

LAKELAND BANCORP INC  
Form 10-K  
March 16, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(MARK ONE)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009.**

**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: 000-17820

**LAKELAND BANCORP, INC.**

(Exact name of registrant as specified in its charter)

<b>New Jersey</b> (State or other jurisdiction of incorporation or organization)	<b>22-2953275</b> (I.R.S. Employer Identification No.)
<b>250 Oak Ridge Road, Oak Ridge, New Jersey</b> (Address of principal executive offices)	<b>07438</b> (Zip code)
<b>Registrant's telephone number, including area code: (973) 697-2000</b>	

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, no par value**

Title of each Class

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  Not Applicable

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$183,000,000, based on the closing sale price as reported on the NASDAQ Global Select Market.

The number of shares outstanding of the registrant's common stock, as of February 1, 2010, was 23,908,714.

### DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc.'s Proxy Statement for its 2010 Annual Meeting of Shareholders (Part III).

**Table of Contents**

**LAKELAND BANCORP, INC.**

**Form 10-K Index**

**PART I**

	<b>PAGE</b>
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	18
Item 2. <u>Properties</u>	18
Item 3. <u>Legal Proceedings</u>	18
Item 3A. <u>Executive Officers of the Registrant</u>	19
Item 4. <u>Reserved</u>	19

**PART II**

Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
Item 6. <u>Selected Financial Data</u>	22
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 8. <u>Financial Statements and Supplementary Data</u>	46
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	86
Item 9A. <u>Controls and Procedures</u>	86
Item 9B. <u>Other Information</u>	89

**PART III**

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	90
Item 11. <u>Executive Compensation</u>	90
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	90
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	90
Item 14. <u>Principal Accountant Fees and Services</u>	90

**PART IV**

Item 15. <u>Exhibits and Financial Statement Schedules</u>	91
<u>Signatures</u>	S-1

---

**Table of Contents**

**PART I**

**ITEM 1 Business**

**GENERAL**

Lakeland Bancorp, Inc. (the Company) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland or the Bank). Through Lakeland, the Company operates 48 banking offices, located in Morris, Passaic, Sussex, Warren, Essex and Bergen counties in New Jersey. Lakeland offers a full range of lending services, including commercial loans and leases, real estate and consumer loans to small and medium-sized businesses, professionals and individuals located in its markets.

Over the last decade, the Company has shown substantial growth through a combination of organic growth and acquisitions. Since 1998, Lakeland has opened eighteen new branch offices and the Company has also acquired four community banks with an aggregate asset total of approximately \$780 million. All of the acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company.

At December 31, 2009, the Company had total consolidated assets of \$2.7 billion, total consolidated deposits of \$2.2 billion, total consolidated loans, net of the allowance for loan and lease losses, of \$2.0 billion and total consolidated stockholders' equity of \$268.0 million.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Forward-Looking Statements). Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such Forward-Looking Statements. Certain factors which could materially affect such results and the future performance of the Company are described in Item 1A Risk Factors of this Annual Report on Form 10-K.

**Commercial Bank Services**

Through Lakeland, the Company offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located primarily in northern New Jersey. In the lending area, these services include short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans, mortgage loans and merchant credit card services. In addition to commercial real estate loans, Lakeland makes commercial and industrial loans, which are not always secured by real estate. These types of loans can diversify the Company's exposure in a depressed real estate market.

Lakeland's equipment leasing division provides a solution to small and medium sized companies who prefer to lease equipment over other financial alternatives. During the past year, the Company's strategy has been to significantly reduce its exposure in the leasing area by reducing the size of its lease portfolio. Leasing loans represented 6% of total loans at December 31, 2009, compared to 15% of total loans at December 31, 2008. Lakeland's asset-based loan department provides commercial borrowers with another lending alternative.

Depository products include demand deposits, as well as savings, money market and time accounts. The Company also offers wire transfer, internet banking and night depository services to the business community. In addition, Lakeland offers cash management services, such as remote capture of deposits and overnight sweep repurchase agreements.

**Consumer Banking**

Lakeland also offers a broad range of consumer banking services, including checking accounts, savings accounts, NOW accounts, money market accounts, certificates of deposit, internet banking, secured and unsecured loans, consumer installment loans, mortgage loans, and safe deposit services.

## **Table of Contents**

### **Other Services**

Investment and advisory services for individuals and businesses are also available.

### **Competition**

Lakeland faces considerable competition in its market areas for deposits and loans from other depository institutions. Many of Lakeland's depository institution competitors have substantially greater resources, broader geographic markets, and higher lending limits than Lakeland and are also able to provide more services and make greater use of media advertising. In recent years, intense market demands, economic pressures, increased customer awareness of products and services, and the availability of electronic services have forced banking institutions to diversify their services and become more cost-effective.

Lakeland also competes with credit unions, brokerage firms, insurance companies, money market mutual funds, consumer finance companies, mortgage companies and other financial companies, some of which are not subject to the same degree of regulation and restrictions as Lakeland in attracting deposits and making loans. Interest rates on deposit accounts, convenience of facilities, products and services, and marketing are all significant factors in the competition for deposits. Competition for loans comes from other commercial banks (including de novo banks in Lakeland's market area), savings institutions, insurance companies, consumer finance companies, credit unions, mortgage banking firms and other institutional lenders. Lakeland primarily competes for loan originations through its structuring of loan transactions and the overall quality of service. Competition is affected by the availability of lendable funds, general and local economic conditions, interest rates, and other factors that are not readily predictable.

The Company expects that competition will continue in the future.

### **Concentration**

The Company is not dependent for deposits or exposed by loan concentrations to a single customer or a small group of customers the loss of any one or more of which would have a material adverse effect upon the financial condition of the Company.

### **Employees**

At December 31, 2009, the Company had 533 full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

## **SUPERVISION AND REGULATION**

### **General**

The Company is a registered bank holding company under the federal Bank Holding Company Act of 1956, as amended (the Holding Company Act), and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Holding Company Act. The Company is subject to examination by the Federal Reserve Board.

Lakeland is a state chartered banking association subject to supervision and examination by the Department of Banking and Insurance of the State of New Jersey (the Department) and the Federal Deposit Insurance Corporation (the FDIC). The regulations of the State of New Jersey and FDIC govern most aspects of Lakeland's business, including reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends, and location of branch offices. Lakeland is subject to certain restrictions imposed by law

## **Table of Contents**

on, among other things, (i) the maximum amount of obligations of any one person or entity which may be outstanding at any one time, (ii) investments in stock or other securities of the Company or any subsidiary of the Company, and (iii) the taking of such stock or securities as collateral for loans to any borrower.

### **The Holding Company Act**

The Holding Company Act limits the activities which may be engaged in by the Company and its subsidiaries to those of banking, the ownership and acquisition of assets and securities of banking organizations, and the management of banking organizations, and to certain non-banking activities which the Federal Reserve Board finds, by order or regulation, to be so closely related to banking or managing or controlling a bank as to be a proper incident thereto. The Federal Reserve Board is empowered to differentiate between activities by a bank holding company or a subsidiary thereof and activities commenced by acquisition of a going concern.

With respect to non-banking activities, the Federal Reserve Board has by regulation determined that several non-banking activities are closely related to banking within the meaning of the Holding Company Act and thus may be performed by bank holding companies. Although the Company's management periodically reviews other avenues of business opportunities that are included in that regulation, the Company has no present plans to engage in any of these activities other than providing investment brokerage services.

With respect to the acquisition of banking organizations, the Company is required to obtain the prior approval of the Federal Reserve Board before it may, by merger, purchase or otherwise, directly or indirectly acquire all or substantially all of the assets of any bank or bank holding company, if, after such acquisition, it will own or control more than 5% of the voting shares of such bank or bank holding company.

### **Regulation of Bank Subsidiaries**

There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company's non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

### **Commitments to Affiliated Institutions**

The policy of the Federal Reserve Board provides that a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support such subsidiary banks in circumstances in which it might not do so absent such policy.

### **Interstate Banking**

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks in states other than their home state, regardless of applicable state law. This act also authorizes banks to merge across state lines, thereby creating interstate branches. Under the act, each state had the opportunity either to opt out of this provision, thereby prohibiting interstate branching in such state, or to opt in. A state may opt in with respect to de novo branching, thereby permitting a bank to open new branches in a state in which the bank does not already have a branch. Without de novo branching, an out-of-state bank can enter the state only by acquiring an existing bank. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo

## **Table of Contents**

branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law.

### **Gramm-Leach Bliley Act of 1999**

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the Modernization Act ) became effective in early 2000. The Modernization Act:

allows bank holding companies meeting management, capital, and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;

allows insurers and other financial services companies to acquire banks;

removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and

establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

The Modernization Act also modified other financial laws, including laws related to financial privacy and community reinvestment.

### **The USA PATRIOT Act**

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act ), was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act encourages information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

All financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

The Secretary of the Department of the Treasury, in conjunction with other bank regulators, was authorized to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.

Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are required to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed

to detect and report money laundering.



## **Table of Contents**

Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The United States Treasury Department has issued a number of implementing regulations which address various requirements of the USA PATRIOT Act and are applicable to financial institutions such as Lakeland. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

### **Sarbanes-Oxley Act of 2002**

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the "SOA") was signed into law. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act").

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

audit committees for all reporting companies;

certification of financial statements by the chief executive officer and the chief financial officer;

the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

a prohibition on insider trading during pension plan black out periods;

disclosure of off-balance sheet transactions;

a prohibition on personal loans to directors and officers (other than loans made by an insured depository institution (as defined in the Federal Deposit Insurance Act), if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act);

expedited filing requirements for Forms 4's;

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disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

real time filing of periodic reports;

the formation of a public accounting oversight board;

## **Table of Contents**

auditor independence; and

various increased criminal penalties for violations of the securities laws.

The SEC has enacted various rules to implement various provisions of the SOA with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

### **Regulation W**

Transactions between a bank and its affiliates are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank's holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of Lakeland. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates:

to an amount equal to 10% of the bank's capital and surplus, in the case of covered transactions with any one affiliate; and

to an amount equal to 20% of the bank's capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction includes:

a loan or extension of credit to an affiliate;

a purchase of, or an investment in, securities issued by an affiliate;

a purchase of assets from an affiliate, with some exceptions;

the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and

the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;

covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and

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with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by certain types of collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit. Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

## **Table of Contents**

### **Community Reinvestment Act**

Under the Community Reinvestment Act ( CRA ), as implemented by FDIC regulations, a state bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC, in connection with its examination of a state non-member bank, to assess the bank's record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the bank. Under the FDIC's CRA evaluation system, the FDIC focuses on three tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs and other offices.

### **Securities and Exchange Commission**

The common stock of the Company is registered with the SEC under the Exchange Act. As a result, the Company and its officers, directors, and major stockholders are obligated to file certain reports with the SEC. The Company is subject to proxy and tender offer rules promulgated pursuant to the Exchange Act. You may read and copy any document the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, such as the Company.

The Company maintains a website at <http://www.lakelandbank.com>. The Company makes available on its website the proxy statements and reports on Forms 8-K, 10-K and 10-Q that it files with the SEC as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Additionally, the Company has adopted and posted on its website a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. The Company intends to disclose any amendments to or waivers of the Code of Ethics on its website.

### **Effect of Government Monetary Policies**

The earnings of the Company are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve Board have had, and will likely continue to have, an important impact on the operating results of commercial banks through the Board's power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate of borrowings of banks and the reserve requirements against bank deposits. It is not possible to predict the nature and impact of future changes in monetary fiscal policies.

### **Dividend Restrictions**

The Company is a legal entity separate and distinct from Lakeland. Virtually all of the revenue of the Company available for payment of dividends on its capital stock will result from amounts paid to the Company by Lakeland. All such dividends are subject to various limitations imposed by federal and state laws and by regulations and policies adopted by federal and state regulatory agencies. Under state law, a bank may not pay dividends unless, following the dividend payment, the capital stock of the bank would be unimpaired and either

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**Table of Contents**

(a) the bank will have a surplus of not less than 50% of its capital stock, or, if not, (b) the payment of the dividend will not reduce the surplus of the bank.

On February 6, 2009, as part of the U.S. Department of the Treasury's (the "Treasury") Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement (the "Letter Agreement") and a Securities Purchase Agreement Standard Terms attached thereto (the "Securities Purchase Agreement") with the Treasury, pursuant to which (i) the Company issued and sold, and the Treasury purchased, 59,000 shares (the "Series A Preferred Shares") of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share for an aggregate purchase price of \$59,000,000 in cash, and (ii) the Company issued to the Treasury a ten-year warrant (the "Warrant") to purchase up to 949,571 shares of the Company's common stock at an exercise price of \$9.32 per share. The Securities Purchase Agreement contains limitations on the payment of dividends on the common stock. Specifically, the Company is unable to declare dividend payments on the common stock (and certain preferred stock if the Company issues additional series of preferred stock) if the Company is in arrears in the payment of dividends on the Series A Preferred Shares. Further, until the third anniversary of the investment or when all of the Series A Preferred Shares have been redeemed or transferred, the Company is not permitted to increase the amount of the quarterly cash dividend above \$0.10 per share, which was the amount of the last regular dividend declared by the Company prior to October 14, 2008.

If, in the opinion of the FDIC, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, after notice and hearing, that such bank cease and desist from such practice or, as a result of an unrelated practice, require the bank to limit dividends in the future. The Federal Reserve Board has similar authority with respect to bank holding companies. In addition, the Federal Reserve Board and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. Regulatory pressures to reclassify and charge off loans and to establish additional loan loss reserves can have the effect of reducing current operating earnings and thus impacting an institution's ability to pay dividends. Further, as described herein, the regulatory authorities have established guidelines with respect to the maintenance of appropriate levels of capital by a bank or bank holding company under their jurisdiction. Compliance with the standards set forth in these policy statements and guidelines could limit the amount of dividends which the Company and Lakeland may pay. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), banking institutions which are deemed to be "undercapitalized" will, in most instances, be prohibited from paying dividends. See "FDICIA".

**Capital Adequacy Guidelines**

The Federal Reserve Board has adopted Risk-Based Capital Guidelines. These guidelines establish minimum levels of capital and require capital adequacy to be measured in part upon the degree of risk associated with certain assets. Under these guidelines all banks and bank holding companies must have a core or Tier 1 capital to risk-weighted assets ratio of at least 4% and a total capital to risk-weighted assets ratio of at least 8%. At December 31, 2009, the Company's Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 12.65% and 13.90%, respectively.

In addition, the Federal Reserve Board and the FDIC have approved leverage ratio guidelines (Tier 1 capital to average quarterly assets, less goodwill) for bank holding companies such as the Company. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company's leverage ratio was 9.44% at December 31, 2009.

Under FDICIA, federal banking agencies have established certain additional minimum levels of capital which accord with guidelines established under that act. See "FDICIA".

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## **Table of Contents**

### **FDICIA**

Enacted in December 1991, FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and several other federal banking statutes. Among other things, FDICIA requires federal banking agencies to broaden the scope of regulatory corrective action taken with respect to banks that do not meet minimum capital requirements and to take such actions promptly in order to minimize losses to the FDIC. Under FDICIA, federal banking agencies were required to establish minimum levels of capital (including both a leverage limit and a risk-based capital requirement) and specify for each capital measure the levels at which depository institutions will be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage ratio of at least 4% (or in some cases 3%). Under the regulations, an institution will be deemed to be undercapitalized if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a Tier 1 leverage ratio of less than 4% (or in some cases 3%). An institution will be deemed to be significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3% and will be deemed to be critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating or is deemed to be in an unsafe or unsound condition or to be engaging in unsafe or unsound practices. As of December 31, 2009, the Company and Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework.

In addition, FDICIA requires banking regulators to promulgate standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

### **Temporary Liquidity Guarantee Program**

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (the TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, to strengthen confidence and encourage liquidity in the banking system. Under the original TLG Program the FDIC would guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 (the Debt Guarantee Program). The Debt Guarantee Program was extended for senior unsecured debt issued after April 1, 2009 and before October 31, 2009, and maturing on or after December 31, 2012. On October 20, 2009, the FDIC established a limited, six-month emergency guarantee facility upon expiration of the Debt Guarantee Program. Under this emergency guarantee facility, certain participating entities can apply to the FDIC for permission to issue FDIC-guaranteed debt during the period starting October 31, 2009 through April 30, 2010. As of December 31, 2009, the Company had no senior unsecured debt scheduled to mature on or before April 30, 2010, and is not participating in the Debt Guarantee Program.

The other provision of the TLG Program provided full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, NOW accounts paying less than 0.5% interest per annum and certain types of interest paying attorney trust accounts held at participating FDIC-insured institutions originally through December 31, 2009 (the Transaction Account Guarantee Program). The Transaction Account Guarantee Program has been extended to June 30, 2010. Entities that wish to continue their participation in the Transaction Account Guarantee Program during the extension need not take any additional action. After December 31, 2009, those institutions that have not opted out of the extension will be charged an annualized rate according to the institutions risk category. The assessments will be paid each quarter and will be based on amounts over \$250,000

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## **Table of Contents**

for the portion of the quarter that the institution is assigned to the risk category. Lakeland has elected to continue participation in the Transaction Account Guarantee Program.

### **Deposit Insurance and Premiums**

Substantially all of the deposits of Lakeland are insured up to applicable limits by the Deposit Insurance Fund ( DIF ) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating, known as a CAMEL rating . On December 16, 2008, the FDIC adopted a final rule increasing risk-based assessment rates uniformly by 7 basis points (7 cents for every \$100 of deposits), on an annual basis, for the first quarter of 2009. Subsequently on April 1, 2009, the FDIC issued rules which attempted to improve the methodology of the assessment system by differentiating risk among insured institutions.

On May 22, 2009, the Board of Directors of the FDIC adopted a final rule imposing a special assessment on the entire banking industry. The special assessment was calculated as five basis points times each insured depository institution's assets minus Tier I capital, as reported in the report of condition of June 30, 2009 and would not exceed ten times the institutions assessment base for the second quarter 2009 risk-based assessment. This special assessment, which totaled \$1.2 million, was collected on September 30, 2009. Including this special assessment, the Company paid a total of \$5.8 million in FDIC assessments in 2009.

On November 12, 2009, the FDIC adopted the final rule which required insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. On December 30, 2009, the Company remitted an FDIC prepayment in the amount of \$18.0 million. An institution's prepaid assessment was based on the total base assessment rate that the institution paid for the third quarter of 2009, adjusted quarterly by an estimated annual growth rate of 5% through the end of 2012, plus, for 2011 and 2012, an increase in the total base assessment rate on September 30, 2009 by an annualized three basis points. Any prepaid assessment in excess of the amounts that are subsequently determined to be actually due to the FDIC by June 30, 2013, will be returned to the institution at that time.

The enactment of the Emergency Economic Stabilization Act of 2008 ( EESA ) temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The temporary increase in deposit insurance coverage became effective on October 3, 2008. On May 20, 2009, the temporary increase to \$250,000 per depositor was extended through December 31, 2013. On January 1, 2014, deposit insurance coverage will return to \$100,000.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation ( FICO ) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of \$220,000 in 2009 and expects to pay a similar premium in 2010.

### **Legislation Implemented in Response to Recent Periods of Economic Turmoil**

In response to recent unprecedented market turmoil, EESA was enacted on October 3, 2008. Under EESA, the Treasury established the TARP Capital Purchase Program, pursuant to which the Treasury purchases preferred stock and warrants from financial institution. In February 2009, the Company received \$59,000,000 under the TARP Capital Purchase Program.

Participants in the TARP Capital Purchase Program were required to accept several compensation-related limitations associated with this Program. In February 2009, five executive officers of the Company (Messrs.



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**Table of Contents**

Shara, Hurley, Vandenberg, Buonforte and Luddecke) agreed in writing to accept the compensation standards in existence at that time under the Capital Purchase Program and thereby cap or eliminate some of their contractual or legal rights. The provisions agreed to were as follows:

*No golden parachute payments.* The term "golden parachute payment" under the TARP Capital Purchase Program (as distinguished from the definition under the Stimulus Bill referred to below) refers to a severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, that exceeds three times the terminated employee's average annual base salary over the five years prior to termination. The Company's senior executive officers have agreed to forego all golden parachute payments for as long as they remain senior executive officers (the CEO, the CFO and the next three highest-paid executive officers) of the Company and the Treasury continues to hold the equity securities that the Company issued to it under the TARP Capital Purchase Program (the period during which the Treasury holds those securities is referred to herein as the "CPP Covered Period").

*Clawback of Bonus and Incentive Compensation if Based on Certain Material Inaccuracies.* Our senior executive officers agreed to a clawback provision. Any bonus or incentive compensation paid to them during the CPP Covered Period is subject to recovery or clawback by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The senior executive officers acknowledged that each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to them was deemed amended to the extent necessary to give effect to such clawback and the restriction on golden parachute payments.

*No Compensation Arrangements That Encourage Excessive Risks.* The Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to the senior executive officers, they agreed to negotiate such changes promptly and in good faith.

During the CPP Covered Period, the Company is not permitted to take federal income tax deductions for compensation paid to the senior executive officers in excess of \$500,000 per year, subject to certain exceptions.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "Stimulus Bill") was enacted. The Stimulus Bill contains several provisions designed to establish executive compensation and governance standards for financial institutions (such as the Company) that received or will receive financial assistance under TARP. In certain instances, the Stimulus Bill modified the compensation-related limitations contained in the TARP Capital Purchase Program; in addition, the Stimulus Bill created additional compensation-related limitations and directed the Treasury to establish standards for executive compensation applicable to participants in the TARP. The compensation-related limitations applicable to the Company which have been added or modified by the Stimulus Bill are as follows, which provisions are expected to be included in standards established by the Treasury:

*No severance payments.* Under the Stimulus Bill, the term "golden parachutes" is defined to include any severance payment resulting from involuntary termination of employment, except for payments for services performed or benefits accrued. Under the Stimulus Bill, the Company is prohibited from making any severance payment to its senior executive officers (defined in the Stimulus Bill as the five highest paid senior executive officers) and the Company's next five most highly compensated employees during the period that the Series A Preferred Shares are outstanding.

*Recovery of Incentive Compensation if Based on Certain Material Inaccuracies.* The Stimulus Bill contains the clawback provision discussed above but extends its application to any bonus awards and other incentive compensation paid to any of the Company's senior executive officers and the next 20 most highly compensated employees during the period that the Series A Preferred Shares are outstanding that is

## **Table of Contents**

later found to have been based on materially inaccurate financial statements or other materially inaccurate measurements of performance.

*No Compensation Arrangements That Encourage Earnings Manipulation.* Under the Stimulus Bill, during the period that the Series A Preferred Shares are outstanding, the Company is prohibited from entering into compensation arrangements that encourage manipulation of the reported earnings of the Company to enhance the compensation of any of the Company's employees.

*Limit on Incentive Compensation.* The Stimulus Bill contains a provision that prohibits the payment or accrual of any bonus, retention award or incentive compensation to the Company's five most highly compensated employees while the Series A Preferred Shares are outstanding other than awards of long-term restricted stock that (i) do not fully vest while the Series A Preferred Shares are outstanding, (ii) have a value not greater than one-third of the total annual compensation of such employee and (iii) are subject to such other restrictions as will be determined by the Treasury. The prohibition on bonuses does not preclude payments required under written employment contracts entered into on or prior to February 11, 2009.

*Compensation Committee Functions.* The Stimulus Bill requires that the Company's Compensation Committee be comprised solely of independent directors and that it meet at least semiannually to discuss and evaluate the Company's employee compensation plans in light of an assessment of any risk posed to the Company from such compensation plans.

*Compliance Certifications.* The Stimulus Bill requires an annual written certification by the Company's chief executive officer and chief financial officer with respect to the Company's compliance with the provisions of the Stimulus Bill.

*Treasury Review of Excessive Bonuses Previously Paid.* The Stimulus Bill directs the Treasury to review all compensation paid to the Company's senior executive officers and its next 20 most highly compensated employees to determine whether any such payments were inconsistent with the purposes of the Stimulus Bill or were otherwise contrary to the public interest. If the Treasury makes such a finding, the Treasury is directed to negotiate with the Company and the applicable employee for appropriate reimbursements to the federal government with respect to the compensation and bonuses.

*Say on Pay.* Under the Stimulus Bill, the Company is required to have an advisory say on pay vote by the shareholders on executive compensation at the Company's shareholder meetings during the period that the Series A Preferred Shares are outstanding. This requirement applied to the Company's 2009 annual meeting of shareholders, and will apply to the 2010 annual meeting of shareholders.

## **Proposed Legislation**

From time to time proposals are made in the United States Congress, the New Jersey Legislature, and before various bank regulatory authorities, which would alter the powers of, and place restrictions on, different types of banking organizations. It is impossible to predict the impact, if any, of potential legislative trends on the business of the Company and its subsidiaries.

In accordance with federal law providing for deregulation of interest on all deposits, banks and thrift organizations are now unrestricted by law or regulation from paying interest at any rate on most time deposits. It is not clear whether deregulation and other pending changes in certain aspects of the banking industry will result in further increases in the cost of funds in relation to prevailing lending rates.

## **ITEM 1A Risk Factors.**

Our business, financial condition, operating results and cash flows can be affected by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

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**Table of Contents**

**If we are unsuccessful in continuing to reduce the risk in the Bank's lease portfolio, our earnings and profitability could be materially and adversely affected.**

The risk profile of Lakeland's lease portfolio is measurably greater than its core loan portfolios. We have undertaken a strategy, which we intend to continue to pursue, to accelerate the disposition of those leases that were generated by originators whose lease pools reflect enhanced risk or do not fit into our core banking strategic direction. From December 31, 2008 through December 31, 2009, our lease portfolio has been reduced from approximately \$311.5 million, which was 15% of total loans, to approximately \$120.5 million, or approximately 6% of total loans. During 2009, the Bank recorded a provision for loan and lease losses of \$51.6 million, which included a \$36.5 million provision for the lease portfolio (including the mark-to-market adjustment upon reclassification of certain leases to a held for sale status), reflecting, in part, this disposition strategy. Based on the still evident economic uncertainty, we cannot assure you that we will be able to dispose of the leases held for sale or any remaining leases that reflect enhanced risk or do not fit into our core banking strategic direction or that if we are able to dispose of such leases, such sales will not be at prices that represent a discount to the net receivable values of such leases. This could result in a loss in any particular period, and could otherwise materially and adversely affect our earnings and profitability.

**Recent negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.**

The general economic downturn continued throughout 2009 and is continuing into 2010. Loan portfolio performances have deteriorated at many institutions resulting from, among other factors, a weak economy and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to prior years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

**A decrease in our ability to borrow funds could adversely affect our liquidity.**

Our ability to obtain funding from the Federal Home Loan Bank or through our overnight federal funds lines with other banks could be negatively affected if we experienced a substantial deterioration in our financial condition or if such funding became restricted due to a further deterioration in the financial markets. While we have a contingency funds management plan to address such a situation if it were to occur (such plan includes deposit promotions, the sale of securities and the curtailment of loan growth, if necessary), a significant decrease in our ability to borrow funds could adversely affect our liquidity.

**We are subject to interest rate risk and variations in interest rates may negatively affect our financial performance.**

We are unable to predict actual fluctuations of market interest rates. Rate fluctuations are influenced by many factors, including:

inflation or recession;

a rise or fall in unemployment;

tightening or expansion of the money supply;

domestic and international disorder; and

instability in domestic and foreign financial markets.



## **Table of Contents**

Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the difference or spread between the interest we earn on loans, securities and other interest-earning assets, and the interest we pay on deposits, borrowings and other interest-bearing liabilities. Our net interest spreads are affected by the differences between the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Our interest-earning assets may not reprice as slowly or rapidly as our interest-bearing liabilities. Changes in market interest rates could materially and adversely affect our net interest spread, asset quality, levels of prepayments, cash flows, the market value of our securities portfolio, loan and deposit growth, costs and yields on loans and deposits and our overall profitability.

### **The Company may incur impairment to goodwill.**

We review our goodwill at least annually. Significant negative industry or economic trends, including the lack of recovery in the market place of our common stock price, reduced estimates of future cash flows or disruptions to our businesses, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in an impairment to our goodwill, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations and our stock price.

### **The extensive regulation and supervision to which we are subject impose substantial restrictions on our business.**

The Company, Lakeland and certain non-bank subsidiaries are subject to extensive regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole. Such laws are not designed to protect our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Lakeland is also subject to a number of laws which, among other things, govern its lending practices and require the Bank to establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The United States Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes, especially for the TARP Capital Purchase Program (in which the Company is a participant). Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

### **Because of our participation in the Treasury's Capital Purchase Program, we are subject to several restrictions, including restrictions on our ability to declare or pay dividends and repurchase our shares as well as restrictions on our executive compensation.**

On February 6, 2009, pursuant to the Letter Agreement and related Securities Purchase Agreement, we issued to the Treasury for an aggregate consideration of \$59,000,000 (i) 59,000 Series A Preferred Shares, with a liquidation preference of \$1,000 per share, and (ii) a Warrant to purchase 949,571 shares of our common stock. Pursuant to the terms of the Letter Agreement and the related Securities Purchase Agreement, our ability to declare or pay dividends on any of our shares is subject to restrictions. Specifically, we are unable to declare dividend payments on common, junior preferred or *pari passu* preferred shares if we are in arrears in the payment of dividends on the Series A Preferred Shares. Further, until the third anniversary of the investment or when all of the Series A Preferred Shares have been redeemed or transferred, we are not permitted to increase the

## **Table of Contents**

cash dividends on our common stock without the Treasury's approval. Additionally, our ability to repurchase our shares of outstanding common stock is restricted. The Treasury's consent generally is required for us to make any stock repurchase until the third anniversary of the investment by the Treasury unless all of the Series A Preferred Shares have been redeemed or transferred. Further, common, junior preferred or *pari passu* preferred shares may not be repurchased if we are in arrears in the payment of dividends on the Series A Preferred Shares.

Pursuant to the terms by which we participated in the Treasury's Capital Purchase Program and the terms of the Stimulus Bill, we and several of our senior employees are subject to substantial limitations on executive compensation and are subject to new corporate governance standards. Such requirements may adversely affect our ability to attract and retain senior officers and employees who are critical to the operation of our business.

The documents that we executed with the Treasury when the Treasury purchased our Series A Preferred Shares allow the Treasury to unilaterally change the terms of the Series A Preferred Shares or impose additional requirements on the Company if there is a change in law. These changes or additional requirements could restrict our ability to conduct business, could subject us to additional cost and expense or could change the terms of the Series A Preferred Shares to the detriment of our common shareholders. While it may be possible for us to redeem the Series A Preferred Shares in the event that the Treasury imposes any changes or additional requirements that we believe are detrimental, there can be no assurances that our federal regulator will approve such redemption or that we will have the ability to implement such redemption.

### **Our issuance of securities to the Treasury imposes certain restrictions on us that may have a negative impact on the price of our common stock.**

In connection with our sale of Series A Preferred Shares to the Treasury, we also issued to the Treasury a Warrant to purchase 949,571 shares of our common stock. The terms of the transaction with the Treasury will result in limitations on our ability to repurchase our shares and to pay dividends, as described above. Until February 6, 2012, or until the Treasury no longer holds any Series A Preferred Shares, we will not be able to increase the amount of our quarterly cash dividend above \$0.10, the amount of our last regular dividend declared by the Company prior to October 14, 2008, nor repurchase any of our shares without the Treasury's approval, with limited exception, most significantly purchases in connection with benefit plans. In addition, we will not be able to pay any dividends at all on our common stock unless we are current on our dividend payments on the Series A Preferred Shares. These restrictions, as well as the dilutive effect of the Warrant, may have a negative effect on the market price of our common stock.

### **Current levels of volatility in the capital markets are unprecedented and may adversely impact our operations and results.**

The capital markets have been experiencing unprecedented volatility for more than two years. Such negative developments and disruptions have resulted in uncertainty in the financial markets and a general economic downturn which is continuing in 2010. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to prior years. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition and results of operations or our ability to access capital.

### **Lakeland's ability to pay dividends is subject to regulatory limitations which, to the extent that our holding company requires such dividends in the future, may affect our holding company's ability to pay its obligations and pay dividends to shareholders.**

As a bank holding company, the Company is a separate legal entity from Lakeland and its subsidiaries, and we do not have significant operations of our own. We currently depend on Lakeland's cash and liquidity to pay

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## **Table of Contents**

our operating expenses and dividends to shareholders. The availability of dividends from Lakeland is limited by various statutes and regulations. The inability of the Company to receive dividends from Lakeland could adversely affect our financial condition, results of operations, cash flows and prospects and the Company's ability to pay dividends.

### **Our allowance for loan and lease losses may not be adequate to cover actual losses.**

Like all commercial banks, Lakeland maintains an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. If our allowance for loan and lease losses is not adequate to cover actual loan and lease losses, we may be required to significantly increase future provisions for loan and lease losses, which could materially and adversely affect our operating results. In 2009, we recorded a provision for loan and lease losses of \$51.6 million, compared to \$23.7 million in 2008. The 2009 loan loss provision included an allocation of \$36.5 million for the leasing division and \$11.2 million for commercial loans. See "Risk Management" for more information. If we are unsuccessful in continuing to reduce the risk in the Bank's lease portfolio, our earnings and profitability could be materially and adversely affected. Our allowance for loan and lease losses is determined by analyzing historical loan and lease losses, current trends in delinquencies and charge-offs, plans for problem loan and lease resolution, the opinions of our regulators, changes in the size and composition of the loan and lease portfolio and industry information. We also consider the possible effects of economic events, which are difficult to predict. The amount of future losses is affected by changes in economic, operating and other conditions, including changes in interest rates, many of which are beyond our control. These losses may exceed our current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and the allowance for loan and lease losses. While we believe that our allowance for loan and lease losses in relation to our current loan portfolio is adequate to cover current losses, we cannot assure you that we will not need to increase our allowance for loan and lease losses or that regulators will not require us to increase this allowance. Future increases in our allowance for loan and lease losses could materially and adversely affect our earnings and profitability.

### **We are subject to various lending and other economic risks that could adversely affect our results of operations and financial condition.**

Economic, political and market conditions, trends in industry and finance, legislative and regulatory changes, changes in governmental monetary and fiscal policies and inflation affect our business. These factors are beyond our control. A further deterioration in economic conditions, particularly in New Jersey, could have the following consequences, any of which could materially adversely affect our business:

loan and lease delinquencies may increase;

problem assets and foreclosures may increase;

demand for our products and services may decrease; and

collateral for loans made by us may decline in value, in turn reducing the borrowing ability of our customers.

Further deterioration in the real estate market, particularly in New Jersey, could adversely affect our business. As real estate values in New Jersey decline, our ability to recover on defaulted loans by selling the underlying real estate is reduced, which increases the possibility that we may suffer losses on defaulted loans.

### **We may suffer losses in our loan portfolio despite our underwriting practices.**

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans that we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan and lease losses.

## **Table of Contents**

### **We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to the services that we provide.**

Many competitors offer the types of loans and banking services that we offer. These competitors include other state and national banks, savings associations, regional banks and other community banks. We also face competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. Many of our competitors have greater financial resources than we do, which may enable them to offer a broader range of services and products, and to advertise more extensively, than we do. Our inability to compete effectively would adversely affect our business.

### **Declines in value may adversely impact our investment portfolio.**

As of December 31, 2009, we had approximately \$375.5 million and \$81.8 million in available for sale and held to maturity investment securities, respectively. In addition, we recorded \$940,000 in other-than-temporary impairment charges in our equity security portfolio in 2009. We may be required to record further impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of Lakeland to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios.

### **Concern of customers over deposit insurance may cause a decrease in deposits.**

With recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. Decreases in deposits may adversely affect our funding costs and net income.

### **Further increases in FDIC premiums could have a material adverse effect on our future earnings.**

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. In light of current economic conditions, the FDIC has increased its assessment rates and imposed special assessments. See Business- Supervision and Regulation-Deposit Insurance and Premiums. The FDIC may further increase these rates and impose additional special assessments in the future, which could have a material adverse effect on our future earnings.

### **If we do not successfully integrate any banks that we may acquire in the future, the combined company may be adversely affected.**

If we make acquisitions in the future, we will need to integrate the acquired entities into our existing business and systems. We may experience difficulties in accomplishing this integration or in effectively managing the combined company after any future acquisition. Any actual cost savings or revenue enhancements that we may anticipate from a future acquisition will depend on future expense levels and operating results, the timing of certain events and general industry, regulatory and business conditions. Many of these events will be beyond our control, and we cannot assure you that if we make any acquisitions in the future, we will be successful in integrating those businesses into our own.



**Table of Contents**

**ITEM 1B Unresolved Staff Comments**

Not Applicable.

**ITEM 2 Properties**

The Company's principal office is located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438. It also maintains an operations center in Branchville, New Jersey.

The Company operates 48 banking locations in Passaic, Morris, Sussex, Bergen, Essex and Warren Counties, New Jersey. The following chart provides information about the Company's leased banking locations:

<b>Location</b>	<b>Lease Expiration Date</b>
Bristol Glen	October 31, 2010
Caldwell	September 30, 2024
Carlstadt	July 15, 2016
Cedar Crest	August 19, 2011
Hackensack	March 31, 2013
Hampton	September 30, 2019
Little Falls	November 30, 2010
Madison Avenue	May 7, 2012
North Haledon	June 30, 2017
Park Ridge	December 31, 2014
Pompton Plains	March 31, 2015
Ringwood	February 28, 2013
Rochelle Park	January 12, 2019
Sussex/Wantage	June 19, 2012
Vernon	September 30, 2011
Wantage	October 31, 2011
Wayne	June 30, 2028
Wharton	June 30, 2010
Woodland Commons	August 31, 2016
West Caldwell	March 31, 2029

All other offices of the Company and Lakeland are owned and are unencumbered.

**ITEM 3 Legal Proceedings**

A complaint, dated February 24, 2010, was filed by the International Association of Machinists and Aerospace Workers, as plaintiff, against the Company and other unrelated parties in the Circuit Court of Maryland for Prince George's County. The plaintiff alleges fraudulent conduct in connection with certain equipment leases it entered into by a vendor and lease broker not affiliated with the Company. Certain of these leases were subsequently assigned to Lakeland resulting in the Plaintiff amending their Complaint to include all parties who were assignees. The Company believes that the claims asserted against it are without merit.

Other than as described above, there are no pending legal proceedings involving the Company or Lakeland other than those arising in the normal course of business. Management does not anticipate that the potential liability, if any, arising out of such legal proceedings will have a material effect on the financial condition or results of operations of the Company and Lakeland on a consolidated basis.

**Table of Contents****ITEM 3A Executive Officers of the Registrant**

The following table sets forth the name and age of each executive officer of the Company. Each officer is appointed by the Company's Board of Directors. Unless otherwise indicated, the persons named below have held the position indicated for more than the past five years.

Name and Age	Officer of The Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Thomas J. Shara Age 52	2008	President and CEO, Lakeland Bancorp, Inc. and Lakeland Bank (April 2, 2008 Present); President and Chief Credit Officer (May 2007 - April 1, 2008) and Executive Vice President and Senior Commercial Banking Officer (February 2006 - May 2007), TD Banknorth, N.A.'s Mid-Atlantic Division; Executive Vice President and Senior Loan Officer, Hudson United Bancorp and Hudson United Bank (prior years to February 2006)
Robert A. Vandenberg Age 58	1999	Senior Executive Vice President and Chief Operating Officer of the Company (October 2008 Present); Senior Executive Vice President and Chief Lending Officer of the Company (December 2006 October 2008); Executive Vice President and Chief Lending Officer of the Company (October 1999 December 2006)
Joseph F. Hurley Age 59	1999	Executive Vice President and Chief Financial Officer of the Company (November 1999 Present)
Jeffrey J. Buonforte Age 58	1999	Executive Vice President and Senior Government Banking/Business Services Officer of the Company (June 2009- Present); Executive Vice President and Chief Retail Officer of the Company (November 1999 June 2009)
Louis E. Luddecke Age 63	1999	Executive Vice President and Chief Operations Officer of the Company (October 1999 Present)
David S. Yanagisawa Age 58	2008	Executive Vice President and Chief Lending Officer of the Company (November 2008 Present); Senior Vice President, TD Bank, NA (February 2006 - November 2008); Hudson United Bank, Senior Vice President (1997-February 2006)
James R. Noonan Age 58	2003	Executive Vice President and Chief Credit Officer of the Company (December 2003 Present); Senior Vice President and Chief Credit Officer of the Company (March 2003 December 2003)
Timothy J. Matteson, Esq. Age 40	2008	Senior Vice President and General Counsel of the Company (September 2008 - Present); Assistant General Counsel, Israel Discount Bank (November 2007-September 2008); Senior Attorney and Senior Vice President, TD Banknorth, N.A. (February 2006 - May 2007); General Counsel and Senior Vice President, Hudson United Bancorp and Hudson United Bank (January 2005 - February 2006); Commercial Asset Recovery Counsel and Senior Vice President, Hudson United Bank (May 2001- December 2004)
Ronald E. Schwarz Age 55	2009	Executive Vice President and Chief Retail Officer of the Company (June 2009 - Present); Executive Vice President and Market Executive of Sovereign Bank (June 2006 - June 2009); Senior Vice President and Director of Retail Banking of Independence Community Bank (June 1999 - June 2006)

**ITEM 4 RESERVED**



**Table of Contents****PART II****ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Shares of the common stock of Lakeland Bancorp, Inc. have been traded under the symbol "LBAI" on the NASDAQ Global Select Market (or the Nasdaq National Market) since February 22, 2000 and in the over the counter market prior to that date. As of December 31, 2009, there were 3,582 shareholders of record of the common stock. The following table sets forth the range of the high and low daily closing prices of the common stock as provided by Nasdaq and dividends declared for the periods presented.

	<b>High</b>	<b>Low</b>	<b>Dividends Declared</b>
Year ended December 31, 2009			
First Quarter	\$ 11.46	\$ 5.47	\$ 0.10
Second Quarter	11.70	7.98	0.10
Third Quarter	10.05	7.50	0.05
Fourth Quarter	7.27	5.55	0.05

	<b>High</b>	<b>Low</b>	<b>Dividends Declared</b>
Year ended December 31, 2008			
First Quarter	\$ 13.69	\$ 10.30	\$ 0.10
Second Quarter	16.25	11.26	0.10
Third Quarter	14.00	9.87	0.10
Fourth Quarter	12.41	7.01	0.10

Dividends on the Company's common stock are within the discretion of the Board of Directors of the Company and are dependent upon various factors, including the future earnings and financial condition of the Company and Lakeland and bank regulatory policies. The Company's ability to pay cash dividends is also limited as a result of its participation in the U.S. Department of the Treasury's TARP Capital Purchase Program. See Item 1 Business Supervision and Regulation Dividend Restrictions.

The Bank Holding Company Act of 1956 restricts the amount of dividends the Company can pay. Accordingly, dividends should generally only be paid out of current earnings, as defined.

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of the bank will be unimpaired and the bank will have a surplus of not less than 50% of its capital stock, or, if not, the payment of such dividend will not reduce the surplus of the bank. Under this limitation, approximately \$234.7 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2009.

Capital guidelines and other regulatory requirements may further limit the Company's and Lakeland's ability to pay dividends. See Item 1 Business Supervision and Regulation Dividend Restrictions.

**Table of Contents**

**Performance Graph**

The following chart compares the Company's cumulative total shareholder return (on a dividend reinvested basis) over the past five years with the NASDAQ Market Index and the Peer Group Index. The Peer Group Index is the Hemscott Group Index, which consists of 197 Regional Northeast Banks.

COMPANY/INDEX/MARKET	FISCAL YEAR ENDING					
	12/31/2004	12/31/2005	12/30/2006	12/29/2007	12/31/2008	12/31/2009
Lakeland Bancorp	100.00	90.21	98.66	82.48	82.74	48.78
NASDAQ Market Index	100.00	102.20	112.68	124.57	74.71	108.56
Regional Northeast Banks	100.00	101.23	115.82	108.79	76.93	73.68

**Table of Contents****ITEM 6 Selected Financial Data****SELECTED CONSOLIDATED FINANCIAL DATA**

(Not covered by Report of Independent Registered Public Accounting Firm)

	2009	2008	2007	2006	2005
	(in thousands except per share data)				
<b>Years Ended December 31</b>					
Interest income	\$ 133,822	\$ 143,937	\$ 136,378	\$ 119,808	\$ 103,839
Interest expense	40,443	55,358	64,650	53,104	33,632
Net interest income	93,379	88,579	71,728	66,704	70,207
Provision for loan and lease losses	51,615	23,730	5,976	1,726	1,555
Noninterest income excluding gains/losses on investment securities	15,952	17,558	16,858	17,175	15,128
Gains (losses) on sales of investment securities	3,845	53	1,769	(2,995)	(583)
Other than temporary impairment losses on equity securities	(940)				
Noninterest expenses	73,794	60,071	58,190	54,721	53,392
Income (loss) before income taxes (benefit)	(13,173)	22,389	26,189	24,437	29,805
Income tax provision (benefit)	(7,777)	7,224	8,201	7,460	9,584
Net income (loss)	(5,396)	15,165	17,988	16,977	20,221
Dividends on preferred stock and accretion	3,194				
Net income (loss) available to common shareholders	\$ (8,590)	\$ 15,165	\$ 17,988	\$ 16,977	\$ 20,221
<b>Per-Share Data(1)</b>					
Weighted average shares outstanding:					
Basic	23,673	23,465	23,187	23,141	23,637
Diluted	23,673	23,549	23,285	23,292	23,815
Earnings (loss) per share:					
Basic	\$ (0.36)	\$ 0.65	\$ 0.78	\$ 0.73	\$ 0.86
Diluted	\$ (0.36)	\$ 0.64	\$ 0.77	\$ 0.73	\$ 0.85
Cash dividend per common share	\$ 0.30	\$ 0.40	\$ 0.38	\$ 0.37	\$ 0.35
Book value per common share	\$ 8.88	\$ 9.33	\$ 9.09	\$ 8.61	\$ 8.24
<b>At December 31</b>					
Investment securities available for sale	\$ 375,530	\$ 282,174	\$ 273,247	\$ 280,509	\$ 515,903
Investment securities held to maturity	81,821	110,114	129,360	142,838	154,569
Loans and leases, net of deferred fees	2,017,035	2,034,831	1,886,535	1,591,644	1,312,767
Goodwill and other identifiable intangible assets	88,751	89,812	90,874	92,053	93,395
Total assets	2,723,968	2,642,625	2,513,771	2,263,573	2,206,033
Total deposits	2,157,187	2,056,133	1,987,405	1,860,627	1,798,160
Total core deposits	1,691,447	1,445,101	1,383,234	1,357,748	1,350,567
Long-term borrowings	223,222	288,222	249,077	148,413	101,764
Total stockholders' equity	267,986	220,941	211,599	199,500	191,781
<b>Performance ratios</b>					
Return on Average Assets(2)	NM	0.59%	0.76%	0.76%	0.94%
Return on Average Common Equity(2)	NM	6.99%	8.81%	8.85%	10.55%
Return on Average Equity	NM	6.99%	8.81%	8.85%	10.55%
Efficiency ratio(3)	62.11%	54.80%	63.18%	62.28%	59.76%
Net Interest Margin (tax equivalent basis)	3.74%	3.79%	3.41%	3.39%	3.73%
Loans to Deposits	93.50%	98.96%	94.92%	85.54%	73.01%
<b>Capital ratios</b>					
Tier 1 leverage ratio	9.44%	8.08%	8.11%	7.51%	7.49%
Common Equity to Asset ratio	7.78%	8.36%	8.42%	8.81%	8.69%

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Equity to Asset ratio	<b>9.84%</b>	8.36%	8.42%	8.81%	8.69%
Tier 1 risk-based capital ratio	<b>12.65%</b>	10.24%	10.08%	10.13%	11.51%
Total risk-based capital ratio	<b>13.90%</b>	11.52%	11.08%	10.96%	12.47%

- (1) Restated for 5% stock dividends in 2007, 2006 and 2005.
- (2) Ratios for 2009 are not meaningful (NM) and therefore not presented.
- (3) Represents non-interest expense, excluding other real estate expense, other repossessed asset expense, long term debt prepayment fee, and core deposit amortization, as a percentage of total revenue (calculated on a tax equivalent basis), excluding gains (losses) on sales of securities. Total revenue represents net interest income (calculated on a tax equivalent basis) plus non-interest income.

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**Table of Contents**

**ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section presents a review of Lakeland Bancorp, Inc.'s consolidated results of operations and financial condition. You should read this section in conjunction with the selected consolidated financial data that is presented on the preceding page as well as the accompanying consolidated financial statements and notes to financial statements. As used in the following discussion, the term "Company" refers to Lakeland Bancorp, Inc. and "Lakeland" refers to the Company's wholly owned banking subsidiary Lakeland Bank.

***Statements Regarding Forward-Looking Information***

The information disclosed in this document includes various forward-looking statements that are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to credit quality (including delinquency trends and the allowance for loan and lease losses), corporate objectives, and other financial and business matters. The words "anticipates," "projects," "intends," "estimates," "expects," "believes," "plans," "may," "will," "should," "could," and other similar expressions are intended to identify such forward-looking statements. Company cautions that these forward-looking statements are necessarily speculative and speak only as of the date made, and are subject to numerous assumptions, risks and uncertainties, all of which may change over time. Actual results could differ materially from such forward-looking statements.

In addition to the risk factors disclosed elsewhere in this document, the following factors, among others, could cause the Company's actual results to differ materially and adversely from such forward-looking statements: changes in the financial services industry and the U.S. and global capital markets, changes in economic conditions nationally, regionally and in the Company's markets, the nature and timing of actions of the Federal Reserve Board and other regulators, the nature and timing of legislation affecting the financial services industry, government intervention in the U.S. financial system, passage by the U.S. Congress of legislation which unilaterally amends the terms of the U.S. Department of the Treasury's preferred stock investment in the Company, changes in levels of market interest rates, pricing pressures on loan and deposit products, credit risks of the Company's lending and leasing activities, customers' acceptance of the Company's products and services and competition.

The above-listed risk factors are not necessarily exhaustive, particularly as to possible future events, and new risk factors may emerge from time to time. Certain events may occur that could cause the Company's actual results to be materially different than those described in the Company's periodic filings with the Securities and Exchange Commission. Any statements made by the Company that are not historical facts should be considered to be forward-looking statements. The Company is not obligated to update and does not undertake to update any of its forward-looking statements made herein.

***Significant Accounting Policies, Judgments and Estimates***

The accounting and reporting policies of the Company and Lakeland conform with accounting principles generally accepted in the United States of America ( "U.S. GAAP" ) and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland Investment Corp., and Lakeland NJ Investment Corp. All intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates implicit in these financial statements are as follows.

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the valuation of the Company's securities portfolio, the realizability of the



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**Table of Contents**

Company's deferred tax asset and the analysis of goodwill impairment. The evaluation of the adequacy of the allowance for loan and lease losses includes, among other factors, an analysis of historical loss rates, by category, applied to current loan and lease totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans and leases, which also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications.

The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans and leases that may become uncollectible based upon an evaluation of known and inherent risks in the loan and lease portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan and lease portfolio, overall portfolio quality, specific problem loans and leases, and current economic conditions which may affect the borrowers' ability to pay. The evaluation also details historical losses by loan and lease category, the resulting loss rates for which are projected at current loan and lease total amounts. Loss estimates for specified problem loans and leases are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

Lakeland accounts for impaired loans and leases in accordance with U.S. GAAP. Accordingly, impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

Fair values of financial instruments are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security. In the second and third quarters of 2009, Lakeland reclassified certain leases as held for sale and recorded them at their estimated fair value based on sale price indications from potential buyers and on prior lease sales adjusted for differences in collateral and other characteristics.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) 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. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

The Company accounts for income taxes under the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of

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**Table of Contents**

differences between assets and liabilities for financial statement and tax return purposes are allowance for loan and lease losses, core deposit intangible, deferred loan costs, deferred compensation, valuation reserves on leases held for sale and state net operating loss carryforwards.

The Company evaluates tax positions that may be uncertain using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Additional information regarding the Company's uncertain tax positions is set forth in Note 9 to the Notes to the audited Consolidated Financial Statements contained herein.

The Company tests goodwill for impairment annually or when circumstances indicate a potential for impairment at the reporting unit level. Impairment testing requires that the fair value of each reporting unit be compared to the carrying value of its net assets, including goodwill (the Step One test). The Company has determined that it has one reporting unit, Community Banking. The Company determined that the income approach and the market approach were most appropriate in determining if a Step Two Test for impairment was necessary.

The income approach uses a dividend discount analysis. This approach calculates cash flows to a potential acquirer based on the anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (such as legal and financial adviser fees, contract cancellations, severance and employment obligations, and other transaction costs). The analysis then calculates the present value of all excess cash flows generated by the company (above the minimum tangible capital ratio) plus the present value of a terminal sale value.

The Market approach is used to calculate the fair value of a company by calculating median price multiples in recent actual acquisitions of companies of similar size and then applying these multiples to the Company. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the selected transaction approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. Also included in the analysis was a premium to market approach which calculates the change of control price a market participant would pay for a company by adding a change of control premium to the trading value of a company. The analysis also considered a change of control premium to peer market price approach which substitutes trading values from a group of peer companies for the trading values of the parent company.

Based on this analysis, there was no indication that the Company's goodwill was impaired as of December 31, 2009, and a Step Two test was not required.

***Financial Overview***

The year ended December 31, 2009 represented a year of continued growth for the Company. As discussed in this management's discussion and analysis:

Total assets increased to \$2.72 billion, a 3% increase from 2008.

Total deposits increased by \$101.1 million, or 5%, from 2008 to 2009.

Core deposits increased \$246.3 million, or 17%, to \$1.69 billion at year end 2009 and represented 78% of total deposits at December 31, 2009 compared to 70% at December 31, 2008.

The leasing portfolio decreased from 15% of total loans at December 31, 2008 to 6% at December 31, 2009, as a result of a planned reduction to reduce risk in that area. Leases declined from \$311.5 million at December 31, 2008 to \$120.5 million at December 31, 2009.

**Table of Contents**

The Company sold leases that represented increased risk to the Company, including two pools of leases by originators that informed the Company that they could no longer fulfill all of their obligations under contractual recourse provisions.

On February 6, 2009, the Company received \$59.0 million in an investment by the U.S. Department of Treasury. The investment is part of the Treasury's Capital Purchase Program and is in the form of preferred stock and a warrant.

Total loans, excluding leases, increased 10% from 2008 to 2009.

Lakeland's net interest margin remained stable at 3.74%.

The net loss for 2009 was \$5.4 million compared to net income of \$15.2 million in 2008. Net losses available to common shareholders in 2009 was \$8.6 million or \$0.36 per share compared to net income of \$15.2 million or \$0.64 per diluted share in 2008.

In 2009, the Company recorded a provision for loan and lease losses of \$51.6 million compared to \$23.7 million in 2008. The higher loan and lease loss provision includes a \$36.5 million provision for the leasing division and an \$11.2 million provision for commercial loans.

In 2007, net income was \$18.0 million and \$0.77 per diluted share.

***Net interest income***

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. The Company's net interest income is determined by: (i) the volume of interest-earning assets that it holds and the yields that it earns on those assets, and (ii) the volume of interest-bearing liabilities that it has assumed and the rates that it pays on those liabilities. Net interest income increases when the Company can use noninterest-bearing deposits to fund or support interest-earning assets.

Net interest income for 2009 on a tax-equivalent basis was \$94.6 million, representing an increase of \$4.7 million, or 5%, from the \$89.9 million earned in 2008. The increase in net interest income primarily resulted from an 82 basis point decrease in the cost of interest-bearing liabilities.

Net interest income for 2008 on a tax-equivalent basis was \$89.9 million, representing an increase of \$16.5 million, or 23%, from the \$73.4 million earned in 2007. The increase in net interest income primarily resulted from an 80 basis point decrease in the cost of interest-bearing liabilities, a \$222.0 million increase in average interest-earning assets and a more favorable mix of earning assets.

**Table of Contents**

**Interest income and expense volume/rate analysis.** The following table shows the impact that changes in average balances of the Company's assets and liabilities and changes in average interest rates have had on the Company's net interest income over the past three years. This information is presented on a tax equivalent basis assuming a 35% tax rate. If a change in interest income or expense is attributable to a change in volume and a change in rate, the amount of the change is allocated proportionately.

**INTEREST INCOME AND EXPENSE VOLUME/RATE ANALYSIS**

(tax equivalent basis, in thousands)

	2009 vs. 2008			2008 vs. 2007		
	Increase (Decrease) Due to Change in:		Total Change	Increase (Decrease) Due to Change in:		Total Change
	Volume	Rate		Volume	Rate	
<b>Interest Income</b>						
Loans and leases	\$ 2,437	\$ (12,728)	\$ (10,291)	\$ 17,158	\$ (6,783)	\$ 10,375
Taxable investment securities	1,800	(1,162)	638	(698)	(258)	(956)
Tax-exempt investment securities	(49)	(183)	(232)	(890)	(88)	(978)
Federal funds sold	1,154	(1,465)	(311)	(304)	(920)	(1,224)
<b>Total interest income</b>	<b>5,342</b>	<b>(15,538)</b>	<b>(10,196)</b>	15,266	(8,049)	7,217
<b>Interest Expense</b>						
Savings deposits	(78)	(2,193)	(2,271)	(241)	(1,746)	(1,987)
Interest-bearing transaction accounts	2,288	(7,027)	(4,739)	1,801	(9,629)	(7,828)
Time deposits	1,152	(6,652)	(5,500)	1,095	(4,251)	(3,156)
Borrowings	(1,616)	(789)	(2,405)	5,391	(1,712)	3,679
<b>Total interest expense</b>	<b>1,746</b>	<b>(16,661)</b>	<b>(14,915)</b>	8,046	(17,338)	(9,292)
<b>NET INTEREST INCOME (TAX EQUIVALENT BASIS)</b>	<b>\$ 3,596</b>	<b>\$ 1,123</b>	<b>\$ 4,719</b>	\$ 7,220	\$ 9,289	\$ 16,509

**Table of Contents**

The following table reflects the components of the Company's net interest income, setting forth for the years presented, (1) average assets, liabilities and stockholders' equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) the Company's net interest spread (i.e., the average yield on interest-earning assets less the average cost of interest-bearing liabilities) and (5) the Company's net interest margin. Rates are computed on a tax equivalent basis assuming a 35% tax rate.

**CONSOLIDATED STATISTICS ON A TAX EQUIVALENT BASIS**

	2009			2008			2007		
	Average Balance	Interest Income/Expense	Average rates earned/paid	Average Balance	Interest Income/Expense	Average rates earned/paid	Average Balance	Interest Income/Expense	Average rates earned/paid
(dollars in thousands)									
<b>Assets</b>									
Interest-earning assets:									
Loans and leases(A)	\$ 2,007,881	\$ 117,123	5.83%	\$ 1,969,581	\$ 127,414	6.47%	\$ 1,708,467	\$ 117,039	6.85%
Taxable investment securities	413,740	14,351	3.47%	310,651	13,713	4.41%	326,376	14,669	4.49%
Tax-exempt securities	65,377	3,445	5.27%	66,266	3,677	5.55%	82,294	4,655	5.66%
Federal funds sold(B)	43,008	109	0.25%	25,832	420	1.63%	33,208	1,644	4.95%
Total interest-earning assets	2,530,006	135,028	5.34%	2,372,330	145,224	6.12%	2,150,345	138,007	6.42%
Noninterest earning assets:									
Allowance for loan and lease losses	(25,027)			(17,840)			(14,018)		
Other assets	232,196			224,129			224,608		
TOTAL ASSETS	\$ 2,737,175			\$ 2,578,619			\$ 2,360,935		
<b>Liabilities and Stockholders' Equity</b>									
Interest-bearing liabilities:									
Savings accounts	\$ 304,084	\$ 1,557	0.51%	\$ 310,565	\$ 3,828	1.23%	\$ 324,573	\$ 5,815	1.79%
Interest-bearing transaction accounts	914,695	9,319	1.02%	805,515	14,058	1.75%	749,093	21,886	2.92%
Time deposits	589,499	15,917	2.70%	561,069	21,417	3.82%	538,376	24,573	4.56%
Borrowings	329,862	13,650	4.14%	368,233	16,055	4.36%	229,095	12,376	5.40%
Total interest-bearing liabilities	2,138,140	40,443	1.89%	2,045,382	55,358	2.71%	1,841,137	64,650	3.51%
Noninterest-bearing liabilities:									
Demand deposits	315,193			300,950			300,156		
Other liabilities	16,515			15,356			15,515		
Stockholders' equity	267,327			216,931			204,127		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,737,175			\$ 2,578,619			\$ 2,360,935		
Net interest income/spread		94,585	3.45%		89,866	3.42%		73,357	2.91%
Tax equivalent basis adjustment		1,206			1,287			1,629	
NET INTEREST INCOME		\$ 93,379			\$ 88,579			\$ 71,728	
Net interest margin(C)			3.74%			3.79%			3.41%

(A) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.

(B) Includes interest-bearing cash accounts.

(C) Net interest income divided by interest-earning assets.

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Interest income on a tax equivalent basis decreased from \$145.2 million in 2008 to \$135.0 million in 2009, a decrease of \$10.2 million, or 7%. The decrease in interest income was due primarily to a 78 basis point decrease in the average yield earned on interest-earning assets. This decrease reflects the declining interest rate environment along with a lower percentage of earning assets being deployed in loans and leases, as the size of the lease portfolio continues to decrease. Loans and leases as a percent of interest-earning assets declined from 83% in 2008 to 79% in 2009. Investments, including securities and federal funds sold, increased from 17% of

**Table of Contents**

average interest-earning assets in 2008 to 21% in 2009. Loans typically earn higher yields than investment securities. Also impacting interest earned on earning assets in 2009 was interest lost on non-performing loans totaling \$1.9 million in 2009 compared to \$561,000 in 2008. The average yield on interest-earning assets declined by 7 basis points in 2009 as a result of interest lost on non-performing loans compared to 2 basis points in 2008.

Total interest income on a tax equivalent basis increased from \$138.0 million in 2007 to \$145.2 million in 2008, an increase of \$7.2 million due to a \$222.0 million increase in average interest-earning assets. Loans and leases as a percent of average interest-earning assets increased to 83% in 2008 compared to 79% in 2007. Investment securities and federal funds sold as a percent of average interest-earning assets decreased to 17% in 2008 from 21% in 2007.

Total interest expense decreased from \$55.4 million in 2008 to \$40.4 million in 2009, a decrease of \$14.9 million, or 27%. Average interest-bearing liabilities increased \$92.8 million, but the cost of those liabilities decreased from 2.71% in 2008 to 1.89% in 2009. The decrease in yield was due to the low rate environment and a change in deposit mix. Average interest-bearing deposits increased from \$1.68 billion in 2008 to \$1.81 billion in 2009, an increase of \$131.1 million, or 8%. Average borrowings decreased from \$368.2 million in 2008 to \$329.9 million in 2009, due to increased liquidity as a result of several factors, including increased deposits and the receipt of \$59.0 million in proceeds from the issuance of preferred stock to the U.S. Department of the Treasury in the first quarter of 2009.

Total interest expense decreased from \$64.7 million in 2007 to \$55.4 million in 2008, a decrease of \$9.3 million, or 14%. Average interest-bearing liabilities increased \$204.2 million, but the cost of those liabilities decreased from 3.51% in 2007 to 2.71% in 2008. The decrease in liability yields reflects a decrease in short term interest rates, as the Federal Reserve Bank lowered the federal funds target rate from 4.25% at year end 2007 to a range of 0% to 0.25% at the end of 2008. Lakeland lowered its deposit rates to reflect this lower interest rate environment.

***Net Interest Margin***

Net interest margin is calculated by dividing net interest income on a fully taxable equivalent basis by average interest-earning assets. The Company's net interest margin was 3.74%, 3.79% and 3.41% for 2009, 2008 and 2007, respectively. The decline in net interest margin from 2008 to 2009 was a result of the increase in non-performing loans in 2009 combined with the impact of the decline in interest rates on interest-earning assets. The net interest margins for 2009 and 2008 each would have been 3.81% had all of the non-accrual loans performed as agreed upon. The increase in the net interest margin from 2007 to 2008 reflects the decrease in short term interest rates and a shift in earning assets from the investment portfolio to the loan and lease portfolio.

***Provision for Loan and Lease Losses***

In determining the provision for loan and lease losses, management considers national and local economic conditions; trends in the portfolio including orientation to specific loan types or industries; experience, ability and depth of lending management in relation to the complexity of the portfolio; adequacy and adherence to policies, procedures and practices; levels and trends in delinquencies, impaired loans and leases and net charge-offs and the results of independent third party loan and lease review.

The provision for loan and lease losses increased to \$51.6 million in 2009 from \$23.7 million in 2008. This was primarily a result of management's evaluation of the adequacy of the allowance for loan and lease losses and the impact current economic conditions have had on our lease portfolio. In the second quarter of 2009, because of continued economic challenges, accelerated deterioration of collateral values due to the supply of transportation and construction vehicles exceeding demand and the resulting effect on delinquencies, the Company increased the reserve percentages on its leases to the highest risk level on its evaluation matrix. Due to continued overcapacity of the collateral impacting resale values, the Company continued to adjust the collateral value of the

**Table of Contents**

underlying assets, which had the effect of increasing charge-offs. The increase in the calculated reserves, the increase in charge-offs recorded in the second quarter and the Company's decision to sell pools of leases that represented an increased risk to the Company, contributed to the Company's provision for loan and lease losses in 2009 of \$51.6 million. Included in the provision for loan and lease losses was a \$11.2 million provision allocated to commercial loans as a result of an increase in non-performing loans.

During 2009, Lakeland charged off loans and leases of \$53.4 million, including \$22.1 million of mark-to-market adjustments, and recovered \$2.3 million in previously charged off loans and leases compared to \$14.0 million and \$605,000, respectively, during 2008. The charge-offs in 2009 included \$23.0 million in leases, exclusive of the mark-to-market adjustments of leases held for sale. The charge-offs included \$11.0 million for the two leasing originators that informed Lakeland that they could no longer perform under contractual recourse provisions. The charge-offs resulted from a continued deterioration in economic conditions and in the underlying collateral value of the leases. The ratio of net charge-offs to average loans and leases outstanding was 2.55% in 2009. The ratio of net-charge-offs to average loans outstanding excluding leases was 0.44% in 2009.

The provision for loan and lease losses at \$23.7 million in 2008 increased from \$6.0 million in 2007 due to management's evaluation of the loan and lease portfolio and reflected higher levels of nonperforming loans and leases and charge-offs in 2008 compared to 2007. The 2008 provision included \$17.8 million for the Company's leasing portfolio. Net charge-offs increased from \$4.7 million in 2007 to \$13.4 million in 2008, including \$11.1 million in net charge-offs of leases. Net charge-offs as a percent of average loans and leases outstanding increased from 0.28% in 2007 to 0.68% in 2008.

***Noninterest Income***

Noninterest income was \$18.9 million in 2009 compared to \$17.6 million earned in 2008. The increase in this category is primarily due to gains on sales of investment securities of \$3.8 million for 2009, compared to \$53,000 for 2008. Offsetting the impact on the gains on sales of securities were \$940,000 in other-than-temporary impairment losses taken on the Company's equity securities portfolio. Gains on investment securities was partially offset by a \$1.1 million loss on sales and dispositions of leasing related assets, as compared to a gain of \$978,000 in 2008. Commissions and fees increased \$287,000 or 8% to \$3.7 million in 2009, primarily due to increased loan fees and investment services income. Other income at \$537,000 increased \$226,000 from 2008 primarily due to gains on loans sold. Income on bank owned life insurance increased by \$189,000 to \$1.9 million and included \$485,000 in proceeds received on a life insurance policy. Noninterest income represented 17% of total revenue in 2009. (Total revenue is defined as net interest income plus noninterest income.)

Noninterest income decreased from \$18.6 million in 2007 to \$17.6 million in 2008, primarily as a result of a decrease in gains on the sale of investment securities from \$1.8 million in 2007 to \$53,000 in 2008. The decrease was partially offset by an increase in bank owned life insurance income of \$436,000, resulting from \$392,000 in proceeds received on a life insurance policy. Commissions and fees increased \$326,000, or 11%, to \$3.4 million in 2008, primarily due to increased investment commission income. Other income decreased \$608,000 to \$311,000 as a result of a sale of a branch in 2007 resulting in a \$319,000 gain. Noninterest income represented 17% of total revenue in 2008.

***Noninterest Expense***

Noninterest expense was \$73.8 million in 2009, compared to \$60.1 million in 2008, an increase of 23%. Included in this increase was a \$4.3 million increase in FDIC insurance expense from \$1.5 million in 2008 to \$5.8 million in 2009, as a result of increased assessments and a \$1.2 million special assessment. Also included in this non-interest expense in 2009 was a \$3.1 million fee on the prepayment of \$55.0 million in long term debt. Salary and benefit expense increased by \$2.2 million, or 7%, to \$34.5 million, due to increased staffing levels and normal salary increases. Net occupancy expense increased 9% to \$6.6 million, due primarily to the opening of two new branch offices in 2009. Stationery, supplies and postage decreased \$159,000, or 9%, to \$1.6 million, due to extra expense incurred at the end of 2008 for special mailings. Marketing expense increased to \$2.6



**Table of Contents**

million from \$2.3 million, as a result of additional advertising costs and branch openings. Collection expense and other real estate and repossessed asset expense increased in 2009 by \$980,000 to \$1.6 million and \$847,000 to \$1.0 million, respectively, due primarily to leasing related items. Other expenses increased by \$1.4 million, or 15%, to \$10.9 million, primarily due to consulting expenses, legal expenses and a \$704,000 pretax payout to the beneficiary of bank owned life insurance proceeds. Also impacting other expenses was an increase in appraisal expense and audit expense.

Noninterest expense increased \$1.9 million, or 3%, from \$58.2 million in 2007 to \$60.1 million in 2008. Total salaries and benefit expense decreased \$601,000, or 2%, from \$32.9 million in 2007 to \$32.3 million in 2008, resulting from decreased leasing commissions and elimination of executive bonuses, partially offset by increased staffing levels and normal salary and benefit increases. Stationery, supplies and postage expense increased \$137,000, or 8%, to \$1.8 million, resulting from expenses related to new branches and increased mailings to our customer base. Marketing expense increased from \$1.8 million in 2007 to \$2.3 million in 2008 as a result of deposit promotions, debit card promotions, customer satisfaction surveys and branch openings. FDIC insurance expense increased from \$220,000 in 2007 to \$1.5 million in 2008, resulting from an increase in the FDIC rates charged to banks. Collection expense and other real estate and repossessed asset expense increased by \$416,000 and \$145,000, respectively, due to leasing related items.

The efficiency ratio expresses the relationship between noninterest expense (excluding other real estate and other repossessed asset expense, long-term debt repayment fees and core deposit amortization) to total tax- equivalent revenue (excluding gains (losses) on sales of securities). In 2009, the Company's efficiency ratio on a tax equivalent basis increased to 62.1% from 54.8% in 2008. The efficiency ratio was 63.2% in 2007. The increase in the efficiency ratio from 2008 to 2009 primarily resulted from the increase in FDIC insurance expense and leasing related expenses.

***Income Taxes***

The Company's effective income tax rate was 59.0%, 32.2% and 31.3%, in the years ended December 31, 2009, 2008 and 2007, respectively. The Company's effective tax rate of 59.0% in 2009 is due to its net loss and the impact that tax advantaged income had on the tax benefit of the loss. The tax advantaged income includes tax exempt securities income and income on bank owned life insurance policies. The Company's effective tax rate increased from 2007 to 2008 because interest on its tax-exempt securities decreased from \$3.0 million in 2007 to \$2.4 million in 2008.

***Financial Condition***

Total assets increased from \$2.64 billion on December 31, 2008 to \$2.72 billion on December 31, 2009, an increase of \$81.3 million, or 3%. Total assets at year-end 2008 increased \$128.9 million or 5% from year-end 2007.

***Loans and Leases***

Lakeland primarily serves Northern New Jersey and the surrounding areas. Its leasing division serves a broader market with a focus on the Northeast. All of its borrowers are U.S. residents or entities.

Gross loans and leases, including leases held for sale, decreased from \$2.03 billion on December 31, 2008 to \$2.01 billion on December 31, 2009, a decrease of \$16.5 million or 1%. The decrease in gross loans and leases is due to leases decreasing \$191.0 million, or 61%, from \$311.5 million at December 31, 2008 to \$120.5 million (including \$7.3 million held for sale) on December 31, 2009, consistent with the Company's strategy to reduce risk in the lease portfolio. For more information, see the discussion under Risk Elements and Note 3 to the Consolidated Financial Statements. Excluding leases, loans increased \$174.5 million, or 10%, from December 31, 2008 to December 31, 2009. Commercial loans increased from \$958.6 million in 2008 to \$1.09 billion in 2009, an increase of \$128.3 million, or 13%. The residential real estate mortgage portfolio increased

**Table of Contents**

\$37.1 million, or 11%, resulting from an increase in demand for fixed rate residential mortgages resulting from the first time homebuyers tax credit, and from refinancings due to the lower rate environment. Real estate construction loans, which include both residential and commercial construction loans, increased from \$107.9 million in 2008 to \$117.0 million in 2009, an increase of \$9.1 million, or 8%. Total loans increased from \$1.88 billion in 2007 to \$2.03 billion in 2008, an increase of \$149.5 million, or 8%. The increase occurred in all major loan categories except leasing.

The following table sets forth the classification of the Company's loans and leases by major category as of December 31 for each of the last five years:

	2009	2008	December 31, 2007 (in thousands)	2006	2005
Commercial	\$ 1,086,967	\$ 958,620	\$ 821,621	\$ 714,496	\$ 589,646
Leases	113,160	311,463	355,644	196,518	90,194
Leases held for sale	7,314				
Real estate mortgage	374,091	336,951	301,798	272,102	256,621
Real estate construction	116,997	107,928	91,706	87,562	68,325
Home equity and consumer installment	315,598	315,704	310,359	315,038	302,236
	<b>\$ 2,014,127</b>	<b>\$ 2,030,666</b>	<b>\$ 1,881,128</b>	<b>\$ 1,585,716</b>	<b>\$ 1,307,022</b>

The following table shows the percentage distributions of loans and leases by category as of December 31 for each of the last five years:

	2009	2008	December 31, 2007	2006	2005
Commercial	54.0%	47.2%	43.7%	45.0%	45.1%
Leases, including leases held for sale	6.0%	15.3%	18.9%	12.4%	6.9%
Real estate mortgage	18.5%	16.6%	16.0%	17.2%	19.7%
Real estate construction	5.8%	5.3%	4.9%	5.5%	5.2%
Home equity and consumer installment	15.7%	15.6%	16.5%	19.9%	23.1%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

At December 31, 2009, there were no concentrations of loans or leases exceeding 10% of total loans and leases outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

The following table sets forth certain categories of loans as of December 31, 2009, in terms of contractual maturity date:

	Within one year	After one but within five years	After five years	Total
(in thousands)				
Types of Loans:				
Commercial	\$ 157,882	\$ 246,559	\$ 682,526	\$ 1,086,967
Real Estate construction	48,477	28,518	40,002	116,997
Total	\$ 206,359	\$ 275,077	\$ 722,528	\$ 1,203,964

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Amount of such loans with:				
Predetermined rates	\$ 31,715	\$ 162,781	\$ 78,797	\$ 273,293
Floating or adjustable rates	174,644	112,296	643,731	930,671
Total	\$ 206,359	\$ 275,077	\$ 722,528	\$ 1,203,964

**Table of Contents****Risk Elements**

Commercial loans and leases are placed on a non-accrual status with all accrued interest and unpaid interest reversed if (a) because of the deterioration in the financial position of the borrower they are maintained on a cash basis (which means payments are applied when and as received rather than on a regularly scheduled basis), (b) payment in full of interest or principal is not expected, or (c) principal and interest have been in default for a period of 90 days or more unless the obligation is both well secured and in process of collection. Residential mortgage loans are placed on non-accrual status at the time when foreclosure proceedings are commenced, except where there exists sufficient collateral to cover the defaulted principal and interest payments, and management's knowledge of the specific circumstances warrant continued accrual. Consumer loans are generally charged off when principal and interest payments are four months in arrears unless the obligations are well secured and in the process of collection. Interest thereafter on such charged-off consumer loans is taken into income when received only after full recovery of principal.

The following schedule sets forth certain information regarding the Company's non-accrual and past due loans and leases and other real estate owned and other repossessed assets as of December 31, for each of the last five years:

	2009	2008	At December 31, 2007 (in thousands)	2006	2005
Non-performing assets:					
Non-accrual loans and leases	\$ 38,711	\$ 16,544	\$ 10,159	\$ 4,437	\$ 3,907
Other real estate and other repossessed assets	1,864	3,997	175		
<b>TOTAL NON-PERFORMING ASSETS</b>	<b>\$ 40,575</b>	<b>\$ 20,541</b>	<b>\$ 10,334</b>	<b>\$ 4,437</b>	<b>\$ 3,907</b>
Non-performing assets as a percent of total assets	1.49%	0.78%	0.41%	0.20%	0.18%
Past due loans and leases*	\$ 1,437	\$ 825	\$ 667	\$ 876	\$ 5,127
Loans restructured and still accruing	\$ 3,432	\$	\$	\$	\$

\* Represents loans and leases as to which payments of interest or principal are contractually past due 90 days or more, but which are currently accruing income at the contractually stated rates. A determination is made to continue accruing income on such loans and leases only if collection of the debt is proceeding in due course and collection efforts are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Non-accrual loans and leases increased to \$38.7 million on December 31, 2009 from \$16.5 million at December 31, 2008. Non-accrual loans include \$27.8 million, \$3.5 million, \$1.9 million and \$5.5 million in commercial, leasing, home equity and consumer, and residential mortgages, respectively. The change in non-accrual loans and leases from \$16.5 million on December 31, 2008 to \$38.7 million on December 31, 2009 included an increase in commercial loan non-accruals of \$22.0 million, which was partially offset by a decline in leasing non-accruals of \$5.0 million. The increase in commercial loan non-accruals resulted from a deterioration in the economy impacting commercial real estate loans. Commercial loan non-accruals included 10 loan relationships between \$500,000 and \$1.0 million totaling \$8.3 million, and 6 loan relationships exceeding \$1.0 million totaling \$12.0 million. The largest of the commercial loan non-accrual loans was \$3.2 million. The leasing non-accruals declined because of the sales of lease pools. All non-accrual loans and leases are in various stages of litigation, foreclosure, or workout.

Other real estate and other repossessed assets decreased from \$4.0 million on December 31, 2008 to \$1.9 million on December 31, 2009, which includes \$1.4 million of leasing repossessed assets sold.

## **Table of Contents**

At December 31, 2009, the Company had \$3.4 million in loans that were restructured and still accruing. Restructured loans are those loans that the Company has granted concessions to the borrower in payment terms either in rate or in term as a result of the financial condition of the borrower. The increase in restructured loans compared to prior years results from a deterioration in the economy impacting commercial real estate values and increases in the unemployment rate.

For 2009, the gross interest income that would have been recorded, had the loans and leases classified at year-end as non-accrual been performing in conformance with their original terms, is approximately \$2.0 million. The amount of interest income actually recorded on those loans and leases for 2009 was \$55,000. The resultant loss of \$1.9 million for 2009 exceeds prior year losses of \$561,000 for 2008 and \$566,000 for 2007.

Loans and leases specifically evaluated are deemed impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan or lease agreements. Loans and leases which are well secured and in process of collection generally will not be classified as impaired. A loan or lease is not impaired during the process of collection of payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate. All commercial loans in excess of \$250,000 identified as impaired are separately evaluated by management. The Company aggregates commercial loans less than \$250,000, consumer loans and residential mortgages for evaluation purposes.

The Company's policy concerning commercial non-accrual loans and leases states that, except for loans and leases which are considered to be fully collectible by virtue of collateral held and in the process of collection, loans and leases are placed on a non-accrual status when payments are 90 days delinquent or more. It is possible for a loan or lease to be on non-accrual status and not be classified as impaired if the balance of such loan or lease is relatively small and, therefore, has not been specifically reviewed for impairment.

Loans and leases, or portions thereof, are charged off in the period that the loss is identified. Until such time, an allowance for loan or lease loss is maintained for estimated losses. With regard to interest income recognition for payments received on impaired loans and leases, as well as all non-accrual loans and leases, the Company follows regulatory guidelines, which apply any payments to principal as long as there is doubt as to the collectibility of the balance.

As of December 31, 2009, based on the above criteria, the Company had impaired loans and leases totaling \$31.4 million (consisting primarily of non-accrual and restructured loans and leases). The valuation allowance of these loans and leases is based on the fair value of the underlying collateral. Based upon such evaluation, \$3.7 million has been allocated to the allowance for loan and lease losses for impairment. At December 31, 2009, the Company also had \$33.2 million in loans and leases that were rated substandard that were not classified as non-performing or impaired.

There were no additional loans or leases at December 31, 2009, other than those designated non-performing, impaired or substandard, where the Company was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans or leases being included as non-accrual, past due or renegotiated at a future date.

**Table of Contents**

The following table sets forth for each of the five years ended December 31, 2009, the historical relationships among the amount of loans and leases outstanding, the allowance for loan and lease losses, the provision for loan and lease losses, the amount of loans and leases charged off and the amount of loan and lease recoveries:

	2009	2008	December 31, 2007 (in thousands)	2006	2005
Balance of the allowance at the beginning of the year	\$ 25,053	\$ 14,689	\$ 13,454	\$ 13,173	\$ 16,638
Loans and leases charged off:					
Commercial	5,356	593	3,601	1,207	3,872
Leases	22,972	11,211	425	90	478
Charge downs of leases held for sale*	22,122				
Home equity and consumer	2,499	2,044	1,341	1,493	1,923
Real estate mortgage	433	123			
Total loans and leases charged off	53,382	13,971	5,367	2,790	6,273
Recoveries:					
Commercial	269	79	209	728	552
Leases	1,777	150	2	83	201
Home equity and consumer	231	376	415	531	499
Real estate mortgage				3	1
Total Recoveries	2,277	605	626	1,345	1,253
Net charge-offs:	51,105	13,366	4,741	1,445	5,020
Provision for loan and lease losses charged to operations	51,615	23,730	5,976	1,726	1,555
Ending balance	\$ 25,563	\$ 25,053	\$ 14,689	\$ 13,454	\$ 13,173
Ratio of net charge-offs to average loans and leases outstanding:					
Including charge down of leases held for sale	2.55%	0.68%	0.28%	0.10%	0.41%
Excluding charge down of leases held for sale	1.44%	0.68%	0.28%	0.10%	0.41%
Ratio of allowance at end of year as a percentage of year-end total loans and leases	1.27%	1.23%	0.78%	0.85%	1.00%

\* Amount recorded upon reclassification from held for investment to held for sale

The ratio of the allowance for loan and lease losses to loans outstanding reflects management's evaluation of the underlying credit risk inherent in the loan portfolio. The determination of the adequacy of the allowance for loan and lease losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management. The evaluation process is undertaken on a quarterly basis.

Methodology employed for assessing the adequacy of the allowance consists of the following criteria:

The establishment of reserve amounts for all specifically identified classified loans and leases that have been designated as requiring attention by the Company or the Company's external loan review consultants.

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The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including commercial loans under \$250,000, 1-4 family residential mortgages, and consumer loans.

The establishment of reserve amounts for the non-classified loans and leases in each portfolio based upon the historical average loss experience for these portfolios and management's evaluation of key factors.

## **Table of Contents**

Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of the Company's lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of the Company's loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect the Company from loss.

In the second and fourth quarters of 2008, the Company disclosed that it had two leasing originators that indicated that they could no longer meet all of their obligations under contractual recourse provisions. Lakeland assessed the adequacy of the allowance for its lease portfolio based on the borrower's payment history, financial strength of the borrower determined through financial information provided or credit scoring criteria, value of the underlying assets and in the case of recourse transactions, the financial strength of the originator (servicer). If the servicer is able to continue servicer advances for delinquent leases, Lakeland assesses a reserve on the lease based on credit scores and delinquency status. In the case of the two originators who could no longer perform under their contractual recourse obligations, once the lease became over 90 days past due, the lease was charged down to its net realizable value using a recognized valuation method to the extent available and placed on non-accrual. From that point forward, reserves were adjusted as necessary based on delinquency status and where the lease was in the collection process.

The collateral underlying the aforementioned lease pools was predominately transportation and construction use vehicles. Because of economic conditions, including fuel costs in 2008 and the general economic downturn further depressing these industries into 2009, leasing delinquencies and declines in collateral value resulted in increased charge-offs and provisions for lease losses into 2009. As a result, management made a decision in the second quarter of 2009 to reduce the risk in its portfolio by selling those two lease pools as well as other lease pools with characteristics that did not fit into the Company's core banking strategy.

In the second quarter of 2009, a \$34.1 million provision for loan and lease losses was recorded which included a \$28.4 million provision for lease losses. This provision was determined by management's evaluation of the identified risk in the lease portfolio as well as the mark-to-market adjustment of \$9.1 million on the lease pools sold during the second quarter and the \$12.5 million mark-to-market adjustment on lease pools initially held for sale on June 30, 2009. In the third quarter of 2009, management continued to sell the lease pools that were marked to market in the second quarter. Lakeland sold \$27.9 million in leases held for sale in the third quarter, leaving remaining held for sale leases of \$8.9 million. After payoffs and additional market adjustments in the fourth quarter, there were \$7.3 million remaining in leases held for sale at December 31, 2009.

While non-performing loans and leases increased from \$16.5 million on December 31, 2008 to \$38.7 million on December 31, 2009, the allowance for loan and lease losses was 1.27% of total loans and leases on December 31, 2009 compared to 1.23% of total loans and leases on December 31, 2008. The increase in non-accrual loans, as discussed above, was primarily in commercial loans exceeding \$500,000, and totaled \$20.3 million. These loans are primarily secured by commercial real estate. Management believes, based on appraisals and estimated selling costs, that the majority of these loans are well secured and reserves on these loans are adequate.

Based upon the process employed and giving recognition to all accompanying factors related to the loan and lease portfolio, management considers the allowance for loan and lease losses to be adequate at December 31, 2009. The preceding statement constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.



**Table of Contents**

The following table shows how the allowance for loan and lease losses is allocated among the various types of loans and leases that the Company has outstanding. This allocation is based on management's specific review of the credit risk of the outstanding loans and leases in each category as well as historical trends.

	2009	At December 31,			2005
		2008	2007	2006	
(in thousands)					
Commercial	\$ 13,932	\$ 8,954	\$ 8,048	\$ 8,327	\$ 8,578
Leases	4,308	11,212	2,310	1,589	1,243
Home equity and consumer	2,839	2,207	2,379	2,591	2,592
Real estate - construction	3,198	2,054	1,680	648	350
Real estate - mortgage	1,286	626	272	299	410
	<b>\$ 25,563</b>	\$ 25,053	\$ 14,689	\$ 13,454	\$ 13,173

**Investment Securities**

The Company has classified its investment securities into the available for sale and held to maturity categories based on its intent and ability to hold the securities to maturity. The Company has no investment securities classified as trading securities.

The following table sets forth the carrying value of the Company's investment securities, both available for sale and held to maturity, as of December 31 for each of the last three years. Investment securities available for sale are stated at fair value while securities held for maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts.

	2009	December 31,	
		2008	2007
(in thousands)			
U.S. Treasury and U.S. government agencies	\$ 86,475	\$ 74,934	\$ 79,945
Obligations of states and political subdivisions	62,414	63,616	81,132
Mortgage-backed securities	272,665	216,181	200,915
Equity securities	20,898	23,286	23,417
Other debt securities	14,899	14,271	17,198
	<b>\$ 457,351</b>	\$ 392,288	\$ 402,607

The Company does not own any Collateralized Debt Obligations, Pooled Trust Preferred Securities or preferred stock with the Federal National Mortgage Association or the Federal Home Loan Mortgage Association.

**Table of Contents**

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities available for sale as of December 31, 2009:

Available for sale	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
<b>U.S. government agencies</b>					
Amount	\$	\$ 55,560	\$ 25,921	\$	\$ 81,481
Yield	%	1.68%	1.72%	%	1.69%
<b>Obligations of states and political subdivisions</b>					
Amount	559	6,800	5,649	1,994	15,002
Yield	5.33%	5.09%	4.43%	5.21%	4.87%
<b>Mortgage-backed securities</b>					
Amount	601	9,275	55,248	179,704	244,828
Yield	3.33%	3.70%	3.42%	3.14%	3.22%
<b>Other debt securities</b>					
Amount	505	2,560	8,885	1,371	13,321
Yield	1.50%	2.08%	0.29%	1.06%	0.76%
<b>Other equity securities</b>					
Amount	20,898				20,898
Yield	2.42%	%	%	%	2.42%
<b>Total securities</b>					
Amount	\$ 22,563	\$ 74,195	\$ 95,703	\$ 183,069	\$ 375,530
Yield	2.50%	2.26%	2.73%	3.15%	2.83%

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities held to maturity as of December 31, 2009:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
<b>U.S. government agencies</b>					
Amount	\$	\$ 4,994	\$	\$	\$ 4,994
Yield	%	4.34%	%	%	4.34%
<b>Obligations of states and political subdivisions</b>					
Amount	12,453	19,103	14,648	1,208	47,412
Yield	3.76%	5.02%	5.40%	6.46%	4.84%
<b>Mortgage-backed securities</b>					
Amount		1,432	6,218	20,187	27,837
Yield	%	3.88%	4.58%	4.18%	4.25%
<b>Other debt securities</b>					
Amount			1,578		1,578
Yield	%	%	5.41%	%	5.41%
<b>Total securities</b>					
Amount	\$ 12,453	\$ 25,529	\$ 22,444	\$ 21,395	\$ 81,821
Yield	3.76%	4.82%	5.17%	4.31%	4.62%



**Table of Contents****Other Assets**

Other assets increased from \$23.7 million at December 31, 2008 to \$47.9 million at December 31, 2009, resulting from the prepayment of three years of FDIC insurance premiums of \$16.9 million and an increase in taxes receivable of \$9.0 million. Net deferred tax assets increased from \$11.9 million on December 31, 2008 to \$13.5 million on December 31, 2009.

The Company evaluates the realizability of its deferred tax assets by examining its earnings history and projected future earnings and by assessing whether it is more likely than not that carryforwards would not be realized. Based upon the majority of the Company's deferred tax assets having no expiration date, the Company's earnings history, and the projections of future earnings, the Company's management believes that it is more likely than not that all of the Company's deferred tax assets as of December 31, 2009 will be realized.

**Deposits**

Total deposits increased from \$2.06 billion on December 31, 2008 to \$2.16 billion on December 31, 2009, an increase of \$101.1 million, or 5%. Total noninterest bearing demand accounts increased from \$302.5 million to \$323.2 million, a \$20.7 million, or 7%, increase. Savings and interest bearing transaction accounts increased from \$1.14 billion to \$1.37 billion, an increase of \$225.7 million, or 20%. Savings and interest bearing transaction accounts increased as a result of money market deposit account promotions. Total core deposits, which are defined as noninterest bearing deposits and savings and interest-bearing transaction accounts, increased from \$1.45 billion on December 31, 2008 to \$1.69 billion on December 31, 2009, an increase of \$246.3 million, or 17%. Core deposits represent 78% of total deposits at December 31, 2009 compared to 70% at the end of 2008. Total time deposits decreased from \$611.0 million on December 31, 2008 to \$465.7 million on December 31, 2009, a decrease of \$145.3 million, or 24%. Time deposits have decreased as a result of the declining rate environment. Depositors prefer to keep their deposits in liquid transaction accounts versus a long term account in the current low rate environment.

Total deposits increased from \$1.99 billion on December 31, 2007 to \$2.06 billion on December 31, 2008, an increase of \$68.7 million, or 3%.

The average amount of deposits and the average rates paid on deposits for the years indicated are summarized in the following table:

	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing demand deposits	\$ 315,193	%	\$ 300,950	%	\$ 300,156	%
Interest-bearing transaction accounts	914,695	1.02%	805,515	1.75%	749,093	2.92%
Savings	304,084	0.51%	310,565	1.23%	324,573	1.79%
Time deposits	589,499	2.70%	561,069	3.82%	538,376	4.56%
<b>Total</b>	<b>\$ 2,123,471</b>	<b>1.26%</b>	<b>\$ 1,978,099</b>	<b>1.99%</b>	<b>\$ 1,912,198</b>	<b>2.73%</b>

As of December 31, 2009, the aggregate amount of outstanding time deposits issued in amounts of \$100,000 or more, broken down by time remaining to maturity, was as follows (in thousands):

<b>Maturity</b>	
Within 3 months	\$ 38,827
Over 3 through 6 months	47,530
Over 6 through 12 months	54,584
Over 12 months	41,287
<b>Total</b>	<b>\$ 182,228</b>



## **Table of Contents**

### ***Liquidity***

Liquidity measures whether an entity has sufficient cash flow to meet its financial obligations and commitments on a timely basis. The Company is liquid when its subsidiary bank has the cash available to meet the borrowing and cash withdrawal requirements of customers and the Company can pay for current and planned expenditures and satisfy its debt obligations.

Lakeland funds loan demand and operation expenses from several sources:

Net income. Cash provided by operating activities was \$22.5 million in 2009 compared to \$30.9 million and \$27.0 million in 2008 and 2007, respectively.

Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2009, Lakeland generated \$101.1 million in deposit growth.

Sales of securities and overnight funds. At year-end 2009, the Company had \$375.5 million in securities designated available for sale.

Repayments on loans and leases can also be a source of liquidity to fund further loan growth.

Overnight credit lines. Lakeland is a member of the Federal Home Loan Bank of New York (FHLB). One membership benefit is that members can borrow overnight funds. Lakeland has lines of credit of up to \$200.0 million available for it to borrow from the FHLB subject to collateral requirements. Lakeland had no borrowings against these lines as of December 31, 2009. Lakeland also has overnight federal funds lines available for it to borrow up to \$175.0 million. Lakeland had borrowings against these lines of \$14.1 million at December 31, 2009. Lakeland may also borrow from the discount window of the Federal Reserve Bank of New York based on the market value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New York as of December 31, 2009.

Long-term debt. Lakeland can also generate funds by utilizing long-term debt or securities sold under agreements to repurchase that would be collateralized by security or mortgage collateral. For more information, see Note 6 to the Consolidated Financial Statements.

The Company's management believes that its current level of liquidity is sufficient to meet its current and anticipated operational needs including current loan commitments, deposit maturities and other obligations. This constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from anticipated results due to a variety of factors, including uncertainties relating to general economic conditions; unanticipated decreases in deposits; changes in or failure to comply with governmental regulations; and uncertainties relating to the analysis of the Company's assessment of rate sensitive assets and rate sensitive liabilities and the extent to which market factors indicate that a financial institution such as Lakeland should match such assets and liabilities.

**Table of Contents**

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2009. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

(dollars in thousands)	Total	Within one year	After one but within three years	After three but within five years	After five years
Minimum annual rentals or noncancellable operating leases	\$ 14,627	\$ 1,769	\$ 2,964	\$ 2,263	\$ 7,631
Benefit plan commitments	5,312	185	370	370	4,387
Remaining contractual maturities of time deposits	465,740	348,009	88,228	28,310	1,193
Subordinated debentures	77,322				77,322
Loan commitments	403,343	340,074	41,290	4,614	17,365
Long-term debt	145,900	900	50,000	40,000	55,000
Interest on long-term debt*	140,959	10,800	19,836	15,724	94,599
Series A Preferred Stock	59,000				59,000
Interest on Series A Preferred Stock	38,637	2,950	8,850	15,701	11,136
Standby letters of credit	9,141	8,901	160		80
<b>Total</b>	<b>\$ 1,359,981</b>	<b>\$ 713,588</b>	<b>\$ 211,698</b>	<b>\$ 106,982</b>	<b>\$ 327,713</b>

\* Includes interest on long-term debt and subordinated debentures at a weighted rate of 4.89%.

**Interest Rate Risk**

Closely related to the concept of liquidity is the concept of interest rate sensitivity (i.e., the extent to which assets and liabilities are sensitive to changes in interest rates). As a financial institution, the Company's potential interest rate volatility is a primary component of its market risk. Fluctuations in interest rates will ultimately impact the level of income and expense recorded on a large portion of the Company's assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. Based upon the Company's nature of operations, the Company is not subject to foreign currency exchange or commodity price risk. The Company does not own any trading assets and does not have any off balance sheet hedging transactions in place, such as interest rate swaps and caps.

The Company's net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the extent that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. For example, when interest-bearing liabilities mature or reprice more quickly than interest-earning assets, an increase in market rates could adversely affect net interest income. Conversely, when interest-earning assets reprice more quickly than interest-bearing liabilities, an increase in market rates could increase net interest income.

The Company's Board of Directors has adopted an Asset/Liability Policy designed to stabilize net interest income and preserve capital over a broad range of interest rate movements. This policy outlines guidelines and ratios dealing with, among others, liquidity, volatile liability dependence, investment portfolio composition, loan portfolio composition, loan-to-deposit ratio and gap analysis ratio. Key quantitative measurements include the percentage change of net interest income in various interest rate scenarios (net interest income at risk) and changes in the market value of equity in various rate environments (net portfolio value at risk). The Company's performance as compared to the Asset/Liability Policy is monitored by its Board of Directors. In addition, to effectively administer the Asset/Liability Policy and to monitor exposure to fluctuations in interest rates, the Company maintains an Asset/Liability Committee, consisting of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Chief Retail Officer, Chief Credit Officer, certain other senior officers and certain directors. This committee meets quarterly to review the Company's financial results and to develop strategies to implement the Asset/Liability Policy and to respond to market conditions.

**Table of Contents**

The Company monitors and controls interest rate risk through a variety of techniques, including use of an interest rate risk management model. With the interest rate risk management model, the Company projects future net interest income, and then estimates the effect of various changes in interest rates and balance sheet growth rates on that projected net interest income. The Company also uses the interest rate risk management model to calculate the change in net portfolio value over a range of interest rate change scenarios.

Interest rate sensitivity modeling is done at a specific point in time and involves a variety of significant estimates and assumptions. Interest rate sensitivity modeling requires, among other things, estimates of how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will respond to general changes in market rates, future cash flows and discount rates.

Net interest income simulation considers the relative sensitivities of the balance sheet including the effects of interest rate caps on adjustable rate mortgages and the relatively stable aspects of core deposits. As such, net interest income simulation is designed to address the probability of interest rate changes and the behavioral response of the balance sheet to those changes. Market Value of Portfolio Equity represents the fair value of the net present value of assets, liabilities and off-balance-sheet items. Changes in estimates and assumptions made for interest rate sensitivity modeling could have a significant impact on projected results and conclusions. These assumptions could include prepayment rates, sensitivity of non-maturity deposits and other similar assumptions. Therefore, if our assumptions should change, this technique may not accurately reflect the impact of general interest rate movements on the Company's net interest income or net portfolio value.

The starting point (or base case) for the following table is an estimate of the following year's net interest income assuming that both interest rates and the Company's interest-sensitive assets and liabilities remain at year-end levels. The net interest income estimated for 2010 (the base case) is \$99.2 million. The information provided for net interest income assumes that changes in interest rates change gradually in equal increments (rate ramp) over the twelve month period.

Rate Ramp	Changes in interest rates			
	+200 bp	+100 bp	-100 bp	-200 bp
Asset/Liability Policy Limit	-5.0%			-5.0%
December 31, 2009	-3.0%	-1.4%	-1.8%	-2.7%
December 31, 2008	-2.8%	-1.3%	-0.9%	-3.1%

The base case for the following table is an estimate of the Company's net portfolio value for the periods presented using current discount rates, and assuming the Company's interest-sensitive assets and liabilities remain at year-end levels. The net portfolio value at December 31, 2009 (the base case) was \$368.4 million. The information provided for the net portfolio value assumes fluctuations or rate shocks for changes in interest rates as shown in the table below. Rate shocks assume that current interest rates change immediately.

Rate Shock	Changes in interest rates			
	+200 bp	+100 bp	-100 pb	-200 bp
Asset/Liability Policy Limit	-25.0%			-25.0%
December 31, 2009	-5.2%	-0.7%	-2.4%	-9.9%
December 31, 2008	-6.6%	-1.9%	-5.0%	-16.8%

The information set forth in the above tables is based on significant estimates and assumptions, and constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

The information in the above tables represent the policy scenario that the ALCO reviews on a quarterly basis. There are also other scenarios run that the ALCO examines that vary depending on the economic environment. These scenarios include a yield curve flattening scenario and scenarios that show more dramatic



**Table of Contents**

changes in rates. The committee uses the appropriate scenarios, depending on the economic environment, in its interest rate management decisions.

**Capital Resources**

Stockholders' equity increased from \$220.9 million on December 31, 2008 to \$268.0 million on December 31, 2009. The increase in stockholders' equity from December 31, 2008 to December 31, 2009 was primarily due to the issuance of \$59.0 million in preferred stock and a warrant to the U.S Treasury Department. For more information, please see Note 7 in Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K. Offsetting the impact of the \$59.0 million in preferred stock was a net loss of \$5.4 million, and the payment of dividends of \$8.5 million.

Book value per common share (total common stockholders' equity divided by the number of shares outstanding) decreased from \$9.33 on December 31, 2008 to \$8.88 on December 31, 2009 as a result of the net loss and the payment of dividends. As a result of the net loss in 2009, the Company reduced its dividend from \$0.10 per share quarterly to \$0.05 per share quarterly in the third quarter of 2009. Book value per common share was \$9.09 on December 31, 2007.

The FDIC's risk-based capital policy statement imposes a minimum capital standard on insured banks. The minimum ratio of risk-based capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least half of the total capital is to be comprised of common stock equity and qualifying perpetual preferred stock, less goodwill ( Tier I capital ). The remainder ( Tier II capital ) may consist of mandatory convertible debt securities, qualifying subordinated debt, other preferred stock and a portion of the allowance for loan and lease losses. The Federal Reserve Board has adopted a similar risk-based capital guideline for the Company which is computed on a consolidated basis.

In addition, the bank regulators have adopted minimum leverage ratio guidelines (Tier I capital to average quarterly assets, less goodwill) for financial institutions. These guidelines provide for a minimum leverage ratio of 3% for financial institutions that meet certain specified criteria, including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points.

The following table reflects capital ratios of the Company and Lakeland as of December 31, 2009 and 2008:

	Tier 1 Capital to Total Average Assets Ratio		Tier 1 Capital to Risk-Weighted Assets Ratio		Total Capital to Risk-Weighted Assets Ratio	
	December 31, 2009	2008	December 31, 2009	2008	December 31, 2009	2008
Capital Ratios:						
The Company	9.44%	8.08%	12.65%	10.24%	13.90%	11.52%
Lakeland Bank	8.99%	7.57%	12.07%	9.60%	13.32%	10.85%
Well capitalized institution under FDIC Regulations	5.00%	5.00%	6.00%	6.00%	10.00%	10.00%

**Recent Accounting Pronouncements**

On June 29, 2009, the FASB issued an accounting pronouncement establishing the FASB Accounting Standards Codification™ (the ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. This pronouncement was effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards were superseded. The Company adopted the presentation for the

## **Table of Contents**

quarterly period ended September 30, 2009, as required, and adoption did not have a material impact on the Company's financial statements taken as a whole.

In June 2008, the FASB issued guidance addressing whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the calculation of earnings per share (EPS). The guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period EPS data adjusted retrospectively to conform to its provisions, and did not have a material effect on the Company's EPS.

In December 2008, the FASB issued guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans as of the annual reporting date. This guidance became effective for fiscal years ending after December 15, 2009. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

On April 9, 2009, the FASB issued the following guidance that was intended to provide additional guidance and enhance disclosures regarding fair value measurements and impairments of securities. This included:

guidelines for making fair value measurements more consistent with the existing accounting principles when the volume and level of activity of an asset or liability have decreased significantly.

enhanced consistency in financial disclosure by requiring fair value disclosures for financial instruments to be reported in interim financial statements. Previously, fair values for financial instruments were only disclosed annually.

additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold.

The above guidance was effective for interim and annual periods ending after June 15, 2009. The Company applied this guidance in the second quarter and expanded the disclosures as required.

On April 13, 2009, the Securities and Exchange Commission issued guidance on how to evaluate equity securities for other-than-temporary impairment and when a write-down of the carrying value is required. There was no material impact on the Company's consolidated financial statements upon adoption. The Company recorded other-than-temporary impairments on its equity securities of \$940,000 in 2009.

On May 28, 2009, the FASB issued accounting guidance which established general standards of accounting for and disclosure of subsequent events, which are events occurring after the balance sheet date but before the date the financial statements are issued or available to be issued. In particular, the guidance requires entities to recognize in the financial statements the effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities may not recognize the impact of subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. The Company applied the guidance which did not have a material impact on the Company's financial statements taken as a whole.

On June 12, 2009, the FASB issued accounting guidance changing the accounting principles and disclosure requirements related to securitizations and special-purpose entities. This guidance eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance also expands existing disclosure requirements to include

## **Table of Contents**

more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. Management does not expect that application of this guidance will have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued accounting guidance which provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. This guidance also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This accounting guidance is effective for the first reporting period (including interim periods) beginning after issuance or the fourth quarter of 2009 for the Company. The Company applied this guidance in fourth quarter 2009, and adoption did not have a material impact on the Company's consolidated financial statements taken as a whole.

In January 2010, the FASB issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. Management does not expect that application of this guidance will have a material impact on the Company's consolidated financial statements.

### ***Effects of Inflation***

The impact of inflation, as it affects banks, differs substantially from the impact on non-financial institutions. Banks have assets which are primarily monetary in nature and which tend to move with inflation. This is especially true for banks with a high percentage of rate sensitive interest-earning assets and interest-bearing liabilities. A bank can further reduce the impact of inflation with proper management of its rate sensitivity gap. This gap represents the difference between interest rate sensitive assets and interest rate sensitive liabilities. Lakeland attempts to structure its assets and liabilities and manages its gap to protect against substantial changes in interest rate scenarios, in order to minimize the potential effects of inflation.

### **ITEM 7A Quantitative and Qualitative Disclosures About Market Risk**

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

**Table of Contents****ITEM 8 Financial Statements and Supplementary Data****Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

	December 31, 2009                      2008 (dollars in thousands)	
<b>ASSETS</b>		
Cash	\$ 31,869	\$ 35,238
Interest-bearing deposits due from banks	26,794	14,538
Total cash and cash equivalents	58,663	49,776
Investment securities, available for sale	375,530	282,174
Investment securities, held to maturity; fair value of \$84,389 in 2009 and \$111,881 in 2008	81,821	110,114
Loans, net of deferred costs	2,009,721	2,034,831
Leases held for sale	7,314	
Less: allowance for loan and lease losses	25,563	25,053
Net loans	1,991,472	2,009,778
Premises and equipment net	29,196	29,479
Accrued interest receivable	8,943	8,598
Goodwill	87,111	87,111
Other identifiable intangible assets, net	1,640	2,701
Bank owned life insurance	41,720	39,217
Other assets	47,872	23,677
<b>TOTAL ASSETS</b>	<b>\$ 2,723,968</b>	<b>\$ 2,642,625</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest bearing	\$ 323,175	\$ 302,492
Savings and interest-bearing transaction accounts	1,368,272	1,142,609
Time deposits under \$100 thousand	283,512	393,549
Time deposits \$100 thousand and over	182,228	217,483
Total deposits	2,157,187	2,056,133
Federal funds purchased and securities sold under agreements to repurchase	63,672	62,363
Long-term debt	145,900	210,900
Subordinated debentures	77,322	77,322
Other liabilities	11,901	14,966
<b>TOTAL LIABILITIES</b>	<b>2,455,982</b>	<b>2,421,684</b>
Commitments and contingencies		
Stockholders equity:		
Preferred stock, Series A, no par value, \$1,000 liquidation value, authorized 1,000,000 shares; issued 59,000 shares at December 31, 2009	56,023	
Common stock, no par value; authorized shares, 40,000,000; issued shares, 24,740,564 at December 31, 2009 and 2008; outstanding shares, 23,872,136 at December 31, 2009 and 23,687,003 at December 31, 2008	259,521	257,051
Accumulated Deficit	(34,961)	(19,246)
Treasury stock, at cost, 868,428 shares in 2009 and 1,053,561 shares in 2008	(11,940)	(14,496)

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Accumulated other comprehensive loss	(657)	(2,368)
TOTAL STOCKHOLDERS EQUITY	267,986	220,941
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,723,968</b>	<b>\$ 2,642,625</b>

See accompanying notes to consolidated financial statements

**Table of Contents****Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except per share data)		
<b>INTEREST INCOME</b>			
Loans, leases and fees	\$ 117,123	\$ 127,414	\$ 117,039
Federal funds sold and interest-bearing deposits with banks	109	420	1,644
Taxable investment securities	14,351	13,713	14,669
Tax-exempt investment securities	2,239	2,390	3,026
<b>TOTAL INTEREST INCOME</b>	<b>133,822</b>	<b>143,937</b>	<b>136,378</b>
<b>INTEREST EXPENSE</b>			
Deposits	26,793	39,303	52,274
Federal funds purchased and securities sold under agreements to repurchase	139	1,487	2,303
Long-term debt	13,511	14,568	10,073
<b>TOTAL INTEREST EXPENSE</b>	<b>40,443</b>	<b>55,358</b>	<b>64,650</b>
<b>NET INTEREST INCOME</b>	<b>93,379</b>	<b>88,579</b>	<b>71,728</b>
Provision for loan and lease losses	51,615	23,730	5,976
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>41,764</b>	<b>64,849</b>	<b>65,752</b>
<b>NONINTEREST INCOME</b>			
Service charges on deposit accounts	10,918	11,106	10,630
Commissions and fees	3,709	3,422	3,096
Gains on sales of investment securities, net	3,845	53	1,769
Other-than-temporary impairment loss on securities	(940)		
Income on bank owned life insurance	1,930	1,741	1,305
Gains (losses) on leasing related assets, net	(1,142)	978	908
Other income	537	311	919
<b>TOTAL NONINTEREST INCOME</b>	<b>18,857</b>	<b>17,611</b>	<b>18,627</b>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	34,505	32,263	32,864
Net occupancy expense	6,637	6,098	5,877
Furniture and equipment	5,038	4,848	4,856
Stationery, supplies and postage	1,605	1,764	1,627
Marketing expense	2,633	2,348	1,825
Core deposit intangible amortization	1,062	1,062	1,180
FDIC insurance expense	5,819	1,478	220
Collection expense	1,552	572	156
Other real estate and repossessed asset expense	1,002	155	10
Long-term debt prepayment fee	3,075		
Other expenses	10,866	9,483	9,575
<b>TOTAL NONINTEREST EXPENSE</b>	<b>73,794</b>	<b>60,071</b>	<b>58,190</b>
Income (loss) before provision (benefit) for income taxes	(13,173)	22,389	26,189
Provision (benefit) for income taxes	(7,777)	7,224	8,201
<b>NET INCOME (LOSS)</b>	<b>\$ (5,396)</b>	<b>\$ 15,165</b>	<b>\$ 17,988</b>
Dividends on Preferred Stock and Accretion	\$ 3,194	\$	\$

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<b>Net Income (Loss) Available to Common Stockholders</b>	<b>\$ (8,590)</b>	<b>\$ 15,165</b>	<b>\$ 17,988</b>
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**PER SHARE OF COMMON STOCK:**

Basic earnings (loss)	\$ (0.36)	\$ 0.65	\$ 0.78
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Diluted earnings (loss)	\$ (0.36)	\$ 0.64	\$ 0.77
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Cash dividends	\$ 0.30	\$ 0.40	\$ 0.38
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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
<b>NET INCOME (LOSS)</b>	<b>\$ (5,396)</b>	<b>\$ 15,165</b>	<b>\$ 17,988</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) NET OF TAX:</b>			
Unrealized securities gains (losses) arising during period	3,310	(80)	2,401
Less: reclassification for gains included in Net Income (Loss)	1,888	35	1,203
Change in pension liabilities, net	289	(420)	39
Other Comprehensive Income (Loss)	1,711	(535)	1,237
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ (3,685)</b>	<b>\$ 14,630</b>	<b>\$ 19,225</b>

See accompanying notes to consolidated financial statements

**Table of Contents****Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

For the years ended December 31, 2009, 2008 and 2007

	Common stock		Series A Preferred Stock	Accumulated Deficit (dollars in thousands)	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount					
BALANCE DECEMBER 31, 2006	23,563,463	\$ 242,661		\$ (17,526)	\$ (22,565)	\$ (3,070)	\$ 199,500
Cumulative adjustment for adoption of new accounting guidance				509			509
Balance JANUARY 1, 2007, as revised	23,563,463	242,661		(17,017)	(22,565)	(3,070)	200,009
Net Income 2007				17,988			17,988
Other comprehensive income, net of tax and reclassification adjustments						1,237	1,237
Stock based compensation expense		260					260
Issuance of stock for restricted stock awards		(966)			966		
Issuance of stock to dividend reinvestment plan		(94)		(464)	558		
Exercise of stock options, net of excess tax benefits		(401)			912		511
Repurchase of stock in rescission offer					(11)		(11)
Stock dividend	1,177,101	16,577		(16,577)			
Cash dividends				(8,395)			(8,395)
BALANCE DECEMBER 31, 2007	24,740,564	258,037		(24,465)	(20,140)	(1,833)	211,599
Cumulative adjustment for adoption of new accounting guidance				(546)			(546)
Balance JANUARY 1, 2008, as revised	24,740,564	258,037		(25,011)	(20,140)	(1,833)	211,053
Net Income 2008				15,165			15,165
Other comprehensive loss, net of tax and reclassification adjustments						(535)	(535)
Stock based compensation expense		351					351
Issuance of stock for restricted stock awards		(1,117)			1,117		
Issuance of stock to dividend reinvestment and stock purchase plan		(150)		(1,339)	1,564		75
Exercise of stock options, net of excess tax benefits		(70)			2,963		2,893
Cash dividends				(8,061)			(8,061)
BALANCE DECEMBER 31, 2008	24,740,564	257,051		(19,246)	(14,496)	(2,368)	220,941
Net Loss, 2009				(5,396)			(5,396)
Other comprehensive income, net of tax						1,711	1,711
Preferred Stock issued, net of costs			58,837				58,837
Common stock warrant		3,345	(3,345)				
Preferred dividends				(2,663)			(2,663)
Accretion of discount on preferred stock			531	(531)			
Stock based compensation		443					443



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Issuance of stock for restricted stock awards	(199)			199				
Issuance of stock to dividend reinvestment and stock purchase plan	(1,032)		(1,256)	2,323			35	
Exercise of stock options, net of excess tax benefits	(87)			34			(53)	
Cash dividends, common stock			(5,869)				(5,869)	
<b>BALANCE DECEMBER 31, 2009</b>	<b>24,740,564</b>	<b>\$ 259,521</b>	<b>\$ 56,023</b>	<b>\$ (34,961)</b>	<b>\$ (11,940)</b>	<b>\$</b>	<b>(657)</b>	<b>\$ 267,986</b>

See accompanying notes to consolidated financial statements

**Table of Contents****Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (5,396)	\$ 15,165	\$ 17,988
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	4,160	1,928	1,000
Depreciation and amortization	3,306	3,398	3,614
Amortization of intangible assets	1,062	1,062	1,180
Provision for loan and lease losses	51,615	23,730	5,976
Stock based compensation	443	351	260
Gains on securities, net	(3,845)	(53)	(1,769)
Other-than-temporary impairment loss on securities	940		
Losses on sales of leases held for sale	1,631		
Writedown of other repossessed assets	782	99	
(Gains) losses on other repossessed assets	(230)	17	
Gain on sale of branch			(319)
Deferred tax benefit	(2,725)	(4,490)	(2,173)
Increase in other assets	(26,247)	(2,975)	(1,784)
Decrease in other liabilities	(2,957)	(7,295)	2,993
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>22,539</b>	<b>30,937</b>	<b>26,966</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from repayments on and maturity of securities:			
Available for sale	147,300	108,207	58,405
Held to maturity	41,890	33,463	28,098
Proceeds from sales of securities:			
Available for sale	153,763	10,108	2,438
Purchase of securities:			
Available for sale	(391,948)	(127,916)	(50,152)
Held to maturity	(13,742)	(14,403)	(14,841)
Purchase of bank owned life insurance	(1,304)		
Proceeds from sales of leases	53,407		
Net increase in loans and leases	(94,874)	(162,905)	(300,153)
Proceeds from dispositions of premises and equipment	3		995
Capital expenditures	(3,026)	(2,784)	(2,312)
Proceeds from sales of other repossessed assets	6,853	1,966	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(101,678)</b>	<b>(154,264)</b>	<b>(277,522)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in deposits	101,054	68,728	126,778
Increase in federal funds purchased and securities sold under agreements to repurchase	1,309	13,069	8,233
Proceeds from long-term debt		125,103	120,900
Repayments of long-term debt	(65,000)	(85,892)	(40,855)
Issuance of stock to Dividend Reinvestment and Stock Purchase Plan	35	75	
Proceeds from issuance of subordinated debentures			20,619
Proceeds on issuance of preferred stock, net of costs	58,837		
Purchase of treasury stock			(11)
Exercise of stock options	(55)	2,788	408

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Excess tax benefits	2	105	103
Dividends paid on preferred stock	(2,287)		
Dividends paid on common stock	(5,869)	(8,061)	(8,395)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>88,026</b>	115,915	227,780
Net increase (decrease) in cash and cash equivalents	8,887	(7,412)	(22,776)
Cash and cash equivalents, beginning of year	49,776	57,188	79,964
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 58,663</b>	\$ 49,776	\$ 57,188

See accompanying notes to consolidated financial statements

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**Table of Contents**

**Lakeland Bancorp, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES**

Lakeland Bancorp, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Lakeland Bank (Lakeland). Lakeland operates under a state bank charter and provides full banking services and, as a state bank, is subject to regulation by the New Jersey Department of Banking and Insurance. Lakeland generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Northern New Jersey. Lakeland also provides securities brokerage services, including mutual funds and variable annuities.

Lakeland operates as a commercial bank offering a wide variety of commercial loans and leases and, to a lesser degree, consumer credits. Its primary strategic aim is to establish a reputation and market presence as the small and middle market business bank in its principal markets. Lakeland funds its loans primarily by offering time, savings and money market, and demand deposit accounts to both commercial enterprises and individuals. Additionally, it originates residential mortgage loans, and services such loans which are owned by other investors. Lakeland also has a leasing division which provides equipment lease financing primarily to small and medium sized business clients and an asset based lending department which specializes in utilizing particular assets to fund the working capital needs of borrowers.

The Company and Lakeland are subject to regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, Lakeland's business is particularly susceptible to being affected by state and federal legislation and regulations.

*Basis of Financial Statement Presentation*

The accounting and reporting policies of the Company and Lakeland and its subsidiaries conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland Investment Corp. and Lakeland NJ Investment Corp. All intercompany balances and transactions have been eliminated.

The Company evaluated its December 31, 2009 financial statements for subsequent events through the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates implicit in these financial statements are as follows.

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the valuation of the Company's securities portfolio, the realizability of the Company's deferred tax asset and the analysis of goodwill impairment.

The evaluation of the adequacy of the allowance for loan and lease losses includes, among other factors, an analysis of historical loss rates, by category, applied to current loan and lease totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans and leases, which

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**Table of Contents**

also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications.

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one operating segment and accordingly one reportable segment, Community Banking. All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of Lakeland to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The situation is also similar for consumer and residential mortgage lending. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

*Investment Securities*

Investments in securities are classified in one of three categories: held to maturity, trading, or available for sale. Investments in debt securities, for which management has both the ability and intent to hold to maturity, are carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments in debt and equity securities, which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk, liquidity requirements, or other factors, are classified as available for sale. Net unrealized gains and losses for such securities, net of tax effect, are reported as other comprehensive income (loss) and excluded from the determination of net income. The Company does not engage in security trading. Gains or losses on disposition of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method. Losses are recorded when the impairment is considered other-than-temporary, even if a decision to sell has not been made.

*Loans and Leases and Allowance for Loan and Lease Losses*

Loans and leases that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for loan and lease losses. The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans and leases that may become uncollectible based upon an evaluation of known and inherent risks in the loan and lease portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan and lease portfolio, overall portfolio quality, specific problem loans and leases, and current economic conditions which may affect the borrowers' ability to pay. The evaluation also details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts. Loss estimates for specified problem loans and leases are also detailed.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan or lease when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest and principal is doubtful. When a loan or lease is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income. Commercial loans and leases 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection. Residential mortgage loans are placed on non-accrual status at the time when foreclosure proceedings are commenced except where there exists sufficient collateral to cover the defaulted principal and interest payments, and management's knowledge of the specific circumstances warrant continued accrual. Consumer loans are generally charged off when principal and interest payments are four months in arrears unless the obligations are well secured and in the process of collection. Interest thereafter on such charged-off consumer loans is taken into income when received only after full recovery of principal.

## **Table of Contents**

Impairment of loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, Lakeland may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

Loans are classified as a restructured-accruing loans in cases where borrowers experience financial difficulties but are current on their payments and the Company makes certain concessionary modifications to contractual terms. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate, a moratorium of principal payments and/or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

The Company transfers leases to held for sale status when it identifies leases that it intends to sell. At that time, the leases are written down to the lower of cost or market value by recording a charge to the allowance for loan and lease losses. Market indications are derived from sale price indications from potential buyers and based on sale prices of prior lease pools adjusted for differences in types of collateral and other characteristics. Subsequent declines in fair market value are recorded as a loss on leasing related assets in the statement of operations.

### *Bank Premises and Equipment*

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

### *Other Real Estate Owned and Other Repossessed Assets*

Other real estate owned (OREO) and other repossessed assets, representing property acquired through foreclosure (or deed-in-lieu-of-foreclosure), are carried at the lower of the principal balance of the secured loan or lease or fair value less estimated disposal costs of the acquired property. Costs relating to holding the assets are charged to expense. An allowance for OREO or other repossessed assets is established, through charges to expense, to maintain properties at the lower of cost or fair value less estimated costs to sell. Operating results of OREO and other repossessed assets, including rental income and operating expenses, are included in other expenses.

### *Mortgage Servicing*

The Company performs various servicing functions on loans owned by others. A fee, usually based on a percentage of the outstanding principal balance of the loan, is received for these services. At December 31, 2009 and 2008, Lakeland was servicing approximately \$23.2 million and \$14.4 million, respectively, of loans for others.

The Company originates mortgages under a definitive plan to sell or securitize those loans and service the loans owned by the investor. Upon the transfer of the mortgage loans in a sale or a securitization, the Company

## **Table of Contents**

records the servicing assets retained. The Company records mortgage servicing rights and the loans based on relative fair values at the date of origination.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Gains and losses on sales of loans are also accounted for in accordance with U.S. GAAP which requires that an entity engaged in mortgage banking activities classify the retained mortgage-backed security or other interest, which resulted from the securitization of a mortgage loan held for sale, based upon its ability and intent to sell or hold these investments.

### *Restrictions On Cash And Due From Banks*

Lakeland is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank of New York in a noninterest bearing account. The amounts of those reserves at December 31, 2009 and 2008 were approximately \$559,000 and \$1.6 million, respectively.

### *Earnings Per Share*

Earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the year. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Unless otherwise indicated, all weighted average, actual shares or per share information in the financial statements have been adjusted retroactively for the effect of stock dividends.

### *Employee Benefit Plans*

The Company has certain employee benefit plans covering substantially all employees. The Company accrues such costs as incurred.

ASC 715, *Compensation-Retirement Benefits* requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations are recognized as a component of Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost.

### *Stock-Based Compensation*

On May 21, 2009, the Company's shareholders approved the 2009 Equity Compensation Program, which authorizes the granting of incentive stock options, supplemental stock options, restricted shares and restricted stock units to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorizes the issuance of up to 2 million shares in connection with options and awards granted under the 2009 program. No awards have been granted under the 2009 program through December 31, 2009.

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company, which includes those employees serving as officers and directors of the Company. The plan authorized 2,257,369 shares of common stock of the Company. All of the Company's stock option grants expire 10 years from the date of grant, thirty days after termination of service other than for cause, or one year after death or disability of the grantee. The Company has no option or restricted stock awards with market or performance conditions attached to them. The Company generally issues shares for option exercises from its treasury stock. No further awards will be granted from the 2000 program.

**Table of Contents***Statement Of Cash Flows*

Cash and cash equivalents are defined as cash on hand, cash items in the process of collection, amounts due from banks and federal funds sold with an original maturity of three months or less. The following shows supplemental non-cash investing and financing activities for the periods presented:

	2009	2008	2007
	(in thousands)		
Transfer of loans and leases receivable to other repossessed assets	\$ 5,271	\$ 5,877	\$
Cash paid for income taxes	2,434	12,672	8,509
Cash paid for interest	42,448	56,602	64,639

*Comprehensive Income*

The Company reports comprehensive income in addition to net income (loss) from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

	Year ended December 31, 2009		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
	(dollars in thousands)		
Unrealized gains on available for sale securities			
Unrealized holding gains arising during period	\$5,229	(\$1,919)	\$3,310
Less reclassification adjustment for net gains realized in net income (loss)	2,905	(1,017)	1,888
Net unrealized gains on available for sale securities	2,324	(902)	1,422
Change in pension liabilities	486	(197)	289
Other comprehensive income, net	\$2,810	(\$1,099)	\$1,711

	Year ended December 31, 2008		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
	(dollars in thousands)		
Unrealized losses on available for sale securities			
Unrealized holding losses arising during period	(\$174)	\$94	(\$80)
Less reclassification adjustment for net gains realized in net income	53	(18)	35
Net unrealized losses on available for sale securities	(227)	112	(115)
Change in pension liabilities	(646)	226	(420)
Other comprehensive loss, net	(\$873)	\$338	(\$535)

	Year ended December 31, 2007		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
	(dollars in thousands)		
Unrealized gains on available for sale securities			
Unrealized holding gains arising during period	\$3,687	(\$1,286)	\$2,401



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Less reclassification adjustment for net gains realized in net income	1,769	(566)	1,203
Net unrealized gains on available for sale securities	1,918	(720)	1,198
Change in pension liabilities	60	(21)	39
Other comprehensive income, net	\$1,978	(\$741)	\$1,237

**Table of Contents**

*Goodwill and Other Identifiable Intangible Assets*

Goodwill and core deposit intangibles resulting from prior acquisitions totaled \$87.1 million and \$7.9 million, respectively, at the time of acquisition. Total goodwill was \$87.1 million at December 31, 2009 and 2008. Core deposit intangibles were \$1.6 million and \$2.7 million at December 31, 2009 and 2008, respectively. Amortization expense of core deposit intangibles was \$1.1 million for both December 31, 2009 and 2008, and \$1.2 million for December 31, 2007. Amortization expense of core deposit intangibles is expected to be \$1.1 million in 2010 and \$577,000 in 2011.

The Company tests goodwill for impairment annually or when circumstances indicate a potential for impairment at the reporting unit level. Impairment testing requires that the fair value of each reporting unit be compared to the carrying value of its net assets, including goodwill (the Step One Test ). The Company has determined that it has one reporting unit, Community Banking. The Company determined that the income approach and the market approach were most appropriate in determining if a Step Two Test for impairment was necessary.

The income approach uses a dividend discount analysis. This approach calculates cash flows to a potential acquirer based on the anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (such as legal and financial adviser fees, contract cancellations, severance and employment obligations, and other transaction costs). The analysis then calculates the present value of all excess cash flows generated by the company (above the minimum tangible capital ratio) plus the present value of a terminal sale value.

The Market approach is used to calculate the fair value of a company by calculating median price multiples in recent actual acquisitions of companies of similar size and then applying these multiples to the Company. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the selected transaction approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. Also included in the analysis was a premium to market approach which calculates the change of control price a market participant would pay for a company by adding a change of control premium to the trading value of a company. The analysis also considered a change of control premium to peer market price approach which substitutes trading values from a group of peer companies for the trading values of the parent company.

Based on this analysis, there was no indication that the Company's goodwill was impaired as of December 31, 2009, and a Step Two Test was not required.

*Bank Owned Life Insurance*

The Company invests in bank owned life insurance ( BOLI ). BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is owner and beneficiary of the policies. At December 31, 2009 and 2008, the Company had \$41.7 million and \$39.2 million, respectively, in BOLI. Income earned on BOLI was \$1.9 million, \$1.7 million and \$1.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Income earned on BOLI in 2009 and 2008 included \$485,000 and \$392,000, respectively, in proceeds from insurance policy payouts.

The Company implemented authoritative accounting guidance which requires employers that enter into endorsement split-dollar life insurance arrangements that provide an employee with a postretirement benefit to recognize a liability for the future benefits promised based on the substantive agreement made with the employee. Whether the accrual is based on a death benefit or on the future cost of maintaining the insurance would depend on what the employer has effectively agreed to provide during the employee's retirement. The purchase of an endorsement-type life insurance policy does not qualify as a settlement of the liability.

The Company adopted these guidelines effective January 1, 2008. Upon adoption, the Company recorded an increase to the accumulated deficit of approximately \$546,000.

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**Table of Contents***Income Taxes*

The Company accounts for income taxes under the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan and lease losses, core deposit intangibles, deferred loan fees, deferred compensation, valuation reserves on leases held for sale and state net operating loss carryforwards.

The Company implemented authoritative accounting literature related to uncertain tax positions. Uncertain tax positions are evaluated to determine if the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted this accounting guidance effective January 1, 2007. As a result of this adoption the Company recorded a decrease to its accumulated deficit of \$509,000.

*Variable Interest Entities*

Management has determined that Lakeland Bancorp Capital Trust I, Lakeland Bancorp Capital Trust II, Lakeland Bancorp Capital Trust III and Lakeland Bancorp Capital Trust IV (collectively, the Trusts) qualify as variable interest entities under ASC 810, Variable Interest Entities. The Trusts issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. The Trusts hold, as their sole asset, subordinated debentures issued by the Company.

The Federal Reserve has issued guidance on the regulatory capital treatment for the trust preferred securities issued by the Trusts as a result of the adoption of ASC 810. The rule retains the current maximum percentage of total capital permitted for trust preferred securities at 25%, but enacts other changes to the rules governing trust preferred securities that affect their use as part of the collection of entities known as restricted core capital elements. The rule will allow bank holding companies to continue to count trust preferred securities as Tier 1 Capital after applying ASC 810 at March 31, 2011. Management expects that its capital ratios will continue to be categorized as well-capitalized under the regulatory framework for prompt corrective action.

*New Accounting Pronouncements*

On June 29, 2009, the FASB issued an accounting pronouncement establishing the FASB Accounting Standards Codification™ (the ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. This pronouncement was effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards were superseded. The Company adopted the presentation for the quarterly period ended September 30, 2009, as required, and adoption did not have a material impact on the Company's financial statements taken as a whole.

In June 2008, the FASB issued guidance addressing whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the calculation of earnings per share (EPS). The guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period EPS data adjusted retrospectively to conform to its provisions, and did not have a material effect on the Company's EPS.

In December 2008, the FASB issued guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans as of the annual reporting date.

## **Table of Contents**

This guidance became effective for fiscal years ending after December 15, 2009. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

On April 9, 2009, the FASB issued the following guidance that was intended to provide additional guidance and enhance disclosures regarding fair value measurements and impairments of securities. This included:

guidelines for making fair value measurements more consistent with the existing accounting principles when the volume and level of activity of an asset or liability have decreased significantly.

enhanced consistency in financial disclosure by requiring fair value disclosures for financial instruments to be reported in interim financial statements. Previously, fair values for financial instruments were only disclosed annually.

additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold.

The above guidance was effective for interim and annual periods ending after June 15, 2009. The Company applied this guidance in the second quarter and expanded the disclosures as required.

On April 13, 2009, the Securities and Exchange Commission issued guidance on how to evaluate equity securities for other-than-temporary impairment and when a write-down of the carrying value is required. There was no material impact on the Company's consolidated financial statements upon adoption. The Company recorded other-than-temporary impairments on its equity securities of \$940,000 in 2009.

On May 28, 2009, the FASB issued accounting guidance which established general standards of accounting for and disclosure of subsequent events, which are events occurring after the balance sheet date but before the date the financial statements are issued or available to be issued. In particular, the guidance requires entities to recognize in the financial statements the effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities may not recognize the impact of subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. This pronouncement also requires entities to disclose the date through which subsequent events have been evaluated. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. The Company applied the guidance which did not have a material impact on the Company's financial statements taken as a whole.

On June 12, 2009, the FASB issued accounting guidance changing the accounting principles and disclosures requirements related to securitizations and special-purpose entities. This guidance eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance also expands existing disclosure requirements to include more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. Management does not expect that application of this guidance will have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued accounting guidance which provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or

**Table of Contents**

more techniques. This guidance also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This accounting guidance is effective for the first reporting period (including interim periods) beginning after issuance or the fourth quarter of 2009 for the Company. The Company applied this guidance in fourth quarter 2009, and adoption did not have a material impact on the Company's consolidated financial statements taken as a whole.

In January 2010, the FASB issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. Management does not expect that application of this guidance will have a material impact on the Company's consolidated financial statements.

*Reclassifications*

Certain reclassifications have been made to prior period consolidated financial statements to conform to the 2009 presentation.

**NOTE 2 INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains and losses, and the fair value of the Company's available for sale and held to maturity securities are as follows:

	December 31, 2009			Fair Value	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)				(in thousands)			
<b>AVAILABLE FOR SALE</b>								
U.S. government agencies	\$ 81,678	\$ 74	\$ (271)	\$ 81,481	\$ 52,131	\$ 1,045	\$ (2)	\$ 53,174
Mortgage-backed securities	243,118	2,304	(594)	244,828	180,938	2,600	(1,498)	182,040
Obligations of states and political subdivisions	14,666	369	(33)	15,002	10,733	272	(15)	10,990
Other debt securities	14,981	41	(1,701)	13,321	16,567	3	(3,886)	12,684
Equity securities	21,107	197	(406)	20,898	24,149	129	(992)	23,286
	\$ 375,550	\$ 2,985	\$ (3,005)	\$ 375,530	\$ 284,518	\$ 4,049	\$ (6,393)	\$ 282,174

	December 31, 2009			Fair Value	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)				(in thousands)			
<b>HELD TO MATURITY</b>								
U.S. government agencies	\$ 4,994	\$ 307	\$	\$ 5,301	\$ 21,760	\$ 684	\$	\$ 22,444
Mortgage-backed securities	27,837	951	(19)	28,769	34,141	524	(102)	34,563
Obligations of states and political subdivisions	47,412	1,383	(33)	48,762	52,626	872	(74)	53,424
Other debt securities	1,578	3	(24)	1,557	1,587		(137)	1,450
	\$ 81,821	\$ 2,644	\$ (76)	\$ 84,389	\$ 110,114	\$ 2,080	\$ (313)	\$ 111,881



**Table of Contents**

The following table lists contractual maturities of investment securities classified as available for sale and held to maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2009			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value (in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 1,058	\$ 1,064	\$ 12,453	\$ 12,551
Due after one year through five years	64,851	64,920	24,097	25,223
Due after five years through ten years	41,496	40,455	16,226	16,610
Due after ten years	3,920	3,365	1,208	1,236
	111,325	109,804	53,984	55,620
Mortgage-backed securities	243,118	244,828	27,837	28,769
Equity securities	21,107	20,898		
Total securities	\$ 375,550	\$ 375,530	\$ 81,821	\$ 84,389

The following table shows proceeds from sales of securities, gross gains on sales of securities and gross losses on sales of securities for the periods indicated:

	Years ended December 31,		
	2009	2008	2007
	(in thousands)		
Sale proceeds	\$ 153,763	\$ 10,108	\$ 2,438
Gross gains	4,506	53	1,769
Gross losses	(661)		

Securities with a carrying value of approximately \$331.7 million and \$280.9 million at December 31, 2009 and 2008, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008:

December 31, 2009	Less than 12 months		12 months or longer		Number of securities	Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses		Fair value	Unrealized Losses
	(dollars in thousands)						
<b>AVAILABLE FOR SALE</b>							
U.S. government agencies	\$ 32,681	\$ 271	\$	\$	8	\$ 32,681	\$ 271
Mortgage-backed securities	66,874	467	6,507	127	26	73,381	594
Obligations of states and political subdivisions	2,541	32	64	1	6	2,605	33
Other debt securities			10,255	1,701	4	10,255	1,701
Equity securities	620	134	812	272	5	1,432	406
	\$ 102,716	\$ 904	\$ 17,638	\$ 2,101	49	\$ 120,354	\$ 3,005
<b>HELD TO MATURITY</b>							
Mortgage-backed securities	\$ 1,795	\$ 19	\$ 8	\$	2	\$ 1,803	\$ 19

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Obligations of states and political subdivisions	1,088	33	3	1,088	33
Other debt securities	1,019	24	2	1,019	24
	\$ 1,795	\$ 19	\$ 2,115	\$ 57	7 \$ 3,910 \$ 76



**Table of Contents**

December 31, 2008	Less than 12 months		12 months or longer		Number of securities	Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses		Fair value	Unrealized Losses
(dollars in thousands)							
<b>AVAILABLE FOR SALE</b>							
U.S. government agencies	\$ 5,000	\$ 2	\$	\$	1	\$ 5,000	\$ 2
Mortgage-backed securities	15,786	540	21,045	958	37	36,831	1,498
Obligations of states and political subdivisions	528	15			2	528	15
Other debt securities	507	1	8,071	3,885	5	8,578	3,886
Equity securities	5,480	551	4,674	441	6	10,154	992
	\$ 27,301	\$ 1,109	\$ 33,790	\$ 5,284	51	\$ 61,091	\$ 6,393
<b>HELD TO MATURITY</b>							
Mortgage-backed securities	\$ 4,653	\$ 54	\$ 3,937	\$ 48	12	\$ 8,590	\$ 102
Obligations of states and political subdivisions	2,001	67	354	7	7	2,355	74
Other debt securities			1,450	137	3	1,450	137
	\$ 6,654	\$ 121	\$ 5,741	\$ 192	22	\$ 12,395	\$ 313

Management has evaluated the securities in the above table and has concluded that, with the exception of the equity securities discussed below, none of the securities with unrealized losses has impairments that are other-than-temporary. In its evaluation, management considered the credit rating on the securities and the results of discounted cash flow analyses. Investment securities, including the mortgage backed securities and corporate securities, are evaluated on a periodic basis to determine if factors are identified that would require further analysis. In evaluating the Company's securities, including mortgage backed securities and corporate securities, management considers the following items:

The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;

The Company's ability and intent to hold the securities, including an evaluation of the need to sell the security to meet certain liquidity measures, or whether the Company has sufficient levels of cash to hold the identified security in order to recover the entire amortized cost of the security;

The length of time the security's fair value has been less than amortized cost; and

Adverse conditions related to the security or its issuer if the issuer has failed to make scheduled payments or other factors.

In 2009, the Company recorded other-than-temporary impairment charges of \$940,000 on investments in its equity securities portfolio. Management evaluated its portfolio of equity securities, and based on its evaluation of the financial condition and near-term prospects of selected issuers, management was unsure that it could recover its investment in the securities.

**Table of Contents****NOTE 3 LOANS AND LEASES**

	December 31,	
	2009	2008
	(in thousands)	
Commercial	<b>\$ 1,086,967</b>	\$ 958,620
Leases	<b>113,160</b>	311,463
Leases held for sale	<b>7,314</b>	
Real estate-mortgage	<b>374,091</b>	336,951
Real estate-construction	<b>116,997</b>	107,928
Home Equity and Consumer	<b>315,598</b>	315,704
<b>Total loans and leases</b>	<b>2,014,127</b>	2,030,666
Plus deferred costs	<b>2,908</b>	4,165
<b>Loans and leases net of deferred fees</b>	<b>\$ 2,017,035</b>	\$ 2,034,831

Future minimum lease payments of lease receivables (including leases held for sale) are as follows (in thousands):

2010	\$ 56,154
2011	36,363
2012	20,497
2013	6,901
2014	559
	\$ 120,474

Changes in the allowance for loan and lease losses are as follows:

	Years ended December 31,		
	2009	2008	2007
	(in thousands)		
Balance at beginning of year	<b>\$ 25,053</b>	\$ 14,689	\$ 13,454
Provision for loan and lease losses	<b>51,615</b>	23,730	5,976
Loans and leases charged off*	<b>(53,382)</b>	(13,971)	(5,367)
Recoveries	<b>2,277</b>	605	626
<b>Balance at end of year</b>	<b>\$ 25,563</b>	\$ 25,053	\$ 14,689

\* Includes \$22,122 in charge-offs recorded upon reclassification of certain leases from held for investment to held for sale. The balance of impaired loans and leases was \$31.4 million and \$14.1 million at December 31, 2009 and 2008, respectively. Lakeland identifies a loan or lease as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the agreements. The allowance for loan and lease losses associated with impaired loans and leases was \$3.7 million at December 31, 2009 and 2008, respectively. At December 31, 2009, the Company had \$14.6 million in impaired loans and leases for which there was no related allowance for loan losses. The average recorded investment on impaired loans and leases was \$25.2 million, \$9.7 million and \$7.0 million during 2009, 2008 and 2007, respectively, and the income recognized, primarily on the cash basis, on impaired loans and leases was \$55,000, \$200,000 and \$154,000 during 2009, 2008 and 2007, respectively. Interest which would have been accrued on impaired loans and leases during 2009, 2008

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and 2007 was \$2.0 million, \$761,000 and \$720,000, respectively. Lakeland's policy for interest income recognition on restructured loans and leases is under the accrual method under the restructured terms if collateral is sufficient. Lakeland recognizes income on non-accrual and impaired loans and leases under the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to Lakeland; if these factors do not exist, Lakeland will not recognize income until all principal has been recovered.

**Table of Contents**

Loans and leases past due 90 days or more and still accruing are those loans and leases as to which payment of interest or principal is in arrears for a period of 90 days or more but are adequately collateralized as to interest and principal and are in the process of collection. Non-accrual loans and leases are those on which income under the accrual method has been discontinued with subsequent interest payments credited to interest income when received, or if ultimate collectibility of principal is in doubt, applied as principal reductions. Restructured loans and leases are loans and leases where significant concessions have been made due to borrowers' financial difficulties. Interest on these loans and leases is either accrued or credited directly to interest income upon the receipt of cash. Loans and leases past due 90 days or more and non-accrual loans were as follows:

	2009	December 31, 2008 (in thousands)	2007
Loans and leases past due 90 days or more and still accruing	\$ 1,437	\$ 825	\$ 667
Non-accrual loans and leases	\$ 38,711	\$ 16,544	\$ 10,159

The impact of the above non-performing loans and leases on interest income is as follows:

December 31,	2009	2008	2007
	(in thousands)		
Interest income if performing in accordance with original terms	\$ 1,951	\$ 761	\$ 720
Interest income actually recorded	55	200	154
	\$ 1,896	\$ 561	\$ 566

Lakeland has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on similar terms, including interest rates and collateral, as those prevailing for comparable transactions with other borrowers not related to the Company. These loans at December 31, 2009, were current as to principal and interest payments, and do not involve more than normal risk of collectibility. At December 31, 2009, loans to these related parties amounted to \$24.8 million. There were new loans of \$9.8 million to related parties and repayments of \$10.1 million from related parties in 2009.

*Leases Held for Sale*

During the year ended December 31, 2009, Lakeland reclassified \$90.1 million in lease pools to held for sale status based upon a change in management's intent with the leases, and a mark-to-market adjustment of \$22.1 million was recorded upon transfer into held for sale to record the leases at lower of cost or market. During the year ended December 31, 2009, Lakeland sold lease pools with a carrying value of \$54.2 million for \$53.4 million and recorded a loss on sales of leases of \$792,000. The following table shows the components of losses on held for sale leasing assets for the period presented:

(in thousands)	For the year ended December 31, 2009	
Losses on sales of held for sale leases	\$	(792)
Mark-to-market adjustment on held for sale leases		(1,431)
Recovery of leases previously written down held for sale		592
Gains (losses) on sales of other repossessed assets		230
Total loss on held for sale leasing assets	\$	(1,401)



**Table of Contents**

Losses on held for sale leasing assets are included in gain (loss) on leasing related assets along with other miscellaneous leasing income typically recorded in Lakeland's leasing business.

Lakeland had leases held for sale with a fair market value of \$7.3 million as of December 31, 2009. Management recorded the mark-to-market adjustments on the pools of leases based on indications of interest from potential buyers, and sales prices of similar leases previously sold adjusted for differences in types of collateral and other characteristics.

At December 31, 2009, the Company had other repossessed assets and other real estate owned of \$1.4 million and \$442,000, respectively. At December 31, 2008, the Company had other repossessed assets of \$4.0 million. For the years ended December 31, 2009 and 2008, the Company had writedowns of \$782,000 and \$99,000, respectively, on other repossessed assets which are included in other real estate and repossessed asset expense in the Statement of Operations.

**NOTE 4 PREMISES AND EQUIPMENT**

	Estimated useful lives	December 31,	
		2009 (in thousands)	2008
Land	Indefinite	\$ 5,443	\$ 5,443
Buildings and building improvements	10 to 50 years	30,871	30,808
Leasehold improvements	10 to 25 years	2,425	2,275
Furniture, fixtures and equipment	2 to 30 years	28,992	26,323
		67,731	64,849
Less accumulated depreciation and amortization		38,535	35,370
		\$ 29,196	\$ 29,479

**NOTE 5 DEPOSITS**

At December 31, 2009, the schedule of maturities of certificates of deposit is as follows (in thousands):

Year	
2010	\$ 348,009
2011	77,569
2012	10,659
2013	28,210
2014	100
Thereafter	1,193
	\$ 465,740

**NOTE 6 DEBT**

*Lines of Credit*

As of December 31, 2009 the Company had approved lines of credit with the Federal Home Loan Bank (FHLB) of New York of up to \$200.0 million. Borrowings under this arrangement have an interest rate that fluctuates based on market conditions and customer demand. As of December 31, 2009 and 2008, there were no overnight borrowings against these lines. As of December 31, 2009, the Company also had overnight federal funds lines available for it to borrow \$175.0 million. The Company had borrowed \$14.1 and \$8.5 million against these lines as of December 31, 2009 and 2008, respectively. The Company may also borrow from the discount window of the Federal Reserve Bank of New

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York based on the market value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New York as of December 31, 2009.

**Table of Contents***Securities Sold Under Agreements to Repurchase and Federal Funds Purchased*

Short-term borrowings at December 31, 2009 and 2008 consisted of short-term securities sold under agreements to repurchase and federal funds purchased. Securities underlying the agreements were under Lakeland's control. The following tables summarize information relating to securities sold under agreements to repurchase and federal funds purchased for the years presented. For purposes of the tables, the average amount outstanding was calculated based on a daily average.

	2009	2008	2007
	(dollars in thousands)		
Federal funds purchased:			
Balance at December 31	\$ 14,075	\$ 8,500	\$ 7,000
Interest rate at December 31	0.50%	0.50%	4.00%
Maximum amount outstanding at any month-end during the year	\$ 42,400	\$ 120,525	\$ 60,800
Average amount outstanding during the year	\$ 4,447	\$ 25,732	\$ 8,276
Weighted average interest rate during the year	0.55%	2.42%	5.28%

	2009	2008	2007
	(dollars in thousands)		
Securities sold under agreements to repurchase:			
Balance at December 31	\$ 49,597	\$ 53,863	\$ 42,294
Interest rate at December 31	0.27%	0.29%	3.39%
Maximum amount outstanding at any month-end during the year	\$ 55,101	\$ 57,163	\$ 54,602
Average amount outstanding during the year	\$ 45,439	\$ 51,515	\$ 46,431
Weighted average interest rate during the year	0.25%	1.68%	4.02%

*Long-Term Debt**FHLB Debt*

At December 31, 2009, advances from the FHLB totaling \$85.9 million will mature within one to eight years and are reported as long-term borrowings. These advances are collateralized by certain securities and first mortgage loans. The advances had a weighted average interest rate of 4.28%. In fourth quarter 2009, the Company prepaid \$55.0 million of its FHLB debt that had a weighted rate of 3.81% and incurred a prepayment penalty of \$3.1 million.

FHLB debt matures as follows (in thousands):

2010	\$ 900
2011	10,000
2012	40,000
2013	
2014	10,000
Thereafter	25,000
	\$ 85,900



**Table of Contents***Long-term Securities Sold Under Agreements to Repurchase*

At December 31, 2009, the Company had \$60.0 million in long-term securities sold under agreements to repurchase. These securities can be called starting in 2009. These advances are collateralized by certain securities. The advances had a weighted average interest rate of 4.39%. These borrowings have rates that can reset quarterly. These long-term securities sold under agreements to repurchase mature as follows (in thousands):

2010	\$
2011	
2012	
2013	10,000
2014	20,000
Thereafter	30,000
	\$ 60,000

*Subordinated Debentures*

On May 16, 2007, the Company issued \$20.6 million of junior subordinated debentures due August 31, 2037 to Lakeland Bancorp Capital Trust IV, a Delaware business trust. The distribution rate on these securities is 6.61% for 5 years and floats at LIBOR plus 152 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, \$1,000 face value, for total proceeds of \$20.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after August 1, 2012, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2037.

On December 15, 2003, the Company issued \$25.8 million of junior subordinated debentures due January 7, 2034 to Lakeland Bancorp Capital Trust III, a Delaware business trust. The distribution rate on these securities is 7.535% for 10 years and floats at LIBOR plus 285 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 25,000 shares of trust preferred securities, \$1,000 face value, for total proceeds of \$25.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after January 7, 2009, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2034.

On June 18, 2003, the Company issued \$10.3 million of junior subordinated debentures due July 7, 2033 to Lakeland Bancorp Capital Trust I, a Delaware business trust. The distribution rate on these securities is 6.20% for 7 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 10,000 shares of trust preferred securities, \$1,000 face value, for total proceeds of \$10.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after July 7, 2010, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2033.

On June 18, 2003, the Company also issued \$20.6 million of junior subordinated debentures due June 30, 2033 to Lakeland Bancorp Capital Trust II, a Delaware business trust. The distribution rate on these securities is

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**Table of Contents**

5.71% for 5 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, \$1,000 face value, for total proceeds of \$20.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after June 30, 2008, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2033.

**NOTE 7 STOCKHOLDERS EQUITY**

On February 6, 2009, under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), the Company issued 59,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A preferred stock) to the U.S. Department of the Treasury for a purchase price of \$59.0 million. The Series A preferred stock has a 5% annual dividend rate for the first five years and a 9% annual dividend thereafter if the Series A preferred stock are not redeemed by the Company. The Company may redeem the Series A preferred stock with the consent of the Treasury Department in conjunction with the Company's primary regulator at any time.

In conjunction with the issuance of our Series A preferred stock, the Company also issued a warrant to purchase 949,571 shares of the Company's common stock to the Treasury Department. The warrant has a 10-year term and is immediately exercisable at an exercise price, subject to anti-dilution adjustments, of \$9.32 per share.

The proceeds from the U.S. Treasury are allocated to the Series A preferred stock and the warrant based on their relative fair values. The fair value of the Series A preferred stock was determined through a discounted future cash flow model. The Company calculated the fair value of the Series A preferred stock by using a 14% discount rate and discounting the cash flows over a 10 year period. A Black-Scholes pricing model was used to calculate the fair value of the warrant. The Black-Scholes model used the following assumptions, a dividend yield of 5.12%, volatility of 32% and a risk-free interest rate of 3.05%.

A \$3.3 million discount is being amortized over a five year period using a level yield method. The effective yield on the amortization of the Series A preferred Stock is approximately 6.36%. In determining net income (loss) available to common shareholders, the periodic amortization and the cash dividend on the Series A preferred stock are subtracted from net income (loss).

On October 16, 2007, the Company's Board of Directors authorized a 5% stock dividend which was distributed on November 16, 2007.

On August 16, 2007, the Company announced a stock repurchase program for the purchase of up to 525,000 shares of the Company's common stock over the next year. The Company purchased no shares of its common stock under this repurchase program. The program expired in August 2008.

**NOTE 8 SHAREHOLDER PROTECTION RIGHTS PLAN**

The Company adopted a Shareholder Rights Plan (the Rights Plan) in 2001 to protect shareholders from attempts to acquire control of the Company at an inadequate price. Under the Rights Plan, the Company distributed a dividend of one right to purchase a unit of common stock on each outstanding common share of the Company. The rights are not currently exercisable or transferable, and no separate certificates evidencing such rights will be distributed, unless certain events occur. The rights have an expiration date of September 4, 2011.

**Table of Contents**

After the rights become exercisable, under certain circumstances, the rights (other than rights held by a 15.0% beneficial owner or an adverse person ) will entitle the holders to purchase the Company's common shares at a substantially reduced price.

The Company is generally entitled to redeem the rights at \$0.001 per right at any time before the Rights become exercisable. Rights are not redeemable following an adverse person determination.

The Rights Plan was not adopted in response to any specific effort to acquire control of the Company. The issuance of rights had no dilutive effect, did not affect the Company's reported earnings per share, and was not taxable to the Company or its shareholders.

**NOTE 9 INCOME TAXES**

The components of income taxes are as follows:

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
Current tax provision (benefit)	\$ (5,052)	\$ 11,714	\$ 10,374
Deferred tax benefit	(2,725)	(4,490)	(2,173)
<b>Total provision (benefit) for income taxes</b>	<b>\$ (7,777)</b>	<b>\$ 7,224</b>	<b>\$ 8,201</b>

The income tax provision reconciled to the income taxes that would have been computed at the statutory federal rate of 35% is as follows:

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
Federal income tax (benefit), at statutory rates	\$ (4,609)	\$ 7,836	\$ 9,166
Increase (deduction) in taxes resulting from:			
Non-taxable interest income	(1,612)	(1,614)	(1,614)
State income tax, net of federal income tax effect	(1,156)	1,039	591
Other, net	(400)	(37)	58
<b>Provision (benefit) for income taxes</b>	<b>\$ (7,777)</b>	<b>\$ 7,224</b>	<b>\$ 8,201</b>

**Table of Contents**

The net deferred tax asset consisted of the following:

	December 31, 2009      2008 (in thousands)	
<b>Deferred tax assets:</b>		
Allowance for loan and lease losses	<b>\$ 10,624</b>	\$ 10,440
Valuation reserves on leases held for sale	<b>1,345</b>	
Valuation reserves for land held for sale and other real estate	<b>679</b>	679
State net operating loss carryforward	<b>1,195</b>	
Non-accrued interest	<b>779</b>	646
Depreciation		154
Deferred compensation	<b>1,239</b>	1,192
Capital loss carryforwards		526
Other than temporary impairment loss on investment securities	<b>329</b>	
Unfunded pension benefits	<b>298</b>	495
Unrealized loss on securities available for sale		896
Other, net	<b>428</b>	310
Deferred tax assets	<b>16,916</b>	15,338
<b>Deferred tax liabilities:</b>		
Core deposit intangible from acquired companies	<b>729</b>	1,163
Deferred loan costs	<b>1,247</b>	1,114
Prepaid expenses	<b>342</b>	312
Depreciation and amortization	<b>236</b>	
Deferred gain on securities	<b>194</b>	194
Fair market value adjustments	<b>70</b>	92
Unrealized gains on securities available for sale	<b>7</b>	
Other	<b>571</b>	568
Deferred tax liabilities	<b>3,396</b>	3,443
Net deferred tax assets, included in other assets	<b>\$ 13,520</b>	\$ 11,895

The Company evaluates the realizability of its deferred tax assets by examining its earnings history and projected future earnings and by assessing whether it is more likely than not that carryforwards would not be realized. Based upon the majority of the Company's deferred tax assets having no expiration date, the Company's earnings history, and the projections of future earnings, the Company's management believes that it is more likely than not that all of the Company's deferred tax assets as of December 31, 2009 will be realized.

The Company had state net operating losses of \$20.4 million, that are scheduled to expire in 2029.

A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows:

(in thousands)	2009	2008
Balance at January 1	<b>\$ 712</b>	\$ 954
Additions for tax positions of prior years	<b>83</b>	172
Reductions for tax positions resulting from lapse of statute of limitations	<b>(101)</b>	(70)
Settlements		(344)
Balance at December 31	<b>\$ 694</b>	\$ 712



**Table of Contents**

The amount of unrecognized tax benefits as of December 31, 2009 and 2008, was \$463,000 and \$480,000, respectively, all of which, if ultimately recognized, would reduce the Company's annual effective tax rate.

The Company is subject to U.S. federal income tax law as well as income tax of various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few significant exceptions, the Company is no longer subject to U.S. federal or state and local examinations by tax authorities for the years before 2005.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately \$158,000 and \$136,000 for the payment of interest and penalties at December 31, 2009 and 2008, respectively.

**NOTE 10 EARNINGS PER SHARE**

The Company uses the two class method to compute earnings per common share. Participating securities include non-vested restricted stock. The following tables present the computation of basic and diluted earnings per share for the periods presented.

	Year ended December 31, 2009		
	Income (numerator) (in thousands, except per share amounts)	Shares (denominator)	Per share amount
<b>Basic loss per share</b>			
Net loss available to common shareholders	\$ (8,590)	23,673	\$ (0.36)
Effect of dilutive securities			
Stock options, restricted stock and a warrant			
<b>Diluted loss per share</b>			
Net loss available to common shareholders plus assumed conversions	\$ (8,590)	23,673	\$ (0.36)

Options to purchase 815,473 shares of common stock, a warrant to purchase 949,571 shares of common stock and 96,891 shares of restricted stock at a weighted average of \$12.38, \$9.32 and \$11.97 per share, respectively, were not included in the computation of diluted earnings per share because of the net loss recorded. The two step-method was not used in the computation of earnings per share because of the net loss recorded.

	Year ended December 31, 2008		
	Income (numerator) (in thousands, except per share amounts)	Shares (denominator)	Per share amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 15,165	23,465	\$ 0.65
Less: earnings allocated to participating securities	63		
Net income allocated to common shareholders	\$ 15,102	23,465	0.65
Effect of dilutive securities			
Stock options and restricted stock		84	(0.01)
<b>Diluted earnings per share</b>			
Net income available to common shareholders plus assumed conversions	\$ 15,102	23,549	\$ 0.64

Options to purchase 691,902 shares of common stock and 11,936 shares of restricted stock at a weighted average of \$13.95 and \$13.95 per share, respectively, were outstanding during 2008. These options and restricted



**Table of Contents**

stock were not included in the computation of diluted earnings per share because the option exercise price and the grant date price were greater than the average market price during the period.

	Year ended December 31, 2007		
	Income (numerator) (in thousands, except per share amounts)	Shares (denominator)	Per share amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 17,988	23,187	\$ 0.78
Less: earnings allocated to participating securities	29		
Net income allocated to common shareholders	\$ 17,959	23,187	0.78
<b>Effect of dilutive securities</b>			
Stock options and restricted stock		98	(0.01)
<b>Diluted earnings per share</b>			
Net income available to common shareholders plus assumed conversions	\$ 17,959	23,285	\$ 0.77

Options to purchase 902,205 shares of common stock at a weighted average of \$14.11 per share were outstanding during 2007. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price during the period.

**NOTE 11 EMPLOYEE BENEFIT PLANS***Profit Sharing Plan*

The Company has a profit sharing plan for all its eligible employees. The Company's annual contribution to the plan is determined by its Board of Directors. Annual contributions are allocated to participants on a point basis with accumulated benefits payable at retirement, or, at the discretion of the plan committee, upon termination of employment. Contributions made by the Company were approximately \$581,000 for 2008 and \$675,000 for 2007. There were no contributions to the profit sharing plan in 2009.

*Salary Continuation Agreements*

The National Bank of Sussex County (NBSC) entered into a salary continuation agreement during 1996 with its former Chief Executive Officer and its President which entitle them to certain payments upon their retirement. As part of the merger of the Company and NBSC's parent (High Point Financial Corp.) in July 1999, Lakeland placed in trusts amounts equal to the present value of the amounts that would be owed to them in their retirement. These amounts were \$722,000 for the Chief Executive Officer and \$381,000 for the President. The Company has no further obligation to pay additional amounts pursuant to these agreements.

*Former CEO Retirement Benefits*

Metropolitan State Bank entered into an agreement in January 1997 with its former Chief Executive Officer (CEO), which provides for an annual retirement benefit of \$35,000 for a fifteen year period. In February 1999, the Company entered into an additional agreement with this CEO. Such agreement provides for an additional retirement benefit of \$35,000 per annum for a fifteen year period. During 2009, 2008 and 2007, \$8,000, \$15,000 and \$10,000, respectively, was charged to operations related to these obligations.

*Retirement Savings Plans (401K plans)*

Beginning in January 2002, the Company began contributing to its 401(k) plan. All eligible employees can contribute a portion of their annual salary with the Company matching up to 50% of the employee's contributions. The Company's contributions in 2009, 2008 and 2007 totaled \$558,000, \$424,000 and \$397,000, respectively.





**Table of Contents**

*Pension Plan*

Newton Trust Company had a defined benefit pension plan (the Plan) that was frozen prior to the acquisition by the Company. All participants of the Plan ceased accruing benefits as of that date.

The investment policy and strategy of the Plan and its advisors includes target portfolio allocations of approximately 60% in equities and 40% in debt securities. Based on historical performance, the Plan assumes that the long term equity securities have earned a rate of return of approximately 10% and fixed income securities have earned a return of between 1% and 5%.

The assets of the Plan consist of cash and cash equivalents and investments in mutual funds that are actively traded. All of the mutual funds are classified as Level 1 securities meaning that their market values are unadjusted quoted prices in active markets. For further explanation of Level 1 securities, please see the discussion of fair value measurements in Note 16 Fair Market Value and Estimated Fair Value of Financial Instruments.

The following table shows the fair market value and the portfolio allocations of the assets in the Plan by type of investment as of December 31, 2009 (dollars in thousands):

(in thousands)	Market Value	Percent of Assets
Cash and cash equivalents	\$ 168	14%
Fixed Income Mutual funds	387	31%
U.S. Large-Cap funds	230	19%
US Mid- and Small-Cap funds	80	6%
US Balanced funds	112	9%
International funds	201	16%
Commodity funds	57	5%
	\$ 1,235	100%

The accumulated benefit obligation as of December 31, 2009 and 2008, is as follows:

(in thousands)	2009	2008
Accumulated postretirement benefit obligation	\$ 1,899	\$ 1,723
Interest Cost	94	99
Actuarial (gain) loss	(80)	220
Estimated benefit payments	(82)	(143)
<b>Total accumulated postretirement benefit obligation</b>	<b>1,831</b>	<b>1,899</b>
Fair value of plan assets beginning of period	950	1,290
Return on plan assets	207	(307)
Benefits paid	(82)	(143)
Contribution	160	110
Fair value of plan assets at end of year	1,235	950
Funded status	(596)	(949)
Unrecognized net actuarial loss		
Prepaid benefit	(\$ 596)	(\$ 949)
Accumulated benefit obligation	\$ 1,831	\$ 1,899



**Table of Contents**

The components of net periodic pension cost are as follows:

(in thousands)	2009	2008	2007
Amortization of actuarial loss	\$ 71	\$ 23	\$ 31
Interest cost on APBO	94	99	98
Expected return on plan assets	(49)	(92)	(85)
Net periodic postretirement cost	\$ 116	\$ 30	\$ 44

The benefits expected to be paid in each of the next five years and the aggregate for the five fiscal years thereafter are as follows (in thousands):

2010	\$ 37
2011	37
2012	37
2013	63
2014	84
2015 - 2019	570

The assumptions used to determine the pension obligation and the net periodic pension cost were as follows:

	2009	2008
Discounted rate	5.25%	5.00%
Expected return on plan assets	6.25%	7.25%
Rate of compensation	0.00%	0.00%

*Deferred Compensation Arrangements*

High Point Financial Corp had established deferred compensation arrangements for certain directors and executives of High Point Financial Corp. and NBSC. The deferred compensation plans differ, but generally provide for annual payments for ten to fifteen years following retirement. The Company's liabilities under these arrangements are being accrued from the commencement of the plans over the participants remaining periods of service. The Company intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of life insurance policies that it has purchased on the respective participants. The deferred compensation plans do not hold any assets. For the years ended December 31, 2009, 2008 and 2007, \$0, \$42,000, and \$0, respectively, was charged to operations related to these obligations. As of December 31, 2009 and 2008, the accrued liability for these plans was \$203,000 and \$194,000, respectively.

*Supplemental Executive Retirement Plans*

In 2003, the Company entered into a supplemental executive retirement plan (SERP) agreement with its former Chief Executive Officer that provides annual retirement benefits of \$150,000 a year for a 15 year period when the former Chief Executive Officer reached the age of 65. Our former Chief Executive Officer retired and is receiving annual retirement benefits pursuant to the plan. In 2008, the Company entered into a SERP agreement with its current Chief Executive Officer that provides annual retirement benefits of \$150,000 for a 15 year period when the Chief Executive Officer reaches the age of 65. In November 2008, the Company entered into a SERP with its Senior Executive Vice President and Chief Operating Officer that provides annual retirement benefits of \$90,000 a year for a 10 year period upon his reaching the age of 65. The Company intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of bank owned life insurance policies. In 2009, 2008 and 2007, the Company recorded compensation expense of \$230,000, \$120,000 and \$283,000, respectively, for these plans.

**Table of Contents****NOTE 12 DIRECTORS RETIREMENT PLAN**

The Company provides a plan that any director who became a member of the Board of Directors prior to 2009 who completes five years of service may retire and continue to be paid for a period of ten years at a rate ranging from \$5,000 through \$17,500 per annum, depending upon years of credited service. This plan is unfunded. The following tables present the status of the plan and the components of net periodic plan cost for the years then ended. The measurement date for the accumulated benefit obligation is December 31 of the years presented.

	December 31, 2009      2008 (in thousands)	
Accrued plan cost included in other liabilities	\$ 1,047	\$ 1,117
Amount not recognized as component of net postretirement benefit cost Recognized in accumulated other comprehensive income		
Net actuarial (gain) loss	\$ (66)	\$ 109
Unrecognized prior service cost		
Amounts not recognized as a component of net postretirement benefit cost	\$ (66)	\$ 109

	Years ended December 31, 2009      2008      2007 (in thousands)		
Net periodic plan cost included the following components:			
Service cost	\$ 27	\$ 23	\$ 19
Interest cost	50	59	59
Amortization of prior service cost	43	40	54
	\$ 120	\$ 122	\$ 132

A discount rate of 5.25% and 5.00% was assumed in the plan valuation for 2009 and 2008, respectively. As the benefit amount is not dependent upon compensation levels, a rate of increase in compensation assumption was not utilized in the plan valuation.

The director's retirement plan holds no plan assets. The benefits expected to be paid in each of the next five years and in aggregate for the five years thereafter are as follows (in thousands):

2010	\$ 80
2011	63
2012	70
2013	70
2014	70
2015 - 2019	317

The Company expects its contribution to the director's retirement plan to be \$80,000 in 2010.

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost in 2010 is \$40,000.

**Table of Contents****NOTE 13 STOCK-BASED COMPENSATION***Employee Stock Option Plans*

On May 21, 2009, the Company's shareholders approved the 2009 Equity Compensation Program, which authorizes the granting of incentive stock options, supplemental stock options, restricted shares and restricted stock units to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorizes the issuance of 2 million shares in connection with options and awards granted under the 2009 program. No awards have been granted under the 2009 program through December 31, 2009.

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company which includes those employees serving as officers and directors of the Company. The plan authorized 2,257,369 shares of common stock of the Company. No further awards will be granted from the 2000 program.

During 2008 and 2007 the Company granted options to purchase 25,000 and 26,250 shares, respectively, to new non-employee directors of the Company at exercise prices of \$13.16 and \$11.43 per share, respectively. The director's options are exercisable in five equal installments beginning on the date of grant and continuing on the next four anniversaries of the date of grant. As of December 31, 2009 and 2008, 250,235 and 283,592 options granted to directors were outstanding, respectively.

As of December 31, 2009 and 2008, outstanding options to purchase common stock granted to key employees were 526,168 and 569,070, respectively.

In addition to the 2000 Equity Compensation program, the Company has assumed the outstanding options granted under Newton Financial Corp.'s 1999 Stock Option Plan (the Newton Plan). As of December 31, 2009 and 2008, 39,070 and 42,858 options, respectively, were outstanding under the Newton Plan.

On December 12, 2007, the Company granted 28,520 shares of restricted stock at a market value of \$11.91. During 2008, the Company granted 81,000 shares of restricted stock at an average price of \$12.46. These shares typically vest over a four year period beginning one year after the grant date. On January 14, 2009, the Company granted 14,452 shares of restricted stock at a market value of \$9.26 per share under the 2000 program. These shares vest over a four year period. Compensation expense on these shares is expected to be approximately \$26,000 per year for the next four years.

Excess tax benefits of stock based compensation was \$2,000, \$105,000 and \$103,000 for the years 2009, 2008 and 2007, respectively.

For the year ended December 31, 2008, the Company estimated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2008</b>
Risk-free interest rates	3.09%
Expected dividend yield	3.25%
Expected volatility	32.00%
Expected lives (years)	7.00
Weighted average fair value of options granted	\$ 3.42

There were no stock options granted in 2009.

**Table of Contents**

A summary of the status of the Company's option plans as of December 31, 2009 and the changes during the year ending on that date is represented below.

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding, beginning of year	895,521	\$ 12.45		\$ 793,473
Granted				
Exercised	(2,450)	6.30		
Expired	(2,787)	5.67		
Forfeited	(74,811)	13.68		
Outstanding, end of year	815,473	\$ 12.38	3.58	\$ 27,604

A summary of the Company's non-vested options under the Company's option plans as of December 31, 2009 and changes for the year then ended is presented below.

Non-vested Options	Shares	Weighted-Average Grant-date Fair Value
Non-vested, January 1, 2009	35,750	\$ 3.18
Granted		\$
Vested	(10,250)	\$ 3.14
Non-vested, December 31, 2009	25,500	\$ 3.20

As of December 31, 2009, there was \$62,000 of unrecognized compensation expense related to unvested stock options under the 2000 Equity Compensation Program. Compensation expense recognized for stock options was \$32,000, \$45,000 and \$21,000 for 2009, 2008, and 2007, respectively.

The aggregate intrinsic values of options exercised in 2009, 2008 and 2007 were \$5,000, \$376,000 and \$348,000, respectively. Exercise of stock options during 2009, 2008 and 2007 resulted in cash receipts of \$15,000, \$2.8 million and \$408,000, respectively. The total fair value of options that vested in 2009, 2008 and 2007 were \$32,000, \$32,000 and \$15,000, respectively.

Information regarding the Company's restricted stock for the year ended December 31, 2009 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2009	114,008	\$ 12.53
Granted	14,452	9.26
Vested	(30,901)	12.79
Forfeited	(668)	10.90
Outstanding, December 31, 2009	96,891	\$ 11.97

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The total fair value of the restricted stock vested during the year ended December 31, 2009 was approximately \$395,000. Compensation expense recognized for restricted stock was \$411,000, \$306,000 and \$240,000 in 2009, 2008, and 2007, respectively. There was approximately \$1.0 million in unrecognized compensation expense related to restricted stock grants as of December 31, 2009.



**Table of Contents****NOTE 14 COMMITMENTS AND CONTINGENCIES***Lease Obligations*

Rent expense under long-term operating leases amounted to approximately \$1,986,000, \$1,583,000 and \$1,343,000 for the years ended December 31, 2009, 2008 and 2007, respectively, including rent expense to related parties of \$300,000 in 2009, \$197,000, in 2008, and \$205,000 in 2007. At December 31, 2009, the minimum commitments, which include rental, real estate tax and other related amounts, under all noncancellable leases with remaining terms of more than one year and expiring through 2029 are as follows (in thousands):

<b>Year</b>	
2010	\$ 1,769
2011	1,594
2012	1,370
2013	1,138
2014	1,125
Thereafter	7,631
	<b>\$ 14,627</b>

*Litigation*

A complaint, dated February 24, 2010, was filed by the International Association of Machinists and Aerospace Workers, as plaintiff, against the Company and other unrelated parties in the Circuit Court of Maryland for Prince George's County. The plaintiff alleges fraudulent conduct in connection with certain equipment leases it entered into by a vendor and lease broker not affiliated with the Company. Certain of these leases were subsequently assigned to Lakeland resulting in the Plaintiff amending their Complaint to include all parties who were assignees. The Company believes that the claims asserted against it are without merit.

Other than as described above, there are no pending legal proceedings involving the Company or Lakeland other than those arising in the normal course of business. Management does not anticipate that the potential liability, if any, arising out of such legal proceedings will have a material effect on the financial condition or results of operations of the Company and Lakeland on a consolidated basis.

**NOTE 15 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK**

Lakeland is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement Lakeland has in particular classes of financial instruments.

Lakeland's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. Lakeland uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

**Table of Contents**

Lakeland generally requires collateral or other security to support financial instruments with credit risk. The approximate contract amounts are as follows:

	December 31,	
	2009	2008
	(in thousands)	
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	\$ 403,344	\$ 402,404
Standby letters of credit and financial guarantees written	9,141	8,969

At December 31, 2009 there were \$86,000 in commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings. There were no commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings at December 31, 2008.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Lakeland evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Lakeland upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by Lakeland to guarantee the payment by or performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Lakeland holds deposit accounts, residential or commercial real estate, accounts receivable, inventory and equipment as collateral to support those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2009 and 2008 varies based on management's credit evaluation.

Lakeland issues financial and performance letters of credit. Financial letters of credit require Lakeland to make payment if the customer fails to make payment, as defined in the agreements. Performance letters of credit require Lakeland to make payments if the customer fails to perform certain non-financial contractual obligations. Lakeland defines the initial fair value of these letters of credit as the fees received from the customer. Lakeland records these fees as a liability when issuing the letters of credit and amortizes the fee over the life of the letter of credit.

The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2009 is \$9.1 million and they expire through 2024. Lakeland's exposure under these letters of credit would be reduced by actual performance, subsequent termination by the beneficiaries and by any proceeds that Lakeland obtained in liquidating the collateral for the loans, which varies depending on the customer.

As of December 31, 2009, Lakeland had \$403.3 million in loan and lease commitments, with \$340.1 million maturing within one year, \$41.3 million maturing after one year but within three years, \$4.6 million maturing after three years but within five years, and \$17.4 million maturing after five years. As of December 31, 2009, Lakeland had \$9.1 million in standby letters of credit, with \$8.9 million maturing within one year, \$160,000 maturing after one year but within three years, and \$80,000 maturing after five years.

Lakeland grants loans primarily to customers in its immediately adjacent suburban counties which include Bergen, Morris, Passaic, Sussex, Warren and Essex counties in Northern New Jersey and surrounding areas. Certain of Lakeland's consumer loans and lease customers are more diversified nationally. Although Lakeland has a diversified loan portfolio, a large portion of its loans are secured by commercial or residential real property. Although Lakeland has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy. Commercial and standby letters of credit were granted primarily to commercial borrowers.

**Table of Contents**

**NOTE 16 FAIR MARKET VALUE AND ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

U.S. GAAP requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans and leases. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2009 and 2008 are outlined below.

For cash and cash equivalents and interest-bearing deposits with banks, the recorded book values approximate fair values. The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available.

The net loan portfolio at December 31, 2009 and 2008 has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits (i.e. interest (checking) and non-interest bearing demand accounts, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amounts of variable rate accounts approximate their fair values at the reporting date. For fixed maturity certificates of deposit, fair value was estimated using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

The fair value of securities sold under agreements to repurchase and long-term debt are based upon discounted value of contractual cash flows. The Company estimates the discount rate using the rates currently offered for similar borrowing arrangements.

The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counter parties at the reporting date.

**Table of Contents**

The carrying values and estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2009	2008		2008
	Carrying Value	Estimated fair value	Carrying Value	Estimated fair value
(in thousands)				
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 58,663	\$ 58,663	\$ 49,776	\$ 49,776
Investment securities available for sale	375,530	375,530	282,174	282,174
Investment securities held to maturity	81,821	84,389	110,114	111,881
Loans, including leases held for sale	2,017,035	2,015,268	2,034,831	2,085,336
<b>Financial Liabilities:</b>				
Deposits	2,157,187	2,160,445	\$ 2,056,133	2,065,332
Federal funds purchased and securities sold under agreements to repurchase	63,672	63,672	62,363	62,363
Long-term debt	145,900	161,023	210,900	225,760
Subordinated debentures	77,322	81,503	77,322	83,858

**Commitments:**

Standby letters of credit	20	11
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U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level priority to unobservable inputs (level 3 measurements).

The following describes the three levels of fair value hierarchy:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, yield curves, volatilities, etc.)

Level 3 unobservable inputs for the asset or liability these shall be used to the extent that observable inputs are not available allowing for situations in which there is little, if any, market activity available.

The following table sets forth the Company's financial assets that were accounted for at fair values as of December 31, 2009 by level within the fair value hierarchy. The Company had no liabilities accounted for at fair value as of December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(in thousands)	Quoted Prices in			Balance as of December 31, 2009
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>				
Investment securities, available for sale				
US government agencies	\$	\$ 81,481	\$	\$ 81,481
Mortgage backed securities		244,828		244,828
Obligations of states and political subdivisions		15,002		15,002
Corporate debt securities		13,321		13,321
Other equity securities	1,385	19,513		20,898

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Total securities available for sale	\$	1,385	\$	374,145	\$	\$	375,530
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79

**Table of Contents**

The following table sets forth the Company's financial assets subject to fair value adjustments (impairment) on a nonrecurring basis as they are valued at the lower of cost or market. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2009
<b>Assets:</b>				
Leases held for sale	\$	\$	\$ 7,314	\$ 7,314
Impaired Loans and Leases			31,377	\$ 31,377
Other real estate and other repossessed assets			1,864	\$ 1,864
Land held for sale			952	\$ 952

Leases held for sale are those leases that Lakeland identified and intends to sell. Leases held for sale were valued at the lower of cost or market. Fair value indications were derived from sale price indications from potential buyers and based on sale prices of prior lease pools adjusted for differences in types of collateral and other characteristics.

Impaired loans and leases are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. Fair value is measured based on the value of the collateral securing these loans and leases and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate, accounts receivable, inventory, equipment and/or other business assets. The value of the real estate is assessed based on appraisals by qualified third party licensed appraisers. The value of the equipment may be determined by an appraiser, if significant, inquiry through a recognized valuation resource, or by the value on the borrower's financial statements. Field examiner reviews on business assets may be conducted based on the loan exposure and reliance on this type of collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans and leases are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Other real estate owned (OREO) and other repossessed assets, representing property acquired through foreclosure, is carried at the lower of the principal balance of the secured loan or lease or fair value less estimated disposal costs of the acquired property.

Land held for sale represents a property held by the Company that is recorded at the lower of book or fair value. There is currently a contract for sale on the property in which the net proceeds of the sale would exceed the book value of the property.

**NOTE 17 REGULATORY MATTERS**

The Bank Holding Company Act of 1956 restricts the amount of dividends the Company can pay. Accordingly, dividends should generally only be paid out of current earnings, as defined.

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of Lakeland will be unimpaired, and: (1) Lakeland will have a surplus, as defined, of not less than 50% of its capital stock, or, if not, (2) the payment of such dividend will not reduce the surplus, as defined, of Lakeland. Under these limitations, approximately \$234.7 million was available for payment of dividends from Lakeland to the Company as of December 31, 2009.

The Company and Lakeland are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on

**Table of Contents**

the Company's and Lakeland's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's and Lakeland's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Lakeland's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Company and Lakeland to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2009, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the Federal Reserve Bank of New York and the FDIC categorized the Company and Lakeland as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Lakeland must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions' category.

As of December 31, 2009 and 2008, the Company and Lakeland have the following capital ratios:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2009</b>						
Total capital (to risk-weighted assets)						
Company	\$ 279,922	13.90%	<sup>3</sup> \$161,053	<sup>3</sup> 8.00%	N/A	N/A
Lakeland	266,688	13.32	160,150	8.00	<sup>3</sup> \$200,187	<sup>3</sup> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	\$ 254,747	12.65%	<sup>3</sup> \$80,527	<sup>3</sup> 4.00%	N/A	N/A
Lakeland	241,653	12.07	80,075	4.00	<sup>3</sup> \$120,112	<sup>3</sup> 6.00%
Tier 1 capital (to average assets)						
Company	\$ 254,747	9.44%	<sup>3</sup> \$107,923	<sup>3</sup> 4.00%	N/A	N/A
Lakeland	241,653	8.99	107,470	4.00	<sup>3</sup> \$134,338	<sup>3</sup> 5.00%
	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2008</b>						
Total capital (to risk-weighted assets)						
Company	\$ 233,215	11.52%	<sup>3</sup> \$161,899	<sup>3</sup> 8.00%	N/A	N/A
Lakeland	216,610	10.85	161,215	8.00	<sup>3</sup> \$201,518	<sup>3</sup> 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	\$ 207,156	10.24%	<sup>3</sup> \$80,949	<sup>3</sup> 4.00%	N/A	N/A
Lakeland	193,416	9.60	80,607	4.00	<sup>3</sup> \$121,524	<sup>3</sup> 6.00%
Tier 1 capital (to average assets)						
Company	\$ 207,156	8.08%	<sup>3</sup> \$102,597	<sup>3</sup> 4.00%	N/A	N/A
Lakeland	193,416	7.57	102,244	4.00	<sup>3</sup> \$127,805	<sup>3</sup> 5.00%





**Table of Contents****NOTE 18 QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following represents summarized quarterly financial data of the Company, which in the opinion of management reflected all adjustments, consisting only of nonrecurring adjustments, necessary for a fair presentation of the Company's results of operations.

	March 31, 2009	June 30, 2009	Quarter ended September 30, 2009	December 31, 2009
	(in thousands, except per share amounts)			
<b>Total interest income</b>	<b>\$ 34,156</b>	<b>\$ 33,153</b>	<b>\$ 32,990</b>	<b>\$ 33,523</b>
<b>Total interest expense</b>	<b>11,264</b>	<b>10,670</b>	<b>9,968</b>	<b>8,541</b>
<b>Net interest income</b>	<b>22,892</b>	<b>22,483</b>	<b>23,022</b>	<b>24,982</b>
<b>Provision for loan and lease losses</b>	<b>6,376</b>	<b>34,083</b>	<b>4,718</b>	<b>6,438</b>
<b>Noninterest income</b>	<b>4,088</b>	<b>3,942</b>	<b>3,554</b>	<b>4,368</b>
<b>Gains (losses) on investment securities</b>	<b>885</b>			<b>2,960</b>
<b>Other-than-temporary impairment losses</b>		<b>(532)</b>		<b>(408)</b>
<b>Noninterest expense</b>	<b>16,751</b>	<b>19,653</b>	<b>17,077</b>	<b>20,313</b>
<b>Income (loss) before taxes (benefit)</b>	<b>4,738</b>	<b>(27,843)</b>	<b>4,781</b>	<b>5,151</b>
<b>Income taxes (benefit)</b>	<b>1,563</b>	<b>(15,121)</b>	<b>2,770</b>	<b>3,011</b>
<b>Net income (loss)</b>	<b>\$ 3,175</b>	<b>\$ (12,722)</b>	<b>\$ 2,011</b>	<b>\$ 2,140</b>
<b>Dividends on Preferred Stock and Accretion</b>	<b>\$ 539</b>	<b>\$ 885</b>	<b>\$ 885</b>	<b>\$ 885</b>
<b>Net Income (Loss) Available to Common Stockholders</b>	<b>\$ 2,636</b>	<b>\$ (13,607)</b>	<b>\$ 1,126</b>	<b>\$ 1,255</b>
<b>Earnings (loss) per share of common stock</b>				
<b>Basic</b>	<b>\$ 0.11</b>	<b>\$ (0.57)</b>	<b>\$ 0.05</b>	<b>\$ 0.05</b>
<b>Diluted</b>	<b>\$ 0.11</b>	<b>\$ (0.57)</b>	<b>\$ 0.05</b>	<b>\$ 0.05</b>

In the fourth quarter of 2009, the Company recorded a \$3.1 million fee for the prepayment of \$55.0 million of its long-term debt and an other-than-temporary impairment loss on securities available for sale of \$408,000.

	March 31, 2008	June 30, 2008	Quarter ended September 30, 2008	December 31, 2008
	(in thousands, except per share amounts)			
<b>Total interest income</b>	<b>\$ 36,113</b>	<b>\$ 35,876</b>	<b>\$ 36,262</b>	<b>\$ 35,686</b>
<b>Total interest expense</b>	<b>15,663</b>	<b>13,340</b>	<b>13,122</b>	<b>13,233</b>
<b>Net interest income</b>	<b>20,450</b>	<b>22,536</b>	<b>23,140</b>	<b>22,453</b>
<b>Provision for loan and lease losses</b>	<b>1,267</b>	<b>8,158</b>	<b>3,273</b>	<b>11,032</b>
<b>Noninterest income</b>	<b>4,634</b>	<b>4,347</b>	<b>4,217</b>	<b>4,360</b>
<b>Gains on sales of investment securities</b>	<b>9</b>	<b>43</b>	<b>1</b>	
<b>Noninterest expense</b>	<b>15,331</b>	<b>14,424</b>	<b>14,920</b>	<b>15,396</b>
<b>Income before taxes</b>	<b>8,495</b>	<b>4,344</b>	<b>9,165</b>	<b>385</b>
<b>Income taxes</b>	<b>2,955</b>	<b>1,464</b>	<b>3,309</b>	<b>(504)</b>
<b>Net income</b>	<b>\$ 5,540</b>	<b>\$ 2,880</b>	<b>\$ 5,856</b>	<b>\$ 889</b>

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Earnings per share				
Basic	\$ 0.24	\$ 0.12	\$ 0.25	\$ 0.04
Diluted	\$ 0.23	\$ 0.12	\$ 0.25	\$ 0.04

In the fourth quarter of 2008, the Company increased its provision for loan and lease losses related to its leasing portfolio.

**Table of Contents****NOTE 19 CONDENSED FINANCIAL INFORMATION PARENT COMPANY ONLY:****BALANCE SHEETS****CONDENSED BALANCE SHEETS**

	December 31, 2009      2008 (in thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 5,749	\$ 8,179
Investment securities available for sale	1,682	2,323
Investment in subsidiaries	331,740	283,290
Land held for sale	952	1,077
Other assets	6,304	4,043
<b>TOTAL ASSETS</b>	<b>\$ 346,427</b>	<b>\$ 298,912</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Other liabilities	\$ 1,119	\$ 649
Subordinated debentures	77,322	77,322
Preferred stock	56,023	
Common stockholders' equity	211,963	220,941
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 346,427</b>	<b>\$ 298,912</b>

**CONDENSED STATEMENTS OF OPERATIONS**

	Years Ended December 31, 2009      2008      2007 (in thousands)		
<b>INCOME</b>			
Dividends from subsidiaries	\$ 2,165	\$ 10,739	\$ 10,600
Other-than-temporary impairment losses on securities	(940)		
Other income	184	218	1,971
<b>TOTAL INCOME</b>	<b>1,409</b>	<b>10,957</b>	<b>12,571</b>
<b>EXPENSE</b>			
Interest on subordinated debentures	4,849	5,256	4,714
Noninterest expenses	1,266	1,227	1,230
<b>TOTAL EXPENSE</b>	<b>6,115</b>	<b>6,483</b>	<b>5,944</b>
Income (loss) before benefit for income taxes	(4,706)	4,474	6,627
Benefit for income taxes	(2,399)	(2,204)	(994)
Income (loss) before equity in undistributed income of subsidiaries	(2,307)	6,678	7,621
Equity in undistributed income (loss) of subsidiaries	(3,089)	8,487	10,367
<b>NET INCOME (LOSS)</b>	<b>\$ (5,396)</b>	<b>\$ 15,165</b>	<b>\$ 17,988</b>
Interest on preferred stock and discount accretion	3,194		

<b>Net Income (Loss) Available to Common Shareholders</b>	<b>\$ (8,590)</b>	<b>\$ 15,165</b>	<b>\$ 17,988</b>
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**Table of Contents****CONDENSED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (5,396)	\$ 15,165	\$ 17,988
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share based compensation	443	351	260
(Gain) loss on securities	940		(1,762)
(Increase) decrease in other assets	(2,136)	349	(1,431)
Increase (decrease) in other liabilities		(25)	119
Equity in undistributed (income) loss of subsidiaries	3,089	(8,487)	(10,367)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(3,060)</b>	7,353	4,807
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of securities	(33)	(24)	(788)
Proceeds from sale of securities available for sale			2,432
Contribution to subsidiary	(50,000)	(3,000)	(19,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(50,033)</b>	(3,024)	(17,356)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid on common and preferred stock	(8,156)	(8,061)	(8,395)
Proceeds from issuance of long term debt			20,619
Purchase of treasury stock			(11)
Issuance of stock to the dividend reinvestment and stock purchase plan	35	75	
Proceeds on issuance of preferred stock, net of costs	55,492		
Common stock warrants issued	3,345		
Excess tax benefits	2	105	103
Exercise of stock options	(55)	2,788	511
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>50,663</b>	(5,093)	12,827
Net increase (decrease) in cash and cash equivalents	(2,430)	(764)	278
Cash and cash equivalents, beginning of year	8,179	8,943	8,665
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 5,749</b>	\$ 8,179	\$ 8,943

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Lakeland Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lakeland Bancorp, Inc. (a New Jersey corporation) and its subsidiaries (collectively, the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Bancorp, Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the guidance for fair value measurements and disclosures and post retirement benefits of endorsement split-dollar life insurance issued by the Financial Accounting Standard Board in 2008.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lakeland Bancorp, Inc. and its subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2010 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 16, 2010

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**Table of Contents**

**ITEM 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not Applicable

**ITEM 9A Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, the Company's management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) pursuant to Securities Exchange Act Rule 15d-15(b).

Based on their evaluation as of December 31, 2009, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective in ensuring that the information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and are operating in an effective manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Management's Report on Internal Control Over Financial Reporting*

The management of Lakeland Bancorp, Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the board of directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions or because of declines in the degree of compliance with policies or procedures.

**Table of Contents**

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework.

As of December 31, 2009, based on management's assessment, the Company's internal control over financial reporting was effective.

Grant Thornton LLP, the Company's independent registered public accounting firm, has issued a report on the effectiveness of the Company's internal control over financial reporting. See Report of Independent Registered Public Accounting Firm below.



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**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Lakeland Bancorp, Inc.

We have audited Lakeland Bancorp, Inc. (a New Jersey Corporation) and its subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on Lakeland Bancorp, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lakeland Bancorp, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lakeland Bancorp, Inc. and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 16, 2010 expressed an unqualified opinion.

/s/ Grant Thornton LLC

Philadelphia, Pennsylvania

March 16, 2010

**Table of Contents**

**ITEM 9B Other Information**

None.

**Table of Contents****PART III****ITEM 10 Directors, Executive Officers and Corporate Governance**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders.

**ITEM 11 Executive Compensation**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders.

**ITEM 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders.

**Equity Compensation Plan Information**

The following table gives information about the Company's common stock that may be issued upon the exercise of options under the Company's Amended and Restated 2000 Equity Compensation Program and the Company's 2009 Equity Compensation Program as of December 31, 2009. These plans were the Company's only equity compensation plans in existence as of December 31, 2009. The 2009 Equity Compensation Program is the successor to the 2000 Equity Compensation Program, and no additional awards will be granted under the 2000 Equity Compensation Program. No warrants or rights may be granted, or are outstanding, under the 2000 or the 2009 Equity Compensation Programs.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	(c) Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
Equity Compensation Plans Approved by Shareholders	912,364	\$ 12.38	2,000,000
Equity Compensation Plans Not Approved by Shareholders			
<b>TOTAL</b>	<b>912,364</b>	<b>\$ 12.38</b>	<b>2,000,000</b>

The number in column (a) includes 96,831 shares subject to restricted stock awards, including unvested shares. Shares subject to restricted stock awards have been excluded for purposes of calculating the weighted-average exercise price in column (b).

**ITEM 13 Certain Relationships and Related Transactions, and Director Independence**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders.

**ITEM 14 Principal Accountant Fees and Services**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders.



**Table of Contents**

**PART IV**

**ITEM 15 Exhibits and Financial Statement Schedules**

(a) 1. The following portions of the Company's consolidated financial statements are set forth in Item 8 of this Annual Report:

- (i) Consolidated Balance Sheets as of December 31, 2009 and 2008.
- (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2009.
- (iii) Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2009.
- (iv) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2009.
- (v) Notes to Consolidated Financial Statements.
- (vi) Report of Independent Registered Public Accounting Firm.

(a) 2. Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statements or notes thereto.

(a) 3. Exhibits

- 3.1 Restated Certificate of Incorporation of the Registrant, is incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2009.
- 3.2 By-Laws of the Registrant, as amended, are incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.
- 4.1 Registrant's Shareholder Protection Rights Plan, dated as of August 24, 2001, is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 24, 2001.
- 4.2 Warrant to Purchase up to 949,571 shares of Common Stock, dated February 6, 2009, is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2009.
- 10.1 Lakeland Bancorp, Inc. Amended and Restated 2000 Equity Compensation Program is incorporated by reference to Appendix A to the Registrant's definitive proxy materials for its 2005 Annual Meeting of Shareholders.
- 10.2 Lakeland Bancorp, Inc. 2009 Equity Compensation Program is incorporated by reference to Annex B to the Registrant's definitive proxy materials for its 2009 Annual Meeting of Shareholders.
- 10.3 Employment Agreement - Change in Control, Severance and Employment Agreement for Roger Bosma, dated as of January 1, 2000, among Lakeland Bancorp, Inc., Lakeland Bank and Roger Bosma, is incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.4 Employment Agreement, dated as of April 2, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 28, 2008.

**Table of Contents**

- 10.5 Supplemental Executive Retirement Plan Agreement for Thomas J. Shara, effective as of April 2, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 28, 2008.
- 10.6 Change of Control Agreement dated March 1, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Joseph F. Hurley is incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.7 Change of Control Agreement dated March 1, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenberg is incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.8 Change of Control Agreement dated March 6, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Louis E. Luddecke is incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.9 Change of Control Agreement dated March 7, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Jeffrey J. Buonforte is incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.10 Amendments to Change of Control Agreements, dated March 10, 2003, among Lakeland Bancorp, Inc., Lakeland Bank and each of Joseph F. Hurley, Robert A. Vandenberg, Louis E. Luddecke and Jeffrey J. Buonforte are incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
- 10.11 Change of Control Agreement dated April 7, 2004, among Lakeland Bancorp, Inc., Lakeland Bank and James R. Noonan is incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
- 10.12 Lakeland Bancorp, Inc. Directors' Deferred Compensation Plan, as amended and restated, is incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
- 10.13 Change in Control, Severance and Employment Agreement, dated as of November 24, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and David S. Yanagisawa, is incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
- 10.14 Supplemental Executive Retirement Plan Agreement for Roger Bosma, dated August 21, 2003, and First Amendment to the Supplemental Executive Retirement Plan Agreement, adopted December 13, 2006, are incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
- 10.15 Letter Agreement, dated February 6, 2009, including the Securities Purchase Agreement -- Standard Terms attached thereto between the Registrant and the United States Department of the Treasury, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2009.
- 10.16 Form of Waiver, executed by each of Thomas J. Shara, Joseph F. Hurley, Robert A. Vandenberg, Jeffrey J. Buonforte and Louis E. Luddecke, is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2009.
- 10.17 Form of Executive Waiver Agreement, executed by each of Thomas J. Shara, Joseph F. Hurley, Robert A. Vandenberg, Jeffrey J. Buonforte and Louis E. Luddecke, is incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2009.

**Table of Contents**

10.18	Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Jeffrey J. Buonforte, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.19	Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Joseph F. Hurley, is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.20	Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Louis E. Luddecke, is incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.21	First Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and James R. Noonan, is incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.22	Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenberg, is incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.23	Supplemental Executive Retirement Plan Agreement, effective as of December 23, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenberg, is incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.24	Amendment No. 3 to Salary Continuation Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenberg, is incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.25	Change in Control Agreement, dated as of June 12, 2009, among Lakeland Bancorp, Inc., Lakeland Bank and Ronald E. Schwarz.
12.1	Statement of Ratios of Earnings to Fixed Charges.
21.1	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
99.2	Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

LAKELAND BANCORP, INC.

Dated: March 16, 2010

By: /s/ THOMAS J. SHARA  
**Thomas J. Shara**  
**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
/s/ ROGER BOSMA*	Director	March 16, 2010
<b>Roger Bosma</b>		
/s/ BRUCE D. BOHUNY*	Director	March 16, 2010
<b>Bruce D. Bohuny</b>		
/s/ MARY ANN DEACON*	Director	March 16, 2010
<b>Mary Ann Deacon</b>		
/s/ JOHN W. FREDERICKS*	Director	March 16, 2010
<b>John W. Fredericks</b>		
/s/ MARK J. FREDERICKS*	Director	March 16, 2010
<b>Mark J. Fredericks</b>		
/s/ GEORGE H. GUPTILL, JR.*	Director	March 16, 2010
<b>George H. Guptill, Jr.</b>		
/s/ JANETH C. HENDERSHOT*	Director	March 16, 2010
<b>Janeth C. Hendershot</b>		
/s/ ROBERT E. MCCrackEN*	Director	March 16, 2010
<b>Robert E. McCracken</b>		
/s/ ROBERT B. NICHOLSON, III*	Director	March 16, 2010
<b>Robert B. Nicholson, III</b>		



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/s/ JOSEPH P. O DOWD*	Director	March 16, 2010
<b>Joseph P. O Dowd</b>		
/s/ THOMAS J. SHARA	Director, President and Chief Executive Officer	March 16, 2010
<b>Thomas J. Shara</b>		
/s/ STEPHEN R. TILTON, SR.*	Director	March 16, 2010
<b>Stephen R. Tilton, Sr.</b>		

S-1

**Table of Contents**

	<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
	/s/ PAUL G. VIALL, JR.* <b>Paul. G. Viall, Jr.</b>	Director	March 16, 2010
	/s/ JOSEPH F. HURLEY <b>Joseph F. Hurley</b>	Executive Vice President and Chief Financial Officer	March 16, 2010
*By:	/s/ THOMAS J. SHARA <b>Thomas J. Shara</b> <b>Attorney-in-Fact</b>		

S-2