Community Partners Bancorp
Form 10-Q
November 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006
or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file Number: 000-51889

COMMUNITY PARTNERS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

New Jersey	20-3700861
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1250 Highway 35 South, Middletown, New Jersey	07748
(Address of Principal Executive Offices)	(Zip Code)

(732) 706-9009

(Issuer's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer ý

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

As of November 1, 2006, there were 6,511,582 shares of the registrant's common stock, no par value, outstanding.

EXPLANATORY NOTE

Effective April 1, 2006, Community Partners Bancorp acquired all of the shares of capital stock of each of Two River Community Bank and The Town Bank in exchange for shares of Community Partners common stock, and Two River and Town Bank became wholly-owned subsidiaries of Community Partners. Two River is the acquiring company for accounting purposes and its assets and liabilities are reported by Community Partners at Two River's historical cost. Town Bank's assets and liabilities were recorded by Community Partners at their respective fair values as of April 1, 2006. Operations relating to the business of Town Bank are included in Community Partners' financial statements only prospectively from April 1, 2006. Thus, reported earnings and balance sheet figures of Community Partners prior to April 1, 2006 include those of Two River and do not include those of Town Bank. Current period performance, other than per share amounts and ratio analysis, is not generally comparable to reported results for corresponding prior periods, as a significant portion of the increases in reported earnings and balance sheet figures are due to the inclusion of Town Bank in the second and third quarter of 2006 but not the prior periods.

COMMUNITY PARTNERS BANCORP

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY PARTNERS BANCORP
CONSOLIDATED BALANCE SHEETS
September 30, 2006 (Unaudited) and December 31, 2005
(In thousands, except per share data)

	(Unaudited) September 30, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 9,015	$ 5,827
Federal funds sold	3,993	-
Total cash and cash equivalents	13,008	5,827
Securities available-for-sale	48,186	34,114
Securities held-to-maturity (fair value of $5,861 and $5,836 at September 30, 2006 and December 31, 2005, respectively)	5,837	5,841
Loans	401,018	216,327
Less allowance for loan losses	(4,446)	(2,380)
Net loans	396,572	213,947
Bank-owned life insurance	3,782	3,667
Premises and equipment, net	4,838	2,390
Accrued interest receivable	2,017	973
Other assets	3,272	1,517
Intangible assets, net of accumulated amortization of $191	26,411	-
	$ 503,923	$ 268,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$ 76,715	$ 50,301
Interest bearing	343,152	186,148
Total deposits	419,867	236,449
Securities sold under agreements to repurchase	8,630	5,197
Short-term borrowings	5,825	1,514
Accrued interest payable	592	71
Other liabilities	1,864	1,278

Total liabilities	436,778	244,509
SHAREHOLDERS' EQUITY		
Common stock authorized 25,000,000 shares, no par value, issued and outstanding 6,511,582 shares at September 30, 2006 and authorized 10,000,000 shares, $2 par value, issued and outstanding 3,936,595 at December 31, 2005	64,729	7,873
Preferred stock authorized 6,500,000 shares of no par value, issued and outstanding, none at September 30, 2006 and none at December 31, 2005	-	-
Additional paid-in capital	-	14,310
Retained earnings	2,827	2,153
Accumulated other comprehensive loss	(411)	(569)
Total shareholders' equity	67,145	23,767
Total liabilities and shareholders' equity	$ 503,923	$ 268,276

See notes to consolidated financial statements.

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COMMUNITY PARTNERS BANCORP
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
For the Three Months and Nine Months Ended September 30, 2006 and 2005

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
INTEREST INCOME:				
Loans, including fees	**$ 7,774**	$ 3,389	**$ 18,856**	$ 9,442
Investment securities	**650**	401	**1,718**	1,243
Federal funds sold	**115**	10	**366**	41
Total Interest Income	**8,539**	3,800	**20,940**	10,726
INTEREST EXPENSE:				
Deposits	**3,450**	991	**8,077**	2,559
Securities sold under agreements to repurchase	**93**	40	**208**	114
Short-term borrowings	**41**	27	**81**	122
Total Interest Expense	**3,584**	1,058	**8,366**	2,795
Net Interest Income	**4,955**	2,742	**12,574**	7,931
PROVISION FOR LOAN LOSSES	**164**	35	**537**	313
Net Interest Income after Provision for Loan Losses	**4,791**	2,707	**12,037**	7,618
NON-INTEREST INCOME:				
Service fees on deposit accounts	**148**	125	**442**	338
Other loan customer service fees	**33**	68	**187**	236
Earnings from investment in life insurance	**42**	39	**125**	117
Other income	**159**	76	**334**	180
Total Non-Interest Income	**382**	308	**1,088**	871
NON-INTEREST EXPENSES:				
Salaries and employee benefits	**1,744**	1,119	**4,643**	3,317
Occupancy and equipment	**594**	382	**1,535**	1,163
Professional	**95**	57	**302**	172
Advertising	**114**	77	**303**	209
Data processing	**138**	60	**339**	184
Outside services fees	**115**	83	**332**	224
Amortization of identifiable intangibles	**95**	-	**191**	-
Other operating	**560**	292	**1,303**	810
Total Non-Interest Expenses	**3,455**	2,070	**8,948**	6,079
Income before Income Taxes	**1,718**	945	**4,177**	2,410
INCOME TAX EXPENSE	**644**	353	**1,534**	895
Net Income	**$ 1,074**	$ 592	**$ 2,643**	$ 1,515
EARNINGS PER SHARE:				
Basic	**$ 0.17**	$ 0.15*	**$ 0.46**	$ 0.37*
Diluted	**$ 0.16**	$ 0.14*	**$ 0.45**	$ 0.36*

Weighted average shares outstanding (in thousands):

Basic	**6,509**	4,055*	**5,692**	4,051*
Diluted	**6,695**	4,272*	**5,873**	4,260*

See notes to consolidated financial statements.

* References to share amounts and per-share amounts were restated to reflect the 3% stock dividend distributed to shareholders on September 1, 2006.

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COMMUNITY PARTNERS BANCORP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY (Unaudited)
For the Nine Months Ended September 30, 2006 and 2005
(Dollars in thousands)

	Outstanding Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance December 31, 2005	3,936,595	$ 7,873	$ 14,310	$ 2,153	$ (569)	$ 23,76
Comprehensive income:						
Net income	-	-	-	2,643	-	2,64
Change in net unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	158	15
Total comprehensive income						2,80
Merger of Two River Community Bank:						
Exchange of common stock	-	14,310	(14,310)	-	-	
Acquisition of The Town Bank:						
Issuance of common stock	2,347,675	38,173	-	-	-	38,17
Fair value of stock options	-	2,167	-	-	-	2,16
Dissenter shares acquired	(2,733)	(41)	-	-	-	(4
Options exercised	40,266	246	-	-	-	24
Tax benefit from exercised non-qualified stock options	-	32	-	-	-	3
Stock dividend – 3%	189,779	1,969	-	(1,969)	-	
Balance, September 30, 2006	6,511,582	$ 64,729	$ -	$ 2,827	$ (411)	$ 67,14
Balance December 31, 2004	3,902,994	$ 7,806	$ 14,119	$ 61	$ (177)	$ 21,80
Comprehensive income:						
Net income	-	-	-	1,515	-	1,51
Change in net unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(145)	(14
Total comprehensive income						1,37
Options exercised	33,601	67	58	-	-	12
Balance, September 30, 2005	3,936,595	$ 7,873	$ 14,177	$ 1,576	$ (322)	$ 23,30

See notes to consolidated financial statements

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COMMUNITY PARTNERS BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Nine Months Ended September 30, 2006 and 2005

	Nine Months Ended September 30,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income	**$ 2,643**	$ 1,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**594**	499
Provision for loan losses	**537**	313
Intangible amortization	**191**	-
Net amortization of securities premiums and discounts	**29**	43
Deferred income taxes	**(513)**	-
Net increase in investment in life insurance	**(115)**	(117)
Commercial loan participations originated for sale	**(9,312)**	(2,765)
Proceeds from sales of commercial loan participations	**9,312**	2,765
(Increase) decrease in assets:		
Accrued interest receivable	**(250)**	(46)
Other assets	**446**	(402)
Increase (decrease) in liabilities:		
Accrued interest payable	**171**	15
Other liabilities	**(5,972)**	379
Net cash provided by (used in) operating activities	**(2,239)**	2,199
Cash flows from investing activities:		
Purchase of securities held to maturity	**-**	(1,078)
Purchase of securities available for sale	**(8,909)**	(1,544)
Proceeds from repayments and maturities of securities available for sale	**8,891**	6,761
Net increase in loans	**(45,869)**	(26,764)
Purchases of premises and equipment	**(629)**	(402)
Cash acquired in acquisition	**25,324**	-
Net cash used in investing activities	**(21,192)**	(23,027)
Cash flows from financing activities:		
Net increase in deposits	**22,663**	23,709
Net increase (decrease) in securities sold under agreements to repurchase	**3,433**	(839)
Net increase (decrease) in short-term borrowings	**4,311**	(1,000)
Proceeds from exercise of stock options	**246**	125
Acquisition of dissenter shares	**(41)**	-
Net cash provided by financing activities	**30,612**	21,995
Net increase in cash and cash equivalents	**7,181**	1,167
Cash and cash equivalents beginning	**5,827**	10,370

Cash and cash equivalents - ending	**$ 13,008**	$ 11,537
Supplementary cash flow information:		
Interest paid	**$ 7,845**	$ 2,780
Income taxes paid	**$ 1,815**	$ 911

See notes to consolidated financial statements.

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COMMUNITY PARTNERS BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Community Partners Bancorp (the Company or Community Partners), a bank holding company, and its wholly-owned subsidiaries, Two River Community Bank (Two River) and The Town Bank (Town Bank) and Two Rivers wholly-owned subsidiary, TRCB Investment Corporation, and wholly-owned trust, Two River Community Bank Employers Trust. All inter-company balances and transactions have been eliminated in the consolidated financial statements.

Effective April 1, 2006 (the Effective Time), pursuant to the Agreement and Plan of Acquisition, dated as of August 16, 2005 (the Plan of Acquisition), among Community Partners, Two River and Town Bank, the Company acquired all of the shares of capital stock of each of Two River and Town Bank in exchange for shares of Company common stock. As a result, at the Effective Time, Two River and Town Bank became wholly-owned subsidiaries of the Company (the Acquisition).

The Company was formed for the purposes of effecting the Acquisition and to thereafter serve as a bank holding company for Two River and Town Bank. Accordingly, prior to the Effective Time, the Company had no business operations.

This Quarterly Report on Form 10-Q contains the unaudited interim consolidated financial statements of Community Partners for the nine months ended September 30, 2006. As the former Two River shareholders received a majority of the voting rights of the combined entity (the Company), Two River is the acquiring company for accounting purposes. Two Rivers assets and liabilities are reported by the Company at Two Rivers historical cost. Accordingly, the Companys financial statements consist of only Two Rivers for the periods prior to April 1, 2006. Town Banks assets and liabilities were recorded at their respective fair values as of the time of the acquisition. Operations relating to the business of Town Bank are included in the Companys financial statements only prospectively from April 1, 2006, the date of the transaction.

Because the reported earnings and balance sheet figures for the Company prior to April 1, 2006 do not include Town Bank, a significant portion of the increases in these categories are due to the inclusion of Town Bank in the second and third quarter of 2006 but not the prior periods.

The accompanying 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. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three month period and nine month period ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2005 included in the Community Partners Special Financial Report on Form 10-K filed with the Securities and Exchange Commission on May 9, 2006.

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NOTE 2 — FORMATION OF BANK HOLDING COMPANY AND ACQUISITION

On August 16, 2005, Two River and Town Bank entered into a definitive agreement and plan of acquisition pursuant to which Two River would acquire Town Bank. The agreement called for an all-stock transaction in which the two banks would become independently operated, wholly-owned subsidiaries of Community Partners, with substantially all of each bank's board of directors and management team remaining in place. The transaction received approval of the shareholders of each bank on March 28, 2006.

Effective April 1, 2006, pursuant to the agreement and plan of acquisition, the Company acquired all the shares of common stock of each of Two River and Town Bank in exchange for shares of Company common stock. Each share of Two River common stock was converted into one share of Company common stock. Town Bank shareholders received 1.25 shares of Company common stock in exchange for each share of Town Bank common stock, plus cash in lieu of fractional shares. An aggregate of 3,936,595 shares of Company common stock, representing approximately 62.7% of the Company's outstanding shares, were issued to Two River shareholders and an aggregate of 2,344,942 shares of Company common stock, representing approximately 37.3% of the Company's outstanding shares, were issued to shareholders of Town Bank.

As the former Two River shareholders received a majority of the voting rights of the combined entity (the Company), Two River is the acquiring company for accounting purposes. Two River's assets and liabilities are reported by the Company at Two River's historical cost. The Company used the purchase method of accounting to record the acquisition of Town Bank. Accordingly, Town Bank's assets and liabilities were recorded at their respective fair values as of the time of the acquisition. The excess of the purchase price and costs of acquisition over the fair value of Town Bank's tangible and identifiable intangible assets and liabilities were recorded as goodwill. Operations relating to the business of Town Bank are included in the Company's financial statements only prospectively from April 1, 2006, the date of the transaction.

The purchase price of Town Bank includes the value of Company common stock issued, in the amount of $38.2 million, in exchange for all the outstanding common stock of Town Bank. The value of the common shares issued was determined based on the average market price of Two River common shares two days before and two days after the date of the announcement of entry into the Plan of Acquisition, August 16, 2005. The Company also converted 160,183 Town Bank vested employee stock options into Community Partners stock options (200,229 options after the 1.25 exchange ratio) with a fair value of $2.2 million. The fair value of Community Partners options that were issued in exchange for the Town Bank options was estimated using a Black-Scholes option pricing model. The more significant assumptions used in the estimation of fair value of Community Partners stock options issued in the exchange for the Town Bank stock options include a risk-free interest rate of 4.85%, a dividend yield of 0%, a weighted average expected life of 3.5 years and volatility of 30.14% . The risk-free interest rate was based on the comparable term Treasury rate. The remaining contractual life of the options to be converted is approximately 6.5 years, therefore a weighted average expected life of 3.5 years was deemed to be reasonable. Volatility was calculated based on Two River's share prices over the last 3.5 years. All of Town Bank's outstanding stock options vested immediately due to the acquisition; therefore, there were no unvested stock options that converted. In addition, options of Town Bank valued at $236 thousand were exchanged for cash under a severance agreement with one of the executives of Town Bank.

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The following table summarizes the preliminary purchase price allocation of Town Bank based on estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands).

	At April 1, 2006
Assets:	
Cash and cash equivalents	$ 25,324
Investment securities	13,872
Net loans	137,293
Core deposit intangible	2,106
Other assets	4,912
Total identifiable assets	183,507
Liabilities:	
Total deposits	160,755
Other liabilities	5,066
Total liabilities	165,821
Net assets acquired	17,686

The following table provides the calculation of goodwill:

	April 1, 2006 (Dollars in thousands except per share amounts)	
Purchase Price:		
Town Bank common stock outstanding	1,878,140	
Exchange ratio	1.25	
Community Partners common stock issued	$ 2,347,675	
Average purchase price per Two River common share	16.26	
Purchase price assigned to shares exchanged		$ 38,173
Town Bank fractional shares exchanged for cash		2
Fair value of vested employee stock options		2,167
Cash out of vested employee stock options		236
Transaction costs		1,604
Total Purchase Price		$ 42,182
Net Assets Acquired:		
Town Bank shareholders equity	$ 16,271	
Estimated adjustments to reflect assets acquired at fair value:		
Loans	(825)	
Premises and equipment	639	
Deferred tax assets	575	
Identifiable intangibles — core deposit premium	2,106	
Estimated adjustments to reflect liabilities assumed at fair value:		
Time deposits	(1,080)	

Net Assets Acquired		17,686
Goodwill	$	24,496

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Discussed below is certain unaudited pro forma information for the periods ended September 30, 2006 and 2005 as if Town Bank had been acquired on January 1, 2005. These results combine historical results of Town Bank into Community Partners consolidated statements of income. While certain adjustments have been made for the estimated impact of the application of purchase accounting, the results shown below are not necessarily indicative of what would have occurred had the merger taken place on the indicated dates (in thousands, except per share data).

	Pro forma		
	Three Months Ended September 30,	Nine Months Ended September 30,	
	2005	2006	2005
Net interest income	$ 4,521	$ 14,356	$ 12,945
Other income	349	1,125	982
Net income	1,031	2,879	2,961
Basic earnings per common share	$ 0.16	$ 0.44	$ 0.46
Diluted earnings per common share	$ 0.15	$ 0.43	$ 0.44

The following table summarizes the impact of the (amortization)/accretion of the fair value adjustments made in connection with the combination on Community Partners consolidated results of operations for the following years (in thousands):

Projected future amounts for the years ended December 31,	Core deposit intangible	Net amortization	Net increase (decrease) in income before taxes
2006	$ (287)	$ 742	$ 455
2007	(354)	900	546
2008	(316)	200	(116)
2009	(278)	40	(238)
2010	(239)	21	(218)
2011 and thereafter	(632)	(278)	(910)

The following methods and periods were used for the accretion/amortization of the fair value adjustments:

Loans	level yield method over the estimated average life of the loans.
Investment securities	straight line method over a two year period.
Premises	straight line method over thirty years.
Certificates of deposit	level yield method over the estimated life of the certificates.
Core deposit intangible	accelerated method over a ten year period.

NOTE 3 - EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued relating to outstanding stock options. Potential common shares related to stock options are determined using the treasury stock method. All share and per share data has been retroactively adjusted to reflect the 3% stock dividend declared on July 18, 2006 and paid on September 1, 2006 to shareholders of record as of August 18, 2006.

The following table sets forth the computations of basic and diluted earnings per share:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(Dollars in thousands, except per share data)			
Net income applicable to common stock	$ 1,074	$ 592	$ 2,643	$ 1,515
Weighted average common shares outstanding	6,508,976	4,054,693*	5,691,991	4,051,085*
Effect of dilutive securities, stock options	185,928	217,081*	180,681	209,102*
Weighted average common shares outstanding used to calculate diluted earnings per share	6,694,904	4,271,774*	5,872,672	4,260,187*
Basic earnings per share	$ 0.17	$ 0.15*	$ 0.46	$ 0.37*
Diluted earnings per share	$ 0.16	$ 0.14*	$ 0.45	$ 0.36*

* References to share amounts and per-share amounts were restated to reflect the 3% stock dividend distributed to shareholders on September 1, 2006.

NOTE 4 - COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the three months and nine months ended September 30, 2006 and 2005 are as follows**:**

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(Dollars in thousands, except per share data)			
Unrealized holding gains (losses) on available-for-sale securities	$ 720	$ (205)	$ 207	$ (219)
Less: Reclassification adjustments for gains (losses) included in net income	-	-	-	-
Tax effect	(276)	69	(49)	74
Net unrealized gains (losses)	$ 444	$ (136)	$ 158	$ (145)

NOTE 5 - STOCK BASED COMPENSATION

Prior to January 1, 2006, the Company accounted for stock option plans under the recognition and measurement principles of APB Opinion No. 25. Accounting for Stock Issued to Employees,” and related interpretations. No

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stock-based employee compensation cost was recognized in the Companys consolidated statements of income through December 31, 2005, as all options granted under the Companys plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123(R), Share-Based Payment. Statement No. 123(R) replaces Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement No. 123(R) requires the fair value of share-based payment transactions to be recognized as compensation costs in the financial statements over the period that an employee provides service in exchange for the award. The fair value of the share-based payments is estimated using the Black-Scholes option-pricing model. The Company adopted Statement No. 123(R) effective January 1, 2006, using the modified-prospective transition method. Under the modified-prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption of Statement No. 123(R), of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified- prospective method.

The Company adopted Statement No. 123(R) as of January 1, 2006, with no impact to Community Partners financial condition and results of operations. The Company had issued stock option grants in prior periods; however, all outstanding option grants were fully vested as of December 31, 2005. Accordingly, as of January 1, 2006, the Company had no unrecognized compensation cost remaining associated with existing stock option grants. Also, Community Partners made no modifications to outstanding stock option grants prior to the adoption of Statement No. 123(R), and there were no changes in valuation methodologies or assumptions compared to those used by the Company prior to January 1, 2006.

In November 2005, the FASB issued final FSP No. 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. The FSP provides an alternative method of calculating excess tax benefits (the Additional Paid-in Capital APIC pool) from the method defined in FAS 123(R) for share-based payments. A one-time election to adopt the transition method in this FSP is available to those entities adopting FAS 123(R) using either the modified-retrospective or modified-prospective method. Up to one year from the initial adoption of FAS 123(R) or effective date of the FSP is provided to make this one-time election. However, until an entity makes its election, it must follow the guidance in FAS 123(R). We are currently evaluating the potential impact of calculating the APIC pool with this alternative method and have not yet determined which method we will adopt, or the expected impact on our financial position or results of operations.

In February 2006, the FASB issued FASB Staff Position No. FAS 123(R)-4, Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. This position amended SFAS 123(R) to incorporate that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employees control does not meet certain conditions in SFAS 123(R) until it becomes probable that the event will occur. The guidance in this

FASB Staff Position was required to be applied upon initial adoption of Statement No. 123(R). The Company does not have any option grants that allow for cash settlement.

Community Partners did not issue any stock option grants, restricted stock grants or any other

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share-based compensation awards during the quarter ended or nine months ended September 30, 2006. Also, the Company did not adopt any new share-based compensation plans during that period. During the nine months ended September 30, 2006, there were 40,266 stock options exercised.

Information regarding the Company's stock option plans as of September 30, 2006 was as follows, as adjusted for the 3% stock dividend paid September 1, 2006 to shareholders of record as of August 18, 2006.

	Number of Shares	Weighted Average Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding, beginning of year	596,778	$ 10.48		
Options exercised	(41,474)	5.94		
Town Bank options converted	206,236	6.30		
Options forfeited	(2,575)	16.75		
Options outstanding, end of quarter	758,965	$ 9.57	6.14 years	$ 2,201,850
Options exercisable, end of quarter	758,965	$ 9.57	6.14 years	$ 2,201,850
Option price range at end of quarter	$ 3.55 to $16.75			
Option price range for exercised shares	$ 3.55 to $16.75			

The total intrinsic value of stock options exercised was $228,740 during the first three quarters of 2006.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation for the three months and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(Dollars in thousands, except per share data)	
Net income, as reported	$ 592	$ 1,515
Total stock-based compensation expense determined under fair-value based method for all awards, net of related tax effects	(77)	(284)
Pro forma net income	$ 515	$ 1,231

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Basic earnings per share:				
As reported	$	0.15*	$	0.37*
Pro forma	$	0.13*	$	0.30*
Diluted earnings per share:				
As reported	$	0.14*	$	0.36*
Pro forma	$	0.12*	$	0.29*

* References to share amounts and per-share amounts were restated to reflect the 3% stock dividend distributed to shareholders on September 1, 2006.

NOTE 6 - GUARANTEES

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. As of September 30, 2006, the Company had $5,961,000 of commercial and similar letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payment required under the corresponding guarantees. The current amount of the liability as of September 30, 2006 for guarantees under standby letters of credit issued is not material.

NOTE 7 STOCK DIVIDEND

On July 18, 2006, Community Partners Board of Directors approved a 3% stock dividend payable September 1, 2006 to shareholders of record as of August 18, 2006. All share and per share data has been retroactively adjusted to reflect this dividend.

NOTE 8 NEW ACCOUNTING STANDARDS

In March 2004, the FASBs Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position FAS No. 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted. For the Company, the effective date was the first quarter of fiscal 2006. The adoption of this accounting principle did not have a significant impact on the Companys financial position or results of operations.

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In October 2005, the FASB issued FASB Staff Position FAS 13-1 (FSP FAS 13-1), which requires companies to expense rental costs associated with ground or building operating leases that are incurred during a construction period. As a result, companies that are currently capitalizing these rental costs are required to expense them beginning in their first reporting period beginning after December 15, 2005. FSP FAS 13-1 is effective for the Company as of the first quarter of fiscal 2006. The provisions of FSP FAS 13-1 did not have an impact on the Company's financial condition or results of operations.

In May 2005, FASB issued SFAS 154, Accounting Changes and Error Corrections. The Statement requires retroactive application of a voluntary change in accounting principle to prior period financial statements unless it is impracticable. Statement No. 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. Statement No. 154 replaces APB Opinion 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. Statement No. 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of the provisions of SFAS 154 did not have a material impact on the Company's consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 amends FASB Statement No. 133 and FASB Statement No. 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is required to adopt the provisions of SFAS No. 155, as applicable beginning in fiscal year 2007. Management does not believe the adoption of SFAS No. 155 will have a material impact on the Company's financial position and results of operation.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140 (SFAS 156). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Company will be as of the beginning of fiscal 2007. The Company does not believe that the adoption of SFAS 156 will have a significant effect on its financial statements.

In January 2006, the Company adopted FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of SFAS No. 143 (FIN 47). This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event. The adoption of FIN 47 did not have an impact on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact of this new pronouncement on its consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on the Companys consolidated financial position, results of operations and cash flows.

On September 13, 2006, the Securities and Exchange Commission SEC issued Staff Accounting Bulleting No. 108 (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a companys balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial conditions.

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities which is effective for fiscal years beginning after December 15, 2006. This position statement eliminates the accrue-in-advance method of accounting for planned major maintenance activities. We do not expect this pronouncement to have a significant impact on the determination or reporting of our financial results.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs and products, relationships, opportunities, taxation, technology and market conditions. When used in this and in our future filings with the Securities and Exchange Commission, in our press releases and in oral statements made with the approval of an authorized executive officer, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is ant "estimated," "project" or "outlook" or similar expressions (including confirmations by one of our authorized executive officers of any such expressions made by a third party with respect to us) are intended to identify forward-looking statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Factors that may cause results to differ materially from such forward-looking statements include, but are not limited to, those listed under "Risk Factors" in the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2006, such as

- our ability to achieve sufficient operational integration of our two banks,
- changes in the direction of the economy nationally or in New Jersey,
- changes in the direction of interest rates,
- increases in competition,
- changes in effective income tax rates,
- loan prepayment assumptions,
- risks associated with rapid growth,
- continued levels of loan quality and origination volume,
- continued relationships with major customers including sources for loans, and
- the effects of general economic conditions and legal and regulatory barriers and structure.

Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. We do not plan to update any of our forward-looking statements based on changes in assumptions, changes in results or other events subsequent to the date of this Quarterly Report on Form 10-Q, other than as included in our future required SEC filings.

The following information should be read in conjunction with the consolidated financial statements and the related notes thereto included in our Special Financial Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on May 9, 2006.

Critical Accounting Policies and Estimates

The following discussion is based upon Community Partners financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses.

Note 1 to the Companys consolidated financial statements included in our Special Financial Report on Form 10-K for the year ended December 31, 2005 contains a summary of our significant accounting policies. Management believes the following critical accounting policies encompass the more significant judgments and estimates used in the preparation of our financial statements.

Allowance for Loan Losses. Management believes the Companys policy with respect to the methodology for the determination of the allowance for loan losses involves a high degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact the results of operations. This critical policy and its application have been periodically reviewed with Two Rivers, Town Banks and the Companys boards of directors.

The allowance for loan losses is based upon managements evaluation of the adequacy of the allowance account, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectibility may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management utilizes the information available to it, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. Various regulatory agencies may require our bank subsidiaries to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of Two Rivers and Town Banks loans are secured by real estate in New Jersey, primarily in Monmouth County and Union County. Accordingly, the collectibility of a substantial portion of the carrying value of the Companys loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline. Future adjustments to the allowance for loan losses account may be necessary due to economic, operating, regulatory and other conditions beyond the Companys control.

Purchase Accounting for Business Combinations. In June of 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. These standards eliminated the pooling-of-interests method of accounting (pooling) in favor of purchase accounting. Further, these standards were promulgated to ensure that post-merger financial statements of combined entities are prepared in a manner that best represents the underlying economics of a business combination.

These standards necessitate the application of accounting policies and procedures that entail the use of assumptions, estimates, and judgments that are critical to the presentation of financial information, including the ongoing valuation of intangibles. Goodwill and other intangible assets are reviewed for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. The impact of the acquisition of Town Bank on Community Partners' consolidated results suggests that the application of these standards, since the date of that acquisition, is substantially more critical to the presentation of Community Partners' financial information.

Investment Securities Impairment Valuation. Management evaluates securities for other-than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Deferred Tax Assets and Liabilities. Community Partners recognizes deferred tax assets and liabilities for future tax effects of temporary differences, net operating loss carry forwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

Overview

Reported earnings and balance sheet figures of Community Partners prior to April 1, 2006 include those of Two River Community Bank and do not include those of Town Bank. Town Bank's operations are included in reported earnings only prospectively from April 1, 2006. Current period performance, other than per share amounts and ratio analysis, is not generally comparable to reported results for corresponding prior periods, as a significant portion of the increases in reported earnings and balance sheet figures are due to the inclusion of Town Bank in the second and third quarter of 2006 but not the prior periods.

For the three months ended September 30, 2006, net interest income increased $2.3 million, or 85.2% to $5.0 million, as compared to $2.7 million for the same period in 2005. Net income rose from $592 thousand for the three months ended September 30, 2005 to $1.1 million for the three months ended September 30, 2006, an increase of $482 thousand, or 81.4% . Basic and diluted earnings per share were $0.17 and $0.16, respectively, for the three months ended September 30, 2006 compared to $0.15 per basic share and $0.14 per diluted share for the same period in 2005.

For the nine months ended September 30, 2006, net interest income increased $4.7 million, or 59.5% to $12.6 million, as compared to $7.9 million for the same period in 2005. Net income rose from $1.5 million for the nine months ended September 30, 2005 to $2.6 million for the nine months ended September 30, 2006, an increase of $1.1 million, or 73.3% . Basic and diluted earnings per share were $0.46 and $0.45, respectively, for the nine months ended September 30, 2006 compared to $0.37 per basic share and $0.36 per diluted share for the same period in 2005.

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Total assets increased to $503.9 million at September 30, 2006, compared to $268.3 million at December 31, 2005, an increase of $235.6 million, or 87.8% . The increase in total assets was primarily the result of our acquisition of Town Bank as of April 1, 2006.

Loans, net of the allowance for loan losses, totaled $396.6 million at September 30, 2006, an increase of $182.7 million, or 85.4% compared to $213.9 million at year-end December 31, 2005. The allowance for loan losses totaled $4.4 million, or 1.11% of total loans at September 30, 2006, compared to $2.4 million, or 1.10% of total loans at December 31, 2005.

Deposits increased by $183.5 million or 77.6% to $419.9 million at September 30, 2006 compared to $236.4 million at December 31, 2005. These increases in loan and deposit balances resulted primarily from the acquisition of Town Bank and to a lesser extent the growth of our other banking subsidiary, Two River Community Bank.

Net income for the linked quarters ended September 30, 2006 and June 30, 2006 amounted to $1.1 million for each quarter. Total assets at September 30, 2006 amounted to $503.9 million, a decrease of $7.2 million, or 1.4%, from the $511.1 million in total assets reported at June 30, 2006. The relatively stable operating performance of the Company during the linked quarters reflects management's determination to focus on the operational integration between Two River and Town Bank in order to make their combination under a single holding company a financial success. Additionally, management is assessing the current real estate market downturn in our New Jersey market areas, and adjusting requirements for new borrowers accordingly. At September 30, 2006 our loan portfolio had $12 thousand of consumer loans past due 90 days or more and still accruing and no non-accrual or restructured loans. The Company has no loans to Kara Homes or Solomon Dwek related entities, both of which, according to public reports, are in financial difficulty and have extensive borrowings with other financial institutions throughout New Jersey.

The following table provides information on our performance ratios for the dates indicated.

	(Annualized) At or For the Nine Months ended September 30, 2006	At or For the Year ended December 31, 2005
Performance Ratios:		
Return on average assets	0.82%	0.82%
Return on average shareholders' equity	6.78%	9.16%
Return on average tangible shareholders' equity	10.34%	9.16%
Average equity to average assets	12.09%	9.00%
Average tangible equity to average tangible assets	8.28%	9.00%

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Share-Based Compensation

We adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment during the first quarter of fiscal 2006. We elected the modified-prospective transition method, under which prior periods are not restated. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

The Company adopted Statement No. 123(R) as of January 1, 2006, with no impact on our financial condition and results of operations. The Company had issued stock option grants in prior periods; however, all of our outstanding option grants were fully vested as of December 31, 2005. Accordingly, as of January 1, 2006, the Company had no unrecognized compensation cost remaining associated with existing stock option grants. Also, Community Partners made no modifications to outstanding stock option grants prior to the adoption of Statement No. 123(R) and there were no changes in valuation methodologies or assumptions compared to those used by the Company prior to January 1, 2006.

Community Partners did not issue any stock option grants, restricted stock grants or any other share-based compensation awards during the nine months ended September 30, 2006. Also, the Company did not adopt any new share-based compensation plans during 2006. The Company may adopt stock compensation plans in the future. Any impact that the adoption of Statement 123(R) will have on the Companys financial condition or results of operations will be determined by share-based payments granted in future periods.

The guidance in SFAS 123(R) and SAB 107 is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of share-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

See Note 5 of the consolidated financial statements for further information regarding the SFAS 123(R) disclosures.

Results of Operations

Community Partners principal source of revenue is net interest income, the difference between interest income on earning assets and interest expense on deposits and borrowings. Interest earning assets consist primarily of loans, investment securities and federal funds sold. Sources to fund interest earning assets consist primarily of deposits and borrowed funds. The Companys net income is also affected by its provision for loan losses, other income and other expenses. Other income consists primarily of service charges and commissions and fees, while other expenses are comprised of salaries and employee benefits, occupancy costs and other operating expenses.

RESULTS OF OPERATIONS for the three months ended September 30, 2006 compared to the three months ended September 30, 2005

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Net Interest Income

Interest income for the three months ended September 30, 2006 increased by $4.7 million, or 123.7%, to $8.5 million, from $3.8 million in the same 2005 period. Interest and fees on loans increased by $4.4 million, or 129.4%, to $7.8 million for the three months ended September 30, 2006 compared to $3.4 million for the same 2005 period. This increase was primarily due to the acquisition of Town Bank on April 1, 2006 and to a lesser extent the growth experienced in our loan portfolio as new loan originations exceeded principal repayments. Town Bank's interest income on loans for the three months ended September 30, 2006 was $3.4 million. The average balance of the loan portfolio for the three months ended September 30, 2006 increased by $195.4 million, or 97.5%, to $395.8 million from $200.4 million for the same 2005 period. The average annualized yield on the loan portfolio was 7.79% for the three months ended September 30, 2006 compared to 6.71% for the three months ended September 30, 2005.

Interest income on federal funds sold and other short-term investments increased by $105 thousand, or 1,050.0%, from $10 thousand recorded for the three months ended September 30, 2005, to $115 thousand for the three months ended September 30, 2006. For the three months ended September 30, 2006, federal funds sold and other short-term investments had an average interest earning balance of $8.6 million with an average annualized yield of 5.33% . For the three months ended September 30, 2005, this category had average interest earning balances of $1.2 million with an average annualized yield of 3.37% . The increase in market interest rates throughout 2005 and 2006 accounted for the improvement in yield.

Interest income on investment securities totaled $650 thousand for the three months ended September 30, 2006 compared to $401 thousand for three months ended September 30, 2005. Town Bank's interest income on investments accounted for $169 thousand of the increase. For the three months ended September 30, 2006, investment securities had an average balance of $56.4 million with an average annualized yield of 4.61% compared to an average balance of $40.0 million with an average annualized yield of 4.01% for the three months ended September 30, 2005. Investment securities purchased during 2005 and 2006 generally had higher yields than those securities existing in the portfolio. The new purchases accounted for the increase in the average yield in the portfolio.

Interest expense on interest bearing liabilities amounted to $3.6 million for the three months ended September 30, 2006, compared to $1.1 million for the same 2005 period, an increase of $2.5 million, or 227.3% . Town Bank's interest expense for the three months ended September 30, 2006 accounted for $1.5 million of this increase. Also, during 2005 and 2006, management employed several programs to attract new funds to the Company in order to fund the growth in the loan portfolio. These programs included promotional interest rates on interest bearing demand, savings deposits, money market deposits and certificates of deposits. The average balance of these accounts was $349.5 million for the three months ended September 30, 2006 compared to $171.8 million for the three months ended September 30, 2005, or an increase of $177.7 million, or 103.4% . For the three months ended September 30, 2006, the average interest cost for all interest bearing liabilities was 3.92% compared to 2.29% for the three months ended September 30, 2005. The acquisition of Town Bank and the overall higher level of market interest rates during 2006 along with management's strategy to increase deposits accounted for the increases in interest expense on interest bearing liabilities and the average balance of these accounts.

The average balance of short-term borrowings was $3.0 million with an average rate paid of 5.42% for the three months ended September 30, 2006 compared to an average balance of $2.9 million with an average rate paid of 3.74% for the comparable 2005 period. Management utilized its borrowing lines to fund the growth in the loan

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portfolio pending deposit inflows and to fund daily cash outflows in excess of daily cash deposits and Federal funds sold. The Company also offers repurchase agreements to its customers as an alternative to other insured deposits. Average balances of repurchase agreements for the third quarter of 2006 increased to $10.2 million with an average rate of 3.61% compared to $8.3 million with an average rate of 1.91% during the same prior year quarter. The higher interest rates paid during 2006 resulted from overall market conditions.

Net interest income increased $2.3 million, or 85.2%, to $5.0 million for the three months ended September 30, 2006 compared to $2.7 million for the same 2005 period. Town Bank's net interest income of $2.0 million during the three months ended September 30, 2006 accounted for the majority of the increase.

The increase in net interest income was also due to changes in interest income and interest expense described previously. The net interest margin decreased to 4.27% for the three months ended September 30, 2006 from 4.50% for the three months ended September 30, 2005. This decrease is also attributed to the changes in interest income and interest expense previously discussed.

The following tables reflect, for the periods presented, the components of our net interest income, setting forth: (1) average assets, liabilities, and shareholders' equity, (2) interest income earned on interest-earning assets and interest expenses paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) our net interest spread (i.e., the average yield on interest-earning assets less the average rate on interest-bearing liabilities), and (5) our yield on interest-earning assets. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

	Three Months Ended September 30,2006			**Three Months Ended September 30, 2005**		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Interest Earning Assets:						
Federal funds sold	$ 8,567	$ 115	5.33%	$ 1,178	$ 10	3.37%
Investment securities	56,439	650	4.61%	39,989	401	4.01%
Loans (1) (2)	395,836	7,774	7.79%	200,385	3,389	6.71%
Total Interest Earning Assets	460,842	8,539	7.35%	241,552	3,800	6.24%
Non-Interest Earning Assets:						
Allowance for loan losses	(4,365)			(2,217)		
All other assets	51,522			16,884		
Total Assets	$ 507,999			$ 256,219		
LIABILITIES & SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW deposits	$ 42,264	220	2.07%	$ 30,219	87	1.14%

Savings deposits	40,196	232	2.29%	59,204	351	2.35%
Money market deposits	65,536	567	3.43%	28,651	132	1.83%
Time deposits	201,519	2,431	4.79%	53,713	421	3.11%
Repurchase agreements	10,212	93	3.61%	8,287	40	1.91%
Short-term borrowings	2,999	41	5.42%	2,865	27	3.74%
Total Interest Bearing Liabilities	362,726	3,584	3.92%	182,939	1,058	2.29%
Non-Interest Bearing Liabilities:						
Demand deposits	75,803			48,628		
Other liabilities	3,163			1,431		
Total Non-Interest Bearing Liabilities	78,966			50,059		
Shareholders' Equity	66,307			23,221		
Total Liabilities and Shareholders' Equity	$ 507,999			$ 256,219		
NET INTEREST INCOME		$ 4,955			$ 2,742	
NET INTEREST SPREAD (3)			3.43%			3.95%
NET INTEREST MARGIN(4)			4.27%			4.50%

(1) Included in interest income on loans are loan fees.

(2) Includes non-performing loans.

(3) The interest rate spread is the difference between the weighted average yield on average interest earning assets and the weight average cost of average interest bearing liabilities.

(4) The interest rate margin is calculated by dividing annualized net interest income by average interest earning assets.

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(dollars in thousands)	Three Months Ended September 30,2006 Average Balance	Interest Income/ Expense	Average Rate	Three Months Ended September 30, 2005 Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Interest Earning Assets:						
Federal funds sold	$ 9,832	$ 366	4.98%	$ 1,891	$ 41	2.90%
Investment securities	52,013	1,718	4.40%	41,304	1,243	4.02%
Loans (1) (2)	333,094	18,856	7.57%	192,066	9,442	6.57%
Total Interest Earning Assets	394,939	20,940	7.09%	235,261	10,726	6.10%
Non-Interest Earning Assets:						
Allowance for loan losses	(3,656)			(2,104)		
All other assets	39,718			16,379		
Total Assets	$ 431,001			$ 249,536		
LIABILITIES & SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW deposits	$ 38,139	539	1.89%	$ 27,696	217	1.05%
Savings deposits	42,350	730	2.30%	61,042	1,013	2.22%
Money market deposits	56,314	1,364	3.24%	31,209	377	1.62%
Time deposits	160,501	5,444	4.53%	44,008	952	2.89%
Repurchase agreements	8,726	208	3.19%	8,304	114	1.84%
Short-term borrowings	1,690	81	6.41%	5,401	122	3.02%
Total Interest Bearing Liabilities	307,720	8,366	3.63%	177,660	2,795	2.10%
Non-Interest Bearing Liabilities:						
Demand deposits	68,094			47,984		
Other liabilities	3,078			1,316		
Total Non-Interest Bearing Liabilities	71,172			49,300		
Shareholders' Equity	52,109			22,576		
Total Liabilities and Shareholders' Equity	$ 431,001			$ 249,536		
NET INTEREST INCOME		$ 12,574			$ 7,931	
NET INTEREST SPREAD (3)			3.46%			4.00%
NET INTEREST MARGIN(4)			4.26%			4.51%

(1) Included in interest income on loans are loan fees.

(2) Includes non-performing loans.

(3) The interest rate spread is the difference between the weighted average yield on average interest earning assets and the weighted

(4) The interest rate margin is calculated by dividing annualized net interest income by average interest earning assets.

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Analysis of Changes in Net Interest Income

The following table sets forth for the periods indicated a summary of changes in interest earned and interest paid resulting from changes in volume and changes in rates (in thousands):

	Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005 Increase (Decrease) Due To			Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 Increase (Decrease) Due To		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)			(Dollars in thousands)		
Interest Earned On:						
Federal funds sold	$ 63	$ 42	$ 105	$ 172	$ 153	$ 325
Investment securities	165	84	249	325	150	475
Loans (net of unearned income)	3,306	1,079	4,385	6,933	2,481	9,414
Total Interest Income	3,534	1,205	4,739	7,430	2,784	10,214
Interest Paid On:						
NOW deposits	35	98	133	82	240	322
Savings deposits	(113)	(6)	(119)	(310)	27	(283)
Money market deposits	170	265	435	303	684	987
Time deposits	1,158	852	2,010	2,520	1,972	4,492
Repurchase agreement	9	44	53	6	88	94
Short-term borrowings	1	13	14	(84)	43	(41)
Total Interest Expense	1,260	1,266	2,526	2,517	3,054	5,571
Net Interest Income	$ 2,274	$ (61)	$ 2,213	$ 4,913	$ (270)	$ 4,643

The change in interest due to both volume and rate has been allocated proportionally to both, based on their relative absolute values.

Provision for Loan Losses

The provision for loan losses for the three months ended September 30, 2006 increased by $129 thousand, or 368.6%, to $164 thousand as compared to the same 2005 period. In management's opinion, the allowance for loan losses, totaling $4.4 million at September 30, 2006 is adequate to cover losses inherent in the portfolio. The amount of the provision is based upon management's evaluation of risk inherent in the loan portfolio. At September 30, 2006, the Company had no non-accrual loans and $12 thousand of consumer loans past due 90 days or more and still accruing. The provision for loan losses increased in the three months ended September 30, 2006 due to increased loan originations resulting from the acquisition of Town Bank as of April 1, 2006. Net loan originations were $12.3 million in the third quarter of 2006 compared to $2.3 million in the third quarter of 2005. Management will continue to review the need for additions to its allowance for loans based upon its monthly review of the loan portfolio, the level of delinquencies and general market and economic conditions.

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Non-Interest Income

For the three months ended September 30, 2006, non-interest income amounted to $382 thousand compared to $308 thousand for the same period one year ago. This increase of $74 thousand, or 24.0%, is primarily attributable to a higher level of new product service charges on deposits, increased ATM surcharge fees, a higher level of fees on residential mortgages originated for other institutions, the continued growth of the Company and the acquisition of Town Bank. Town Bank's non-interest income for the three months ended September 30, 2006 was $44 thousand.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2006 increased $1.4 million, or 66.7%, to $3.5 million compared to $2.1 million for the same prior year period. Town Bank's non-interest expense was $1.0 million for the three months ended September 30, 2006. The Company's salary and employee benefits increased $625 thousand, or 55.9%, primarily as a result of the acquisition of Town Bank, which accounted for $436 thousand of the increase, and additions to staff to support the growth of the Company, along with higher salaries and health insurance costs. Advertising expense increased by $37 thousand, or 48.1% . Data processing fees increased by $78 thousand, or 130.0% . Occupancy and equipment expense rose by $212 thousand, or 55.5% . Professional expenses increased by $38 thousand, or 66.7% . Outside service fees and insurance costs increased by $32 thousand, or 38.6% . Other operating expenses increased by $268 thousand, or 91.8% . Subsequent to the acquisition of Town Bank as of April 1, 2006, the Company began amortizing identifiable intangible assets and incurred $95 thousand in costs for the third quarter of 2006. The foregoing expenses increased primarily due to the acquisition of Town Bank, and to a lesser extent the continued general business growth of the Company. We anticipate continued increases in non-interest expense for the remainder of 2006 and beyond, as we incur costs related to the expansion of our branch system and our lending activities, and ongoing efforts to penetrate our target markets, in addition to other costs associated with the integration of the operations of the two banks and operation of the Company.

Income Taxes

The Company recorded income tax expense of $644 thousand for the three months ended September 30, 2006 compared to $353 thousand for the three months ended September 30, 2005. The increase is due to higher pre-tax income. The effective tax rate for the three months ended September 30, 2006 was 37.5% compared to 37.4% for the same 2005 period.

RESULTS OF OPERATIONS for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Net Interest Income

Interest income for the nine months ended September 30, 2006 increased by $10.2 million, or 95.3%, from the same 2005 period. Interest and fees on loans increased by $9.5 million, or 101.1%, to $18.9 million for the nine months ended September 30, 2006 compared to $9.4

million for the same 2005 period. This increase was primarily due to the acquisition of Town Bank effective April 1, 2006 and also to the growth experienced in our loan portfolio as new loan originations exceeded principal repayments. Town Bank's interest income on loans of $6.4 million is included in the Company's results since April 1, 2006. The average balance of the loan portfolio for the nine months ended September 30, 2006 increased by $141.0 million, or 73.4%, to $333.1 million from $192.1 million for the same 2005 period. The average annualized yield on the loan portfolio was 7.57% for the nine months ended September 30, 2006 compared to 6.57% for the nine months ended September 30, 2005.

Interest income on federal funds sold and other short-term investments increased by $325 thousand, or 792.7%, from $41 thousand recorded for the nine months ended September 30, 2005, to $366 thousand for the nine months ended September 30, 2006. For the nine months ended September 30, 2006, federal funds sold and other short-term investments had an average interest earning balance of $9.8 million with an average annualized yield of 4.98% . For the nine months ended September 30, 2005, this category had average interest earning balances of $1.9 million with an average annualized yield of 2.90% . The increase in market interest rates throughout 2005 and 2006 accounted for the improvement in yield.

Interest income on investment securities totaled $1.7 million for the nine months ended September 30, 2006 compared to $1.2 million for nine months ended September 30, 2005. Town Bank's interest income on investments accounted for $341 thousand of the increase since the acquisition on April 1, 2006. For the nine months ended September 30, 2006, investment securities had an average balance of $52.0 million with an average annualized yield of 4.40% compared to an average balance of $41.3 million with an average annualized yield of 4.02% for the nine months ended September 30, 2005. The new purchases made during 2005 and 2006 generally had higher yields than those securities existing in the portfolio. The new purchases accounted for the increase in the average yield in the portfolio.

Interest expense on interest bearing liabilities amounted to $8.4 for the nine months ended September 30, 2006, compared to $2.8 million for the same 2005 period, an increase of $5.6 million, or 200.0% . Town Bank's interest expense of $2.9 million accounted for a portion of this increase since the acquisition on April 1, 2006. Also, during 2005 and 2006, management employed several programs to attract new funds to the Company in order to fund the growth in the loan portfolio. These programs included promotional interest rates on interest bearing demand, savings deposits, money market deposits and certificates of deposits. The average balance of these accounts was $297.3 million for the nine months ended September 30, 2006 compared to $164.0 million for the nine months ended September 30, 2005, or an increase of $133.3 million, or 81.3% . For the nine months ended September 30, 2006, the average interest cost for all interest bearing liabilities was 3.63% compared to 2.10% for the nine months ended September 30, 2005. The acquisition of Town Bank and the overall higher level of market interest rates during 2006 along with management's strategy to increase deposits accounted for the increases in interest expense on interest bearing liabilities and the average balance of these accounts.

The average balance of short-term borrowings was $1.7 million with an average rate paid of 6.41% for the nine months ended September 30, 2006 compared to an average balance of $5.4 million with an average rate paid of 3.02% for the comparable 2005 period. Management utilized its borrowing lines to fund the growth in the loan portfolio pending deposit inflows and to fund daily cash outflows in excess of daily cash deposits and Federal funds sold. The Company also offers repurchase agreements to its customers as an alternative to other insured deposits. Average balances of repurchase agreements for the first three quarters of 2006 increased to

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$8.7 million with an average rate of 3.19% compared to $8.3 million with an average rate of 1.84% during the same prior year period. The higher interest rates paid during 2006 resulted from overall market conditions.

Net interest income increased $4.7 million, or 59.5%, to $12.6 million for the nine months ended September 30, 2006 compared to $7.9 million for the same 2005 period. Town Banks net interest income of $3.9 million included in the Companys results since acquisition accounted for a majority of this increase. The increase in net interest income was also due to changes in interest income and interest expense described previously. The net interest margin decreased to 4.26% for the nine months ended September 30, 2006 from 4.51% for the nine months ended September 30, 2005. This decrease is also attributed to the changes in interest income and interest expense previously discussed.

Provision for Loan Losses

The provision for loan losses for the nine months ended September 30, 2006 increased by $224 thousand, or 71.6%, to $537 thousand as compared to the same 2005 period. In managements opinion, the allowance for loan losses, totaling $4.4 million at September 30, 2006 is adequate to cover losses inherent in the portfolio. The amount of the provision is based upon managements evaluation of risk inherent in the loan portfolio. At September 30, 2006, the Company had no non-accrual loans and $12 thousand of consumer loans past due 90 days or more and still accruing. The provision for loan losses increased in the nine months ended September 30, 2006 primarily due to increased loan originations in 2006 compared to 2005 resulting from the acquisition of Town Bank as of April 1, 2006. Net loan originations were $45.9 million for the nine months ended September 30, 2006 compared to $26.8 million in the same period of 2005. Management will continue to review the need for additions to its allowance for loans based upon its monthly review of the loan portfolio, the level of delinquencies and general market and economic conditions.

Non-Interest Income

For the nine months ended September 30, 2006, non-interest income amounted to $1.1 million compared to $871 thousand for the same period one year ago. This increase of $217 thousand, or 24.9%, is primarily attributable to a higher level of new product service charges on deposits, increased ATM surcharge fees, a higher level of fees on residential mortgages originated for other institutions, the continued growth of the Company and the acquisition of Town Bank. Town Banks non-interest income for the period ended September 30, 2006 was $93 thousand.

Non-Interest Expense

Non-interest expense for the nine months ended September 30, 2006 increased $2.8 million, or 45.9%, to $8.9 million compared to $6.1 million for the same period one year ago. Town Banks non-interest expense of $1.9 million included in the Companys results since acquisition on April 1, 2006 accounted for much of this increase. Salary and employee benefits increased $1.3 million, or 40.0%, primarily as a result of the acquisition of Town Bank and additions to staff to support the growth of the Company, along with higher salaries and health insurance costs. Advertising expense increased by $94 thousand, or 45.0% . Data processing fees increased by $155 thousand, or 84.2% . Occupancy and equipment expense rose by $372 thousand, or 32.0% . Professional expenses increased by $130 thousand, or 75.6% . Outside service fees and insurance costs increased by $108 thousand, or 48.2% . Other operating expenses increased by $493 thousand, or

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60.1% . Subsequent to the acquisition of Town Bank as of April 1, 2006, the Company began amortizing identifiable intangible assets and incurred $191 thousand in costs for the period ended September 30, 2006. The foregoing expenses increased primarily due to the acquisition of Town Bank, the costs of being a public company, and to a lesser extent the continued general business growth of the Company. We anticipate continued increases in non-interest expense for the remainder of 2006 and beyond, as we incur costs related to the expansion of our branch system and our lending activities, and ongoing efforts to penetrate our target markets, in addition to other operational costs associated with the formation of the Company. The Company also expects professional fees to increase in the future due to costs associated with complying with Section 404 of the Sarbanes-Oxley Act.

Income Taxes

The Company recorded income tax expense of $1.5 million for the nine months ended September 30, 2006 compared to $895 thousand for the nine months ended September 30, 2005. The increase is due to higher pre-tax income. The effective tax rate for the nine months ended September 30, 2006 was 36.7% compared to 37.1% for the same 2005 period.

Financial Condition

General

Total assets increased to $503.9 million at September 30, 2006, compared to $268.3 million at December 31, 2005, an increase of $235.6 million, or 87.8% . The increase in total assets was primarily the result of our acquisition of Town Bank as of April 1, 2006. Town Bank's total assets at April 1, 2006 were $207.6 million after recording purchase accounting adjustments resulting from the acquisition. These adjustments amounted to $24.5 million for recorded goodwill and $2.1 million pertaining to core deposit intangibles.

Securities Portfolio

We maintain an investment portfolio to fund increased loans or decreased deposits and other liquidity needs and to provide an additional source of interest income. The portfolio is composed of obligations of the U.S. government and agencies, government-sponsored entities, tax-exempt municipal securities and a limited amount of corporate debt securities.

Investments totaled $54.0 million at September 30, 2006 compared to $40.0 million at December 31, 2005, an increase of $14.0 million, or 35.0% . The increase in investment securities resulted primarily from the acquisition of Town Bank and to a lesser extent deposit growth in excess of our loan growth. Town Bank had $13.9 million of investment securities at April 1, 2006. For each of the nine month periods ended September 30, 2006 and 2005, there were no sales of securities. During the nine months ended September 30, 2006, the Company had $8.9 million of cash flows in proceeds from repayments and maturities of securities and purchased $8.9 million in securities. Management considers unrealized losses in the securities portfolio to be temporary and primarily resulting from changes in the interest rate environment. The securities portfolio contained no high-risk securities or derivatives as of September 30, 2006 or December 31, 2005.

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Loan Portfolio

The following table summarizes total loans outstanding by loan category and amount as of September 30, 2006 and December 31, 2005.

	September 30, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
	(in thousands, except for percentages)			
Commercial and industrial	$ 89,977	22.4%	$ 55,480	25.7%
Real estate construction	109,294	27.3%	42,657	19.7%
Real estate commercial	130,544	32.6%	97,815	45.2%
Real estate residential	49,795	12.4%	2,625	1.2%
Consumer	21,256	5.3%	17,569	8.1%
Other	152	0.0%	181	0.1%
Total loans	$ 401,018	100.0%	$ 216,327	100.0%

For the nine months ended September 30, 2006, loans increased by $184.7 million, or 85.4%, to $401.0 million from $216.3 million at December 31, 2005. This growth was primarily recorded in the real estate - construction portfolio, which increased by $66.6 million, or 156.0%, to $109.3 million from $42.7 million. Real estate residential loans increased by $47.2.0 million, or 1,815.4% from $2.6 million at December 31, 2005 to $49.8 million at September 30, 2006. Real estate commercial loans increased by $32.7 million, or 33.4% from $97.8 million at December 31, 2005 to $130.5 million at September 30, 2006. Commercial and industrial loans rose by $34.5 million, or 62.2%, from $55.5 million at December 31, 2005 to $90.0 million at September 30, 2006.

The increase in the real estate based and commercial and industrial loan portfolios is largely the result of the acquisition of Town Bank, which had $139.7 million of loans at April 1, 2006, and secondarily due to the relatively low rate environment on the local business market and the Companys loan marketing efforts. The Company has no loans to Kara Homes or Solomon Dwek related entities, both of which, according to public reports, are in financial difficulty and have extensive borrowings with other financial institutions throughout New Jersey.

Asset Quality

Non-performing loans consist of non-accrual loans, loans past due 90 days or more and still accruing, and loans that have been renegotiated to provide a reduction of or deferral of interest or principal because of a weakening in the financial positions of the borrowers. Loans are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more and the loan is not fully secured. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other non-accrual loans is recognized only to the extent of interest payments received. At September 30, 2006, the Company had no non-accrual loans, no restructured loans, and $12 thousand of consumer loans past due 90 days or more and still accruing. At December 31, 2005, the Company had no non-accrual loans, no loans past due 90 days or more, and no restructured loans. The Company also had no other real estate owned due to foreclosure at September 30, 2006 and December 31, 2005.

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Allowance for Loan Losses

The following table summarizes our allowance for loan losses for the nine months ended September 30, 2006 and 2005 and for the year ended December 31, 2005.

	September 30, 2006	September 30, 2005	December 31, 2005
	(in thousands, except percentages)		
Balance at beginning of period	$ 2,380	$ 1,927	$ 1,927
Acquisition of Town Bank	1,536	-	-
Provision charged to expense	537	313	453
Charge-offs	(7)	-	-
Balance of allowance at end of period	$ 4,446	$ 2,240	$ 2,380
Ratio of net charge-offs to average loans outstanding	0.00%	0.00%	0.00%
Balance of allowance as a percent of loans at period-end	1.11%	1.10%	1.10%

The allowance for loan losses is a valuation reserve available for losses incurred or expected on extensions of credit. Credit losses primarily arise from the Company's loan portfolio, but may also be derived from other credit related sources including commitments to extend credit. Additions are made to the allowance through periodic provisions which are charged to expense. All losses of principal are charged to the allowance when incurred or when a determination is made that a loss is expected. Subsequent recoveries, if any, are credited to the allowance.

We attempt to maintain an allowance for loan losses at a sufficient level to provide for probable losses in the loan portfolio. Loan losses are charged directly to the allowance when they occur and any recovery is credited to the allowance. Risks within the loan portfolio are analyzed on a continuous basis by each bank subsidiary's officers, outside independent loan review auditors, Directors Loan Committee, and Board of Directors. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate reserves. Along with the risk system, each bank subsidiary's management further evaluates risk characteristics of the loan portfolio under current economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors management feels deserve recognition in establishing an appropriate reserve. Additions to the allowance are made by provisions charged to expense and the allowance is reduced by net charge-offs (i.e., loans judged to be un-collectible and charged against the reserve, less any recoveries on such loans). Although management at each bank subsidiary attempts to maintain the allowance at a level deemed adequate, future additions to the allowance may be necessary based upon changes in market conditions, either generally or specific to our area, or changes in the circumstances of particular borrowers. In addition, various regulatory agencies periodically review each bank subsidiary□s allowance for loan losses. These agencies may require a subsidiary to take additional provisions based on their judgments about information available to them at the time of their examination.

Bank-owned Life Insurance

During 2004, the Company invested in $3.5 million of bank-owned life insurance. The Company invests in bank-owned life insurance as a source of funding for employee benefit expenses. Bank-owned life insurance involves purchasing of life insurance by the Company on a chosen group of officers. The Company is owner and beneficiary of the policies. Increases in the cash surrender value of this investment is recorded in other income in the statements of income. Bank-owned life insurance amounted to $3.8 million at September 30, 2006 and $3.7 million at December 31, 2005.

Premises and Equipment

Premises and equipment totaled $4.8 million and $2.4 million at September 30, 2006 and December 31, 2005, respectively. The increase in the Company□s investment in premises and equipment was due primarily to the acquisition of Town Bank at April 1, 2006.

Other Assets

Other assets totaled $3.3 million and $1.5 million at September 30, 2006 and December 31, 2005, respectively. The increase in the Company□s other assets was due primarily to the acquisition of Town Bank at April 1, 2006.

Intangible Assets

Intangible assets totaled $26.4 million at September 30, 2006 and the Company had no intangible assets at December 31, 2005. The Company□s intangible assets at September 30, 2006 were comprised of $24.5 million of goodwill and $1.9 million of core deposit intangibles, net of accumulated amortization of $191 thousand, which were recorded as a result of the acquisition of Town Bank at April 1, 2006.

LIABILITIES

Deposits

Deposits are the primary source of funds used by the Company in lending and for general corporate purposes. In addition to deposits, Community Partners may derive funds from principal repayments on loans, the sale of loans and securities designated as available for sale, maturing investment securities and borrowing from financial intermediaries. The level of deposit liabilities may vary significantly and are dependent upon prevailing interest rates, money market conditions, general economic conditions and competition. The Company□s deposits consist of checking, savings and money market accounts along with certificates of deposit and individual retirement accounts. Deposits are obtained from individuals, partnerships, corporations, unincorporated businesses and non-profit organizations throughout the Company□s market area. We attempt to control the flow of deposits primarily by pricing our deposit offerings to be competitive with other financial institutions in our market area, but not necessarily offering the highest rate.

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At September 30, 2006, total deposits amounted to $419.9 million, reflecting an increase of $183.5 million, or 77.6%, from December 31, 2005. The deposit growth during 2006 was primarily due to the acquisition of Town Bank, which had $159.7 million of deposits at April 1, 2006, and secondarily to the expansion and maturation of our branch system. The Company also generated a significant increase in certificates of deposit balances, money market account balances and other interest-bearing deposit products through promotional activities at its branches. Banks generally prefer to increase non-interest bearing deposits, as this lowers the institution's costs of funds. However, due to market rate increases and competitive pressures, we have found certificates of deposit promotions and other interest-bearing deposit products, targeted to obtain new customers and new deposits, to be our most efficient and cost effective source to fund our loan growth.

Core deposits consist of all deposits, except certificates of deposits in excess of $100,000. Core deposits at September 30, 2006 accounted for 75.7% of total deposits compared to 86.7% at December 31, 2005. During 2006, the Company marketed certificates of deposit products in its local market areas for the purpose of increasing deposits to fund the loan portfolio. This program accounted for the decline in the core deposit ratio.

Short-Term Borrowings

Each bank subsidiary utilizes its account relationship with Atlantic Central Bankers Bank to borrow funds through its federal funds borrowing line in an aggregate amount up to $12.0 million. These borrowings are priced on a daily basis. There was $5.8 million of borrowings under this line at September 30, 2006 and none at December 31, 2005. The Two River bank subsidiary also maintains secured borrowing lines with the Federal Home Loan Bank of New York in an amount of up to $57.4 million. At September 30, 2006, there were no borrowings under this line and at December 31, 2005, borrowings under this line amounted to $1.5 million.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days after the transaction date. Securities sold under agreements to repurchase are reflected as the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase increased to $8.6 million at September 30, 2006 from $5.2 million at December 31, 2005.

Liquidity

Liquidity defines the Company's ability to generate funds to support asset growth, meet deposit withdrawals, maintain reserve requirements and otherwise operate on an ongoing basis. An important component of our Company's asset and liability management structure is the level of liquidity which is available to meet the needs of our customers and requirements of creditors. The liquidity needs of each of our independently operated bank subsidiaries are primarily met by cash on hand, federal funds sold position, maturing investment securities and short-term borrowings on a temporary basis. Each independently operated bank subsidiary invests the funds not needed to meet its cash requirements in overnight federal funds sold. With adequate deposit inflows over the past nine months coupled with the above mentioned cash resources, management is maintaining short-term assets which we believed to be adequate.

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Off-Balance Sheet Arrangements

The Companys financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. These off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. These instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

Management believes that any amounts actually drawn upon these commitments can be funded in the normal course of operations. The following table sets forth our off-balance sheet arrangements as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Commercial lines of credit	$ 36,717	$ 37,267
One-to-four family residential lines of credit	17,460	7,995
Commitments to grant commercial and construction loans secured by real-estate	29,137	34,761
Commercial and financial letters of credit	5,961	2,712
	$ 89,275	$ 82,735

Capital

Shareholders equity increased by $43.3 million, or 181.9%, to $67.1 million at September 30, 2006 compared to $23.8 million at December 31, 2005. The primary reason for this increase was the acquisition of Town Bank which accounted for $40.3 million of the increase. Shareholders equity was also increased by stock options exercised amounting to $246 thousand and $32 thousand of tax benefits from exercised non-qualified stock options. Net income for the nine month period ended September 30, 2006 added $2.6 million to shareholders equity. Additionally, shareholders equity was further increased by $158 thousand, which resulted from unrealized gains in our available-for-sale investment securities portfolio.

The Company and each bank subsidiary are subject to various regulatory and capital requirements administered by the federal banking agencies. Our regulators, the Board of Governors of the Federal Reserve System (which regulates bank holding companies), and the Federal Deposit Insurance Corporation (which regulates each bank subsidiary), have issued guidelines classifying and defining capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the Companys financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and each bank subsidiary must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and each bank subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and each bank subsidiary to maintain minimum amounts and ratios, set forth in the following tables of total capital and Tier 1 capital to risk weighted assets, and of Tier 1 Capital to average assets leverage ratio. At September 30, 2006,

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management believes that the Company and each bank subsidiary have met all capital adequacy requirements to which they are subject.

The capital ratios of Community Partners and its bank subsidiaries, Two River and Town Bank, at September 30, 2006 and December 31, 2005 are presented below.

	Tier I Capital to Average Assets Ratio (Leverage Ratio)		Tier I Capital to Risk Weighted Asset Ratio		Total Capital to Risk Weighted Asset Ratio	
	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2006	Dec. 31, 2005
Community Partners	8.60%	9.16%	9.87%	10.38%	10.93%	11.40%
Two River	8.44%	9.16%	9.95%	10.38%	10.97%	11.40%
Town Bank	8.87%	9.99%	9.75%	11.56%	10.86%	12.64%
Adequately capitalized institution (under Federal regulations)	4.00%	4.00%	4.00%	4.00%	8.00%	8.00%
Well capitalized institution (under Federal regulations)	5.00%	5.00%	6.00%	6.00%	10.00%	10.00%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

In the course of its normal business operations, the Company is exposed to a material amount of interest rate risk. The Company has no foreign currency exchange risk, no commodity price risk or material equity price risk. Financial instruments, which are sensitive to changes in market interest rates, include fixed and variable-rate loans, fixed income securities, mortgage backed securities, collateralized mortgage obligations, interest-bearing deposits and other borrowings. Community Partners does not conduct asset trading activities.

Interest Rate Sensitivity

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. Interest rate sensitivity is the relationship between market interest rates and earnings volatility due to the re-pricing characteristics of assets and liabilities. Our net income is affected by changes in the level of market interest rates. In order to maintain consistent earnings performance, we seek to manage, to the extent possible, the repricing characteristics of our assets and liabilities. The ratio between assets and liabilities repricing in specific time intervals is referred to as an interest rate sensitivity gap. Interest rate sensitivity gaps can be managed to take advantage of the slope of the yield curve as well as forecasted changes in the level of interest rate changes.

One of our major objectives when managing the rate sensitivity of our assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of the Corporate Asset/Liability Committee (ALCO), which is comprised of senior management and Board members of the Company. We have instituted policies and practices of measuring and reporting interest rate risk exposure, particularly regarding the treatment of non-contractual assets and liabilities. In addition, we annually review our interest rate risk policy, which includes limits on the impact to earnings from shifts in interest rates.

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To manage our interest sensitivity position, an asset/liability model called gap analysis is used to monitor the difference in the volume of our interest-sensitive assets and liabilities that mature or re-price within given periods. A positive gap (asset-sensitive) indicates that more assets reprice during a given period compared to liabilities, while a negative gap (liability-sensitive) has the opposite effect. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income, while a negative gap would tend to affect net interest income adversely. We employ net interest income simulation modeling to assist in quantifying interest rate risk exposure. This process measures and quantifies the impact on net interest income through varying interest rate changes and balance sheet compositions. The use of this model assists the ALCO to gauge the effects of the interest rate changes on interest-sensitive assets and liabilities in order to determine what impact these rate changes will have upon the net interest spread.

The method used to analyze interest rate sensitivity has a number of limitations. Certain assets and liabilities may react differently to changes in interest rates even though they re-price or mature in the same or similar time periods. The interest rates on certain assets and liabilities may change at different times than changes in market interest rates, with some changing in advance of provisions which may limit changes in interest rates each time the interest rate changes and on a cumulative basis over the life of the loan. Additionally, the actual prepayments and withdrawals we experience in the event of a change in interest rates may differ significantly from the maturity dates of the loans. Finally, the ability of borrowers to service their debts may decrease in the event of an interest rate increase.

The Companys Asset Liability Committee policy has established that interest rate sensitivity will be considered acceptable if the change in net interest income is within 6.00% of net interest income from the unchanged interest rate scenario over a twelve month time horizon.

At September 30, 2006, the income simulation model for each of our subsidiaries indicates the level of interest rate risk as presented below. At September 30, 2006, the parent company (Community Partners) had no assets or liabilities which would affect this analysis.

	Gradual change in interest rates			
(dollars in thousands)	200 basis point increase		200 basis point decrease	
	Dollar risk	Percent of risk	Dollar risk	Percent of risk
Twelve month horizon:				
Net interest income:				
Two River	$ 373	3.26%	$ (102)	(0.89)%
Town Bank	$ 645	7.86%	$ (557)	(6.79)%

The percent of risk for Town Bank, given an upward or downward movement of 200 basis points, is not within our ALCO policy guidelines at September 30, 2006. The ALCO is monitoring Town Banks asset/liability structure and considering courses of action designed to bring Town Bank into compliance. At June 30, 2006, the percent of risk for Town Bank, given an upward or downward movement of 200 basis points, was 9.06% and (7.49)%, respectively.

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To measure the impacts of longer-term asset and liability mismatches beyond two years, the Company utilizes Modified Duration of Equity and Economic Value of Portfolio Equity (EVPE) models. The modified duration of equity measures the potential price risk of equity to changes in interest rates. A longer modified duration of equity indicates a greater degree of risk to rising interest rates. Because of balance sheet optionality, an EVPE analysis is also used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. The economic value of equity is likely to be different as interest rates change. Results falling outside prescribed ranges require action by management. At September 30, 2006, Two River's and Town Bank's variance in the economic value of equity as a percentage of equity with an instantaneous and sustained parallel shift of 200 basis points is within the regulatory guideline (maximum change of 30% for 200 basis point change), as shown in the tables below.

Market capitalization should not be equated to the EVPE, which only deals with the valuation of balance sheet cash flows using conservative assumptions. Calculated core deposit premiums may be less than what is available in an outright sale. The model does not consider potential premiums on floating rate loan sales, the impact of overhead expense, non-interest income, taxes, industry market price multiples and other factors reflected in the market capitalization of a company.

The following table sets forth certain information relating to Two River's and Town Bank's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing and the instruments fair value at September 30, 2006.

Market Risk Analysis

(dollars in thousands)

Change in Interest Rates	**Flat**	-200bp	+200bp
Two River			
Economic Value of Portfolio Equity	$ 24,259	$ 28,381	$ 18,824
Change	-	$ 4,122	$ (5,435)
Change as a Percentage of Equity	-	17.0%	(22.4)%
Town Bank			
Economic Value of Portfolio Equity	$ 42,465	$ 41,465	$ 42,990
Change	-	(1,000)	525
Change as a Percentage of Equity	-	(2.4)%	1.2%

At September 30, 2006, Community Partners, the parent company of the banks, had no assets or liabilities which would affect this analysis.

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Item 4. Controls and Procedures.

The Company□s Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Company□s management, have evaluated the effectiveness of the design and operation of the Company□s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based upon such evaluation, the Company□s Chief Executive Officer and Chief Financial Officer have concluded that the Company□s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

The Company□s Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Company□s internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company□s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income and cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, and the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings but will also affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

Economic conditions either nationally or locally in areas in which our operations are concentrated may adversely affect our business.

Deterioration in local, regional, national or global economic conditions could cause us to experience a reduction in deposits and new loans, an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, all of which could adversely affect our performance and financial condition. Unlike larger banks that are more geographically diversified, we provide banking and financial services locally. Therefore, we are particularly vulnerable to adverse local economic conditions.

Competition may decrease our growth or profits.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, leasing companies, insurance companies and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Our competitors may have greater resources, higher lending limits or larger branch systems than we do. Accordingly, they may be able to offer a broader range of products and services as well as better pricing for those products and services than we can.

In addition, some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on federally insured financial institutions. As a result, those non-bank competitors may be able to access funding and provide various services more easily or at less cost than we can, adversely affecting our ability to compete effectively.

We plan to continue to grow rapidly and there are risks associated with rapid growth.

We intend to continue to expand our business and operations to increase deposits and loans. Continued growth may present operating and other problems that could adversely affect our business, financial condition and results of operations. Our growth may place a strain on our administrative, operational, personnel and financial resources and increase demands on our systems and controls. Our ability to manage growth successfully will depend on our ability to attract qualified personnel and maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms, as well as on factors beyond our control, such as economic conditions and interest rate trends. If we grow too quickly and are not able to attract qualified personnel, control costs and maintain asset quality, this continued rapid growth could materially adversely affect our financial performance.

We rely on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our executive management team. In addition, we will continue to depend on our ability to retain and recruit key commercial loan officers. The unexpected loss of services of any key management personnel or commercial loan officers could have an adverse effect on our business and financial condition because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We may fail to achieve sufficient operational integration between the two banks to make their combination under a single holding company a financial success.

Our success will depend on, among other things, our ability to realize anticipated cost savings and to integrate the operations of Two River and Town Bank in a manner that does not materially disrupt the existing customer relationships of either bank or result in decreased revenues from any loss of customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

Two River and Town Bank have operated and, for a period after the completion of the acquisition, will continue to operate, independently. We will face significant challenges in consolidating Two River and Town Bank functions, integrating their organizations, procedures and operations in a timely and efficient manner and retaining key Two River and Town Bank personnel. The integration of Two River and Town Bank is likely to be costly, complex and time consuming, and our management will have to devote substantial resources and efforts to it.

The integration process could result in the disruption of each bank's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect their ability to maintain relationships with customers, suppliers, employees and others with whom they have business dealings or to achieve the anticipated benefits of the acquisition.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, commonly referred to as the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is subject to the same market forces that affect the price of common stock in any bank.

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance.

Despite our underwriting criteria, we may experience loan delinquencies and losses. In order to absorb losses associated with non-performing loans, we maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Determination of the allowance inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time there are likely to be loans in our portfolio that will result in losses but that have not been identified as non-performing or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become non-performing assets or that we will be able to limit losses on those loans that are identified.

We may be required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and may materially affect our results of operations in the period in which the allowance is increased.

We may be adversely affected by government regulation.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we could be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

Failure to implement new technologies in our operations may adversely affect our growth or profits.

The market for financial services, including banking services and consumer finance services, is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking and telebanking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able properly or timely to anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition or operating results.

Item 6. **Exhibits.**

3(i)		Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Registration Statement on Form S-4 filed on November 10, 2005)
3(ii)		By-laws of the Registrant (incorporated by reference to Exhibit 3(ii) to the Registrant's Registration Statement on Form S-4 filed on November 10, 2005)
10.1		Amendment No. 1 to Amended and Restated Severance Agreement between The Town Bank and Edwin Wojtaszek, dated as of September 20, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 25, 2006)
10.2		Amendment No. 1 to Amended and Restated Severance Agreement between The Town Bank and Robert W. Dowens, Sr., dated as of September 20, 2006 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 25, 2006)
31.1	*	Certification of Barry B. Davall, chief executive officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of Michael J. Gormley, chief financial officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
32	*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by Barry B. Davall, chief executive officer of the Company, and Michael J. Gormley, chief financial officer of the Company

* Filed herewith.

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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.

COMMUNITY PARTNERS BANCORP

Date: November 10, 2006

By: /s/ BARRY B. DAVALL
Barry B. Davall
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2006

By: /s/ MICHAEL J. GORMLEY
Michael J. Gormley
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)