the Company will be required to furnish a report by management on the Company's internal control over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, including a statement as to whether or not the Company's internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in the Company's internal control over financial reporting identified by management. Such report must also contain a statement that the Company's auditors have issued an attestation report on management's assessment of such internal controls. Public Company Oversight Board Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Section 404.

The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If the Company is unable to assert that its internal control over financial reporting is effective as of December 31, 2004 or if the Company's auditors are unable to attest that the Company's management's report is fairly stated or are unable to express an opinion on the effectiveness of the Company's internal controls, the Company could lose investor confidence in the accuracy and completeness of its financial reports, which could have an adverse effect on the Company's stock price.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

The Corporation is subject to claims and lawsuits, which arise primarily in the ordinary course of business. Based upon the information currently available, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse impact on the consolidated financial position, results of operations, or liquidity of the Corporation. This statement represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from this statement, primarily due to the uncertainties involved in proving facts within the context of the legal processes.

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

Reference is made to the Corporation's Current Report on Form 8-K filed on October 1, 2004.

ITEM 3-DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6- EXHIBITS

31.1 Certification of the Chief Executive Officer under section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of the Chief Financial Officer under section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of the Chief Executive Officer under section 906 of the Sarbanes-Oxley act of 2002.
32.2 Certification of the Chief Financial Officer under section 906 of the Sarbanes-Oxley act of 2002.

SIGNATURES

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

CENTER BANCORP, INC.

DATED: November 9, 2004

/s/ Anthony C. Weagley

Anthony C. Weagley, Treasurer
(Chief Financial Officer)