LAKELAND BANCORP INC
Form 10-K
March 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010.**

¨ **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)

New Jersey (State or other jurisdiction of incorporation or organization)	22-2953275 (I.R.S. Employer Identification No.)
250 Oak Ridge Road, Oak Ridge, New Jersey (Address of principal executive offices)	07438 (Zip code)

Registrant s telephone number, including area code: (973) 697-2000

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 x

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 x

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

Indicate by check mark whether the registrant 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 x
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 x

As of June 30, 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $175,000,000, 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, 2011, was 25,415,421.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2011 Annual Meeting of Shareholders (Part III).

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LAKELAND BANCORP, INC.

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PART I

ITEM 1 Business

GENERAL

Lakeland Bancorp, Inc. (the Company or Lakeland Bancorp) 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 47 banking offices, located in Bergen, Essex, Morris, Passaic, Sussex and Warren 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, 2010, the Company had total consolidated assets of $2.8 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 $260.7 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.

Unless otherwise indicated, all weighted average, actual shares and per share information contained in this Annual Report on Form 10-K have been adjusted retroactively for the effect of stock dividends, including the Company s 5% stock dividend which was distributed on February 16, 2011.

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 2010, the Company continued its strategy of lessening its exposure in the leasing area by reducing the size of its lease portfolio. Leasing loans represented 3% of total loans at December 31, 2010, as compared to 6% of total loans at December 31, 2009. 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.

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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.

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, 2010, the Company had 529 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

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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 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. 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 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. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) removes the restrictions on interstate branching contained in the Riegle-Neal Act, and allows national banks and state banks to establish branches in any state if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch.

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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 gave 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.

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.

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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 Form 4 s;

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;

auditor independence; and

various increased criminal penalties for violations of the securities laws.

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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
- 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.

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 (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 (i) 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 million in cash, and (ii) issued to the Treasury a ten-year warrant (the Warrant) to purchase up to 997,049 (as adjusted for the Company s most recent 5% stock dividend) shares of the Company s common stock at an exercise price of $8.88 (as adjusted) per share. The Securities Purchase Agreement between the Company and the Treasury contains limitations on the payment of dividends. Specifically, the Company is unable to declare dividend payments on its 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 $0.095 per share, which was the amount of the last regular dividend (as adjusted) declared by the Company prior to October 14, 2008.

On August 4, 2010, the Company redeemed $20 million of the Company s outstanding $59 million in Series A Preferred Shares. The Company paid approximately $20.2 million to the Treasury, which included payment for accrued and unpaid dividends. This redemption will result in annualized savings of $1.2 million due to the elimination of the associated preferred dividends and related discount accretion. A one-time, non-cash charge of $898,000 was incurred in the third quarter of 2010 due to the acceleration of the Series A Preferred Shares discount accretion. On March 10, 2011, the Company was informed by the Treasury that the Treasury has approved the redemption of 20,000 additional shares of the Company s Series A Preferred Shares. At the closing, scheduled for March 16, 2011, the Company will pay approximately $20.1 million to the Treasury, which will include $20.0 million of principal and $86,000 of accrued and unpaid dividends. As a result of the early payment, the Company will also accelerate the accretion of $745,000 of the preferred stock discount. The above mentioned warrant issued to the Treasury remains outstanding.

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, 2010, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 12.43% and 13.68%, 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 9.21% at December 31, 2010.

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

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, 2010, the Company and Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework.

Additional Regulation of Capital

The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies and regulations to which they apply. Actions of the Committee have no direct effect on banks in participating countries. In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The Company is not required to comply with the advanced approaches of Basel II.

In 2009, the United States Treasury Department issued a policy statement (the Treasury Policy Statement) entitled Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms, which contemplates changes to the existing regulatory capital regime involving substantial revisions to major parts of the Basel I and Basel II capital frameworks and affecting all regulated banking organizations. The

Treasury Policy Statement calls for, among other things, higher and stronger capital requirements for all banking firms, with changes to the regulatory capital framework to be phased in over a period of several years.

On December 17, 2009, the Basel Committee issued a set of proposals (the 2009 Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital. Among other things, the 2009 Capital Proposals would re-emphasize that common equity is the predominant component of Tier 1 capital. Concurrently with the release of the 2009 Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the 2009 Liquidity Proposals). The 2009 Liquidity Proposals include the implementation of (i) a liquidity coverage ratio or LCR, designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets sufficient to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario and (ii) a net stable funding ratio or NSFR, designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon.

The Dodd-Frank Act includes certain provisions, often referred to as the Collins Amendment, concerning the capital requirements of the United States banking regulators. These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a bank holding company such as Lakeland Bancorp (with total consolidated assets between $500 million and $15 billion) before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction. The Dodd-Frank Act requires these new capital regulations to be adopted by the Federal Reserve in final form 18 months after the date of enactment of the Dodd-Frank Act (July 21, 2010).

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including Lakeland.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.

- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.

- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.

- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.

- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.

- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.

- Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing the LCR and NSFR. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks.

Federal 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. As a result of the Dodd-Frank Act, the basic federal deposit insurance limit was permanently increased from at least $100,000 to at least $250,000. In addition, on November 9, 2010 and January 18, 2011, the FDIC (as mandated by Section 343 of the Dodd-Frank Act) adopted rules providing for unlimited deposit insurance for traditional noninterest-bearing transaction accounts and IOLTA accounts beginning December 31, 2010 until December 31, 2012. This coverage, which applies to all insured deposit institutions, does not charge any additional FDIC assessment to the institution. Furthermore, this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured institution.

Under current regulations, 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 CAMELS rating. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution s individual CAMELS component ratings plus six financial ratios. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial assessment base rate for deposit insurance is set at an annual rate of between 12 and 16 basis points. The initial base assessment rate for institutions in Risk Categories II, III, and IV is set at annual rates of 22, 31 and 50 basis points, respectively. These base rates are then adjusted to a final assessment rate based on an institution s brokered deposits, secured liabilities and unsecured debt. The Company paid a total of $3.8 million in FDIC assessments in 2010 (including the $220,000 FICO premium referred to below).

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 as of June 30, 2009 and would not exceed ten times the institution s assessment base for the second quarter of 2009 risk-based assessment. This special assessment, which totaled $1.2 million, was remitted by the Company on September 30, 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.

In November 2010, the FDIC approved a rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act.

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These new assessment rates will begin in the second quarter of 2011 and will be payable at the end of September 2011. Since the new base is larger than the current base, the FDIC s rule would lower total base assessment rates to between 2.5 and 9 basis points for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category.

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 approximately $220,000 in 2010 and expects to pay a similar premium in 2011.

Legislation Implemented in Response to Recent Periods of Economic Turmoil

In response to recent unprecedented market turmoil, the Emergency Economic Stabilization Act of 2008 (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 institutions. 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, the named executive officers of the Company at that time 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

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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 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 will apply to the Company s 2011 annual meeting of shareholders.

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Recent Regulatory Reform-The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years.

Among other things, the Dodd-Frank Act:

- eliminates, effective one year after the date of enactment, the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Bank s interest expense.

- broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

- permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

- requires publicly traded companies like Lakeland Bancorp to give shareholders a non-binding vote on executive compensation and so-called golden parachute payments in certain circumstances, even after repayment of the TARP investment.

- authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials.

- directs the Federal Reserve Board to promulgate rules prohibiting the payment of excessive compensation to bank holding company executives.

- creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Institutions with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer laws by their primary bank regulators.

- restricts the preemption of state consumer financial protection law by federal law.

- requires new capital rules and the application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. In addition to making bank holding companies subject to the same capital requirements as their bank subsidiaries, these provisions (often referred to as the Collins Amendment to the Dodd-Frank Act) were also intended to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a bank holding company such as Lakeland Bancorp (with total consolidated assets between $500 million and $15 billion) before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital.

requires that interchange transaction fees for debit transactions must be reasonable and proportional (although banks with less than $10 billion of assets are exempt from this requirement, competitive pressures may cause Lakeland to reduce the fees it charges).

requires banking regulators to seek to make capital standards countercyclical, so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

allows de novo interstate branching by banks.

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While it is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Company, management expects that at a minimum the Company s operating and compliance costs will increase, and our interest expense could increase.

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.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements a variety of far-reaching changes, as described under Business-Supervision and Regulation. Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation over several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on our operations is unclear. Provisions in the legislation that affect deposit insurance assessments and payment of interest on demand deposits could increase the costs associated with the Bank s deposits, which may adversely affect our results of operations, financial condition or liquidity. Provisions that require revisions to the capital requirements of the Company and the Bank could require us to seek additional sources of capital in the future.

The Company and the Bank may be subject to more stringent capital and liquidity requirements.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies such as Lakeland Bancorp by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our currently outstanding trust preferred securities will continue to count as Tier I capital, but we will be unable to issue replacement or additional trust preferred securities which would count as Tier I capital.

In addition, as described under Business-Supervision and Regulation, in December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including the Bank. Banking regulators in the U.S. could implement changes to the capital adequacy standards applicable to the Company and Lakeland in light of Basel III. The effect of any new capital and liquidity requirements cannot be determined at this time.

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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 during the past few years, including a decline in the value of the collateral supporting loans, has resulted in the deterioration of loan portfolio performances at many institutions. 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, recent legislation, such as the Dodd-Frank Act, will require new 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, including Dodd-Frank, 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 deflation;
- excess economic growth 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.

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 fluctuations in 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. 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.

As a result of our participation in the Treasury s Capital Purchase Program, 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 quarterly cash dividends on our common stock above $0.095 per share 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. We have redeemed an aggregate of $20 million of the Series A Preferred Shares and intend to repay another $20 million on March 16, 2011, having

received the required approvals to do so. While it may be possible for us to redeem the remaining Series A Preferred Shares in the future 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 any future 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 997,049 (as adjusted for the Company s most recent 5% stock dividend) 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 $0.095, the amount of our last regular dividend (as adjusted) 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 over three years. Such negative developments and disruptions have resulted in uncertainty in the financial markets and a general economic downturn. 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 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 2010, we recorded a provision for loan and lease losses of $19.3 million, compared to $51.6 million in 2009. The 2009 loan loss provision included an allocation of $36.5 million for the leasing division and $11.2 million for commercial loans. 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.

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, 2010, the Company had approximately $487.1 million and $66.6 million in available for sale and held to maturity investment securities, respectively. In addition, we recorded $128,000 in other-than-temporary impairment charges in our equity security portfolio in 2010. 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, net income and liquidity.

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-Federal 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.

A breach of information security could negatively affect our operations, earnings and reputation.

Increasingly, we depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. We cannot be certain all our systems are entirely free from vulnerability to attack, despite safeguards we have instituted including independent third party testing. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Disruptions to our vendors systems may arise from events that are wholly or partially beyond our vendors control (including, for example, computer viruses or electrical or telecommunications outages). The occurrence of system failures or security breaches, despite the controls we have instituted, could result in damage to our reputation, increased regulatory scrutiny and financial loss or costs to us.

Any unforeseen transition issues that arise in connection with upgrades to our computer hardware and software systems could adversely affect our business.

In the normal course of business, we upgrade certain hardware and software systems critical to our core banking operations and financial reporting. While we expect these changes to go smoothly, no assurances can be given that unforeseen issues will not arise. Depending on the nature of those issues, if any, and the time and resources necessary to correct or resolve them, our business could be adversely affected.

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.

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

Location	Lease Expiration Date
Bristol Glen	October 31, 2011
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, 2015
Madison Avenue	April 30, 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, 2017
Vernon	September 30, 2011
Wantage	October 31, 2011
Wayne	May 31, 2028
Wharton	July 31, 2015
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 the 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.

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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 53	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. Vandenbergh Age 59	1999	Senior Executive Vice President and Chief Operating Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 2008 Present); Senior Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (December 2006 October 2008); Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 1999 December 2006)
Joseph F. Hurley Age 60	1999	Executive Vice President and Chief Financial Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 1999 Present)
Jeffrey J. Buonforte Age 59	1999	Executive Vice President and Senior Government Banking/Business Services Officer, Lakeland Bancorp, Inc. and Lakeland Bank (June 2009 Present); Executive Vice President and Chief Retail Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 1999 June 2009)
Louis E. Luddecke Age 64	1999	Executive Vice President and Chief Operations Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 1999 Present)
David S. Yanagisawa Age 59	2008	Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 2008 Present); Senior Vice President, TD Banknorth, N.A. (February 2006 November 2008); Hudson United Bank, Senior Vice President (1997 February 2006)
James R. Noonan Age 59	2003	Executive Vice President and Chief Credit Officer, Lakeland Bancorp, Inc. and Lakeland Bank (December 2003 Present); Senior Vice President and Chief Credit Officer, Lakeland Bancorp, Inc. and Lakeland Bank (March 2003 December 2003)
Ronald E. Schwarz Age 55	2009	Executive Vice President and Chief Retail Officer, Lakeland Bancorp, Inc. and Lakeland Bank (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)
Timothy J. Matteson, Esq. Age 41	2008	Senior Vice President and General Counsel, Lakeland Bancorp, Inc. and Lakeland Bank (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)

ITEM 4 RESERVED

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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, 2010, there were 3,473 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. All information is adjusted for the Company s 5% stock dividend distributed on February 16, 2011.

	High	Low	Dividends Declared
Year ended December 31, 2010			
First Quarter	$ 8.87	$ 5.63	$ 0.048
Second Quarter	10.72	8.11	0.048
Third Quarter	9.00	7.29	0.048
Fourth Quarter	11.10	7.73	0.057

	High	Low	Dividends Declared
Year ended December 31, 2009			
First Quarter	$ 10.91	$ 5.21	$ 0.095
Second Quarter	11.14	7.60	0.095
Third Quarter	9.57	7.14	0.048
Fourth Quarter	6.92	5.29	0.048

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 $227.1 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2010.

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.

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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 Morningstar (formerly Hemscott) Regional-Northeast Banks Index, which consists of 195 Regional Northeast Banks.

	Period Ending					
Company/Market/Peer Group	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**
Lakeland Bancorp, Inc.	$ 100.00	$ 109.36	$ 91.42	$ 91.77	$ 54.09	$ 95.07
NASDAQ Market Index	100.00	110.26	121.89	73.10	106.23	125.37
Morningstar Regional-Northeast Banks	100.00	114.41	107.47	75.99	72.78	81.25

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ITEM 6 Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

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

	2010	2009	2008	2007	2006
		(in thousands except per share data)			
Years Ended December 31					
Interest income	**$ 125,649**	$ 133,822	$ 143,937	$ 136,378	$ 119,808
Interest expense	**25,895**	40,443	55,358	64,650	53,104
Net interest income	**99,754**	93,379	88,579	71,728	66,704
Provision for loan and lease losses	**19,281**	51,615	23,730	5,976	1,726
Noninterest income excluding gains/losses on investment securities	**17,654**	15,952	17,558	16,858	17,175
Gains (losses) on sales of investment securities	**1,742**	3,845	53	1,769	(2,995)
Other than temporary impairment losses on equity securities	**(128)**	(940)			
Noninterest expenses	**70,405**	73,794	60,071	58,190	54,721
Income (loss) before income taxes (benefit)	**29,336**	(13,173)	22,389	26,189	24,437
Income tax provision (benefit)	**10,125**	(7,777)	7,224	8,201	7,460
Net income (loss)	**19,211**	(5,396)	15,165	17,988	16,977
Dividends on preferred stock and accretion	**3,987**	3,194			
Net income (loss) available to common shareholders	**$ 15,224**	$ (8,590)	$ 15,165	$ 17,988	$ 16,977
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	**25,097**	24,856	24,638	24,346	24,298
Diluted	**25,128**	24,856	24,726	24,449	24,457
Earnings (loss) per share:					
Basic	**$ 0.60**	($0.35)	$ 0.61	$ 0.74	$ 0.70
Diluted	**$ 0.60**	($0.35)	$ 0.61	$ 0.74	$ 0.69
Cash dividend per common share	**$ 0.20**	$ 0.29	$ 0.38	$ 0.36	$ 0.35
Book value per common share	**$ 8.82**	$ 8.46	$ 8.88	$ 8.66	$ 8.20
Tangible book value per common share	**$ 5.35**	$ 4.92	$ 5.27	$ 4.94	$ 4.42
At December 31					
Investment securities available for sale	**$ 487,107**	$ 375,530	$ 282,174	$ 273,247	$ 280,509
Investment securities held to maturity	**66,573**	81,821	110,114	129,360	142,838
Loans and leases, net of deferred costs	**2,014,617**	2,017,035	2,034,831	1,886,535	1,591,644
Goodwill and other identifiable intangible assets	**87,689**	88,751	89,812	90,874	92,053
Total assets	**2,792,674**	2,723,968	2,642,625	2,513,771	2,263,573
Total deposits	**2,195,889**	2,157,187	2,056,133	1,987,405	1,860,627
Total core deposits	**1,783,040**	1,691,447	1,445,101	1,383,234	1,357,748
Borrowings	**272,322**	223,222	288,222	249,077	148,413
Total stockholders equity	**260,709**	267,986	220,941	211,599	199,500
Performance ratios					
Return on Average Assets(2)	**0.69%**	NM	0.59%	0.76%	0.76%
Return on Average Common Equity(2)	**8.70%**	NM	6.99%	8.81%	8.85%
Return on Average Equity	**7.13%**	NM	6.99%	8.81%	8.85%
Efficiency ratio(3)	**56.57%**	62.11%	54.79%	63.18%	62.28%
Net Interest Margin (tax equivalent basis)	**3.95%**	3.74%	3.79%	3.41%	3.39%
Loans to Deposits	**91.74%**	93.50%	98.96%	94.92%	85.54%
Capital ratios					
Common Equity to Asset ratio	**7.99%**	7.78%	8.36%	8.42%	8.81%
Tangible common equity to tangible assets	**5.01%**	4.68%	5.14%	4.98%	4.95%

Equity to Asset ratio	**9.34%**	9.84%	8.36%	8.42%	8.81%
Tier 1 leverage ratio	**9.21%**	9.44%	8.08%	8.11%	7.51%
Tier 1 risk-based capital ratio	**12.43%**	12.65%	10.24%	10.08%	10.13%
Total risk-based capital ratio	**13.68%**	13.90%	11.52%	11.08%	10.96%

(1) Restated for 5% stock dividends in 2011, 2007 and 2006.

(2) Ratios for 2009 are not meaningful (NM) and therefore not presented.

(3) A non-GAAP ratio which 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 securities. Total revenue represents net interest income (calculated on a tax equivalent basis) plus non-interest income.

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 statemen 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 including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, 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 NJ Investment Corp., Lakeland Investment Corp., Lakeland Equity, Inc., and Lakeland Preferred Equity, Inc. All intercompany balances and transactions have been eliminated. Lakeland Preferred Equity, Inc. is a Real Estate Investment Trust formed by Lakeland in the fourth quarter of 2010.

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 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 analyzes historical losses by loan and lease category, and considers the resulting loss rates when determining the reserves on 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.

Loans and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected 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. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $250,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

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.

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 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 and valuation reserves on leases held for sale.

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 as of November 30 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 a 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, as well as a third party valuation as of November 30, 2010, there was no indication that the Company s goodwill was impaired as of December 31, 2010, and a Step Two test was not required.

Financial Overview

The year ended December 31, 2010 represented a year of continued growth for the Company. As discussed in this management s discussion and analysis:

- Lakeland s net interest margin at 3.95% increased by 21 basis points from the 3.74% reported in 2009.

- Total assets increased to $2.79 billion, a 3% increase from 2009.

- Total loans, excluding leases, increased $51.5 million, or 3%, from 2009 to 2010.

- Core deposits increased $91.6 million, or 5%, to $1.78 billion at year end 2010 and represented 81% of total deposits at December 31, 2010 compared to 78% at December 31, 2009.

- Total noninterest-bearing deposits at $383.9 million increased $60.7 million, or 19%, from 2009.

On August 4, 2010, the Company paid back $20.0 million of the $59.0 million investment to 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.

The net income for 2010 was $19.2 million compared to a net loss of $5.4 million in 2009. Net income available to common shareholders in 2010 was $15.2 million or $0.60 per diluted share compared to a net loss of $8.6 million or $0.35 per share in 2009. In 2010, the Company recorded a provision for loan and lease losses of $19.3 million compared to $51.6 million in 2009.

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 2010 on a tax-equivalent basis was $100.8 million, representing an increase of $6.3 million, or 7%, from the $94.6 million earned in 2009. The increase in net interest income primarily resulted from a 68 basis point decrease in the cost of interest-bearing liabilities, which was partially offset by a 37 basis point decline in the yield on interest-earning assets. The components of net interest income will be discussed in greater detail below.

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)

	2010 vs. 2009			**2009 vs. 2008**		
	Increase (Decrease) Due to Change in:		**Total**	**Increase (Decrease) Due to Change in:**		**Total**
	Volume	**Rate**	**Change**	**Volume**	**Rate**	**Change**
Interest Income						
Loans and leases	**$ (738)**	**$ (4,801)**	**$ (5,539)**	$ 2,437	$ (12,728)	$ (10,291)
Taxable investment securities	**936**	**(3,353)**	**(2,417)**	1,800	(1,162)	638
Tax-exempt investment securities	**(118)**	**(235)**	**(353)**	(49)	(183)	(232)
Federal funds sold	**21**	**(9)**	**12**	1,154	(1,465)	(311)
Total interest income	**101**	**(8,398)**	**(8,297)**	5,342	(15,538)	(10,196)
Interest Expense						
Savings deposits	**73**	**(1,022)**	**(949)**	(78)	(2,193)	(2,271)
Interest-bearing transaction accounts	**2,642**	**(3,960)**	**(1,318)**	2,288	(7,027)	(4,739)
Time deposits	**(3,041)**	**(6,290)**	**(9,331)**	1,152	(6,652)	(5,500)
Borrowings	**(2,011)**	**(939)**	**(2,950)**	(1,616)	(789)	(2,405)
Total interest expense	**(2,337)**	**(12,211)**	**(14,548)**	1,746	(16,661)	(14,915)
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 2,438**	**$ 3,813**	**$ 6,251**	$ 3,596	$ 1,123	$ 4,719

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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

	2010			2009			2008		
	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)								
Assets									
Interest-earning assets:									
Loans and leases (A)	**$ 1,995,158**	**$ 111,584**	**5.59%**	$ 2,007,881	$ 117,123	5.83%	$ 1,969,581	$ 127,414	6.47%
Taxable investment securities	**438,653**	**11,934**	**2.72%**	413,740	14,351	3.47%	310,651	13,713	4.41%
Tax-exempt securities	**63,093**	**3,092**	**4.90%**	65,377	3,445	5.27%	66,266	3,677	5.55%
Federal funds sold (B)	**53,178**	**121**	**0.23%**	43,008	109	0.25%	25,832	420	1.63%
Total interest-earning assets	**2,550,082**	**126,731**	**4.97%**	2,530,006	135,028	5.34%	2,372,330	145,224	6.12%
Noninterest earning assets:									
Allowance for loan and lease losses	**(27,459)**			(25,027)			(17,840)		
Other assets	**254,346**			232,196			224,129		
TOTAL ASSETS	**$ 2,776,969**			$ 2,737,175			$ 2,578,619		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	**$ 317,620**	**$ 608**	**0.19%**	$ 304,084	$ 1,557	0.51%	$ 310,565	$ 3,828	1.23%
Interest-bearing transaction accounts	**1,082,026**	**8,001**	**0.74%**	914,695	9,319	1.02%	805,515	14,058	1.75%
Time deposits	**456,692**	**6,586**	**1.44%**	589,499	15,917	2.70%	561,069	21,417	3.82%
Borrowings	**278,754**	**10,700**	**3.84%**	329,862	13,650	4.14%	368,233	16,055	4.36%
Total interest-bearing liabilities	**2,135,092**	**25,895**	**1.21%**	2,138,140	40,443	1.89%	2,045,382	55,358	2.71%
Noninterest-bearing liabilities:									
Demand deposits	**359,915**			315,193			300,950		
Other liabilities	**12,702**			16,515			15,356		
Stockholders equity	**269,260**			267,327			216,931		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,776,969**			$ 2,737,175			$ 2,578,619		
Net interest income/spread		**100,836**	**3.76%**		94,585	3.45%		89,866	3.42%
Tax equivalent basis adjustment		**1,082**			1,206			1,287	
NET INTEREST INCOME		**$ 99,754**			$ 93,379			$ 88,579	
Net interest margin(C)			**3.95%**			3.74%			3.79%

(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.

Interest income on a tax equivalent basis decreased from $135.0 million in 2009 to $126.7 million in 2010, a decrease of $8.3 million, or 6%. The decrease in interest income was due primarily to a 37 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 decreased by $53.3 million from the end of 2009. The yield on average loans and leases at 5.59% in 2010 was 24 basis points lower than 2009. The yield on average taxable investment securities decreased by 75 basis points to 2.72% in 2010.

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 decreased. 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 average interest-earning assets in 2008 to 21% in 2009. Loans and leases 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 expense decreased from $40.4 million in 2009 to $25.9 million in 2010, a decrease of $14.5 million, or 36%. Average interest-bearing liabilities decreased $3.0 million and the cost of those liabilities decreased from 1.89% in 2009 to 1.21% in 2010. The decrease in yield was due to the low rate environment and a change in deposit mix. Average interest-bearing deposits increased from $1.81 billion in 2009 to $1.86 billion in 2010, an increase of $48.1 million, or 3%. Within this category, average time deposits decreased $132.8 million, while average savings accounts and interest-bearing transaction accounts increased $180.9 million. Average borrowings decreased from $329.9 million in 2009 to $278.8 million in 2010 as a result of several factors including growth in deposits, which outpaced loan and lease growth and because of prepayments of long-term debt since the third quarter of 2009.

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.

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 3.95%, 3.74% and 3.79% for 2010, 2009 and 2008, respectively. The increase in net interest margin from 2009 to 2010 was primarily a result of the decrease in cost of interest-bearing liabilities. 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 2010, 2009 and 2008 would have been 4.02%, 3.81% and 3.81%, respectively, had all of the non-accrual loans performed in accordance with their terms.

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 decreased from $51.6 million in 2009 to $19.3 million in 2010. The 2009 loan and lease loss provision resulted from continued charge-offs in Lakeland s leasing portfolio, increases in

non-performing loans in its commercial portfolio and the Company s decision to reduce the exposure in its leasing portfolio by designating certain lease pools as held for sale. The Company s decision to sell designated lease pools resulted in mark-to-market adjustments totaling $22.1 million as well as additional net charge-offs in the leasing portfolio of $23.0 million in 2009. The charge-offs in 2009 resulted from a continued deterioration in economic conditions and in the underlying collateral value of the leases. Net charge-offs declined from $51.1 million or 2.55% of average loans and leases in 2009 to $17.5 million or 0.88% of average loans and leases in 2010.

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 then current economic conditions have had on our lease portfolio. During 2009, Lakeland charged off loans and leases of $53.4 million and recovered $2.3 million in previously charged off loans and leases compared to $14.0 million and $605,000, respectively, during 2008. Net charge-offs as a percentage of average loans and leases was 0.68% in 2008 compared to 2.55% in 2009.

Noninterest Income

Noninterest income was $19.3 million in 2010 compared to $18.9 million earned in 2009. The increase in this category is primarily due to gains on leasing related assets totaling $1.6 million compared to losses of $1.1 million in 2009. Offsetting the impact of gains on leasing related assets was a reduction in gains on sales of investment securities which totaled $1.7 million in 2010 compared to $3.8 million in 2009. Additionally, there were $128,000 in other-than-temporary impairment losses taken on the Company s equity securities portfolio in 2010 compared to $940,000 in 2009. Service charges on deposit accounts decreased $640,000 to $10.3 million due primarily to reduced overdraft fees collected. Commissions and fees decreased $176,000 or 5% to $3.5 million in 2010, primarily as a result of decreased loan fees and investment services income. Other income at $747,000 increased $210,000 from 2009 primarily due to gains on loans sold. Income on bank owned life insurance decreased by $414,000 to $1.5 million in 2010. Included in bank owned life insurance for 2009 was $485,000 in proceeds received on a life insurance policy. Noninterest income represented 16% of total revenue in 2010. (Total revenue is defined as net interest income plus 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 were 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 received on life insurance policies in 2009 compared to $392,000 received in 2008. Noninterest income represented 17% of total revenue in 2009.

Noninterest Expense

Noninterest expense was $70.4 million in 2010, compared to $73.8 million in 2009, a decrease of 5%. Included in noninterest expense for 2010 was a $1.8 million prepayment fee on long-term debt, while noninterest expense in 2009 included a $3.1 million prepayment fee on long term debt, a $1.2 million industry-wide special FDIC assessment and a $704,000 expense incurred relating to the pretax payout on a life insurance benefit. Salary and benefit expense increased by $1.6 million, or 5%, to $36.1 million, due primarily to normal salary increases and increases in hospital and medical benefit expenses. Collection expense at $592,000 and other real estate and repossessed asset expense at $483,000 decreased $960,000, or 62%, and $519,000, or 52%, respectively, due to decreased leasing related expenses. Legal expense at $1.7 million increased $695,000 compared to 2009 as a result of increased workout expenses related to non-performing loans and leases. Other expenses decreased by $916,000, or 9%, to $8.9 million, primarily due to the previously mentioned $704,000 pretax payout to the beneficiary of bank owned life insurance proceeds in 2009.

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 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 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**.** Legal expense increased from $633,000 in 2008 to $1.0 million in 2009 due to increased workout expenses related to non-performing loans and leases. Other expenses increased by $1.0 million, or 11%, to $9.9 million, primarily due to consulting expenses and a $704,000 pretax payout to the beneficiary of bank owned life insurance proceeds. Also impacting other expenses in 2009 was an increase in appraisal expense and audit expense.

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 securities). In 2010, the Company s efficiency ratio on a tax equivalent basis improved to 56.6% from 62.1% in 2009. The efficiency ratio was 54.8% in 2008. The improvement in the efficiency ratio from 2009 to 2010 was due to management of expenses and an increase in revenue primarily as a result of the reduction in cost of interest-bearing liabilities.

	For the years ended December 31, (dollars in thousands)				
	2010	**2009**	**2008**	**2007**	**2006**
Calculation of efficiency ratio					
Total non-interest expense	**$ 70,405**	$ 73,794	$ 60,071	$ 58,190	$ 54,721
Less:					
Amortization of core deposit intangibles	**(1,062)**	(1,062)	(1,062)	(1,180)	(1,196)
Other real estate owned and other repossessed asset expense	**(483)**	(1,002)	(155)	(10)	(39)
Long-term debt prepayment fee	**(1,835)**	(3,075)			
Non-interest expense, as adjusted	**$ 67,025**	$ 68,655	$ 58,854	$ 57,000	$ 53,486
Net interest income	**$ 99,754**	$ 93,379	$ 88,579	$ 71,728	$ 66,704
Noninterest income	**19,268**	18,857	17,611	18,627	14,180
Total revenue	**119,022**	112,236	106,190	90,355	80,884
Plus: Tax-equivalent adjustment on municipal securities	**1,082**	1,206	1,287	1,629	2,005
Less: (gains) losses on investment securities	**(1,614)**	(2,905)	(53)	(1,769)	2,995
Total revenue, as adjusted	**$ 118,490**	$ 110,537	$ 107,424	$ 90,215	$ 85,884
Efficiency ratio	**56.57%**	62.11%	54.79%	63.18%	62.28%

Income Taxes

The Company s effective income tax rate was 34.5%, 59.0% and 32.3%, in the years ended December 31, 2010, 2009 and 2008, 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.

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Financial Condition

Total assets increased from $2.72 billion on December 31, 2009 to $2.79 billion on December 31, 2010, an increase of $68.7 million, or 3%. Total assets at year-end 2009 increased $81.3 million or 3% from year-end 2008.

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, which totaled $2.01 billion as of December 31, 2010, decreased $1.8 million or less than 1% compared to 2009. The decrease in gross loans and leases is due primarily to leases decreasing $53.3 million, or 44%, from $120.5 million (including $7.3 million held for sale) at December 31, 2009 to $67.2 million (including $1.5 million held for sale) on December 31, 2010, 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 $51.5 million, or 3%, from December 31, 2009 to December 31, 2010. Commercial loans secured by real estate increased from $914.2 million in 2009 to $970.2 million in 2010, an increase of $56.0 million, or 6%. Commercial and industrial loans increased from $172.7 million in 2009 to $194.3 in 2010, an increase of $21.5 million, or 12%. The residential real estate mortgage portfolio increased $20.8 million, or 5% from $382.8 million to $403.6 million due primarily to refinancing resulting from the lower rate environment. Real estate construction loans, which include commercial construction loans, decreased from $108.3 million in 2009 to $70.8 million in 2010, a decrease of $37.6 million, or 35%, because repayments of construction loans have not been replaced with new construction loans. Due to the continued economic downturn, new commercial construction projects have generally not been viable because of the difficulty in selling or renting units. Total loans decreased from $2.03 billion in 2008 to $2.01 billion in 2009, a decrease of $16.5 million, or 1%, due to a decrease in leasing loans of $191.0 million.

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

	December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
	(in thousands)				
Commercial, secured by real estate	**$ 970,240**	$ 914,223	$ 815,237	$ 702,886	$ 606,306
Commercial, industrial and other	**194,259**	172,744	143,383	118,735	108,190
Leases	**65,640**	113,160	311,463	355,644	196,518
Leases held for sale	**1,517**	7,314			
Real estate residential mortgage	**403,561**	382,750	342,660	314,393	288,008
Real estate construction	**70,775**	108,338	102,219	79,111	71,656
Home equity and consumer	**306,322**	315,598	315,704	310,359	315,038
	2,012,314	2,014,127	2,030,666	1,881,128	1,585,716
Plus deferred costs	**2,303**	2,908	4,165	5,407	5,928
Loans and leases net of deferred costs	**$ 2,014,617**	$ 2,017,035	$ 2,034,831	$ 1,886,535	$ 1,591,644

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

	December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Commercial, secured by real estate	**48.2%**	45.4%	40.2%	37.4%	38.2%
Commercial, industrial, and other	**9.7%**	8.6%	7.1%	6.3%	6.8%
Leases, including leases held for sale	**3.3%**	6.0%	15.3%	18.9%	12.4%
Real estate residential mortgage	**20.1%**	19.0%	16.9%	16.7%	18.2%
Real estate construction	**3.5%**	5.4%	5.0%	4.2%	4.5%
Home equity and consumer	**15.2%**	15.6%	15.5%	16.5%	19.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

At December 31, 2010, 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, 2010, 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, secured by real estate	$ 107,087	$ 213,486	$ 649,667	$ 970,240
Commercial, industrial and other	99,799	67,487	26,973	194,259
Real estate construction	36,458	10,774	23,543	70,775
Total	$ 243,344	$ 291,747	$ 700,183	$ 1,235,274
Amount of such loans with:				
Predetermined rates	$ 27,656	$ 209,706	$ 65,873	$ 303,235
Floating or adjustable rates	215,688	82,041	634,310	932,039
Total	$ 243,344	$ 291,747	$ 700,183	$ 1,235,274

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. As a general rule, a non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, satisfactory payments have been received for a sustained period (usually six months), or when it otherwise becomes well-secured and in the process of collection.

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The following schedule sets forth certain information regarding Lakeland 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:

	At December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
Commercial, secured by real estate	**$ 19,226**	$ 25,798	$ 5,034	$ 8,083	$ 3,240
Commercial, industrial, and other	**1,702**	2,047	839	520	168
Leases, including leases held for sale	**6,277**	3,511	8,463	724	630
Real estate residential mortgage	**12,834**	5,465	1,475	384	
Home equity and consumer	**2,930**	1,890	733	448	399
Total non-accrual loans and leases	**42,969**	38,711	16,544	10,159	4,437
Other real estate and other repossessed assets	**1,592**	1,864	3,997	175	
TOTAL NON-PERFORMING ASSETS	**$ 44,561**	$ 40,575	$ 20,541	$ 10,334	$ 4,437
Non-performing assets as a percent of total assets	**1.60%**	1.49%	0.78%	0.41%	0.20%
Loans and leases past due 90 days or more and still accruing	**$ 1,218**	$ 1,437	$ 825	$ 667	$ 876
Troubled debt restructurings, still accruing	**$ 9,073**	$ 3,432	$	$	$

Non-accrual loans and leases increased to $43.0 million on December 31, 2010 from $38.7 million at December 31, 2009. The change in non-accrual loans and leases from 2009 to 2010 included an increase in residential mortgages and leasing non-accruals of $7.4 million and $2.8 million, respectively, which was partially offset by a decline in commercial non-accruals of $6.9 million. Non-accrual leases include $4.0 million in net receivables related to one lessee who has named the Company and other unrelated parties in a complaint in connection with the leases. For more information, see Legal Proceedings in Item 3 of Part I of this Annual Report on Form 10-K. The increase in residential mortgages on non-accrual resulted from a deterioration in the economy and the continuing high unemployment rate in the Company s market area. Commercial loan non-accruals included five loan relationships between $500,000 and $1.0 million totaling $3.6 million, and four loan relationships exceeding $1.0 million totaling $8.0 million. The largest of the commercial loan non-accrual loans was $4.7 million. All non-accrual loans and leases are in various stages of litigation, foreclosure, or workout.

At December 31, 2010, Lakeland had $9.1 million in loans that were restructured and still accruing. Restructured loans are those loans where Lakeland has granted concessions to the borrower in payment terms in rate and/or in maturity 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 continuing high unemployment.

For 2010, 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 $2.2 million. The amount of interest income actually recorded on those loans and leases for 2010 was $403,000. The resultant loss of $1.8 million for 2010 compares with prior year losses of $1.9 million for 2009 and $561,000 for 2008.

As of December 31, 2010, Lakeland had impaired loans and leases totaling $30.0 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, $1.1 million has been allocated to the allowance for loan and lease losses for impairment. At December 31, 2010, Lakeland also had $47.0 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, 2010, other than those designated non-performing, impaired or substandard, where the Company was aware of any credit conditions of any borrowers that would

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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.

The following table sets forth for each of the five years ended December 31, 2010, 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:

			December 31,		
	2010	**2009**	**2008**	**2007**	**2006**
			(dollars in thousands)		
Balance of the allowance at the beginning of the year	**$ 25,563**	$ 25,053	$ 14,689	$ 13,454	$ 13,173
Loans and leases charged off:					
Commercial, secured by real estate(1)	**9,266**	2,724	214	299	642
Commercial, industrial and other	**3,298**	2,632	379	3,302	565
Leases	**4,307**	22,972	11,211	425	90
Leases held for sale		22,122			
Real estate residential mortgage	**397**	433	123		
Home equity and consumer	**2,250**	2,499	2,044	1,341	1,493
Total loans and leases charged off	**19,518**	53,382	13,971	5,367	2,790
Recoveries:					
Commercial, secured by real estate(1)	**134**	135	62	130	410
Commercial, industrial and other	**62**	134	17	79	318
Leases	**1,391**	1,777	150	2	83
Real estate residential mortgage	**7**				3
Home equity and consumer	**411**	231	376	415	531
Total Recoveries	**2,005**	2,277	605	626	1,345
Net charge-offs:	**17,513**	51,105	13,366	4,741	1,445
Provision for loan and lease losses charged to operations	**19,281**	51,615	23,730	5,976	1,726
Ending balance	**$ 27,331**	$ 25,563	$ 25,053	$ 14,689	$ 13,454
Ratio of net charge-offs to average loans and leases outstanding:					
Including charge down of leases held for sale	**0.88%**	2.55%	0.68%	0.28%	0.10%
Excluding charge down of leases held for sale	**0.88%**	1.44%	0.68%	0.28%	0.10%
Ratio of allowance at end of year as a percentage of year-end total loans and leases	**1.36%**	1.27%	1.23%	0.78%	0.85%

(1) includes construction real estate loans

The ratio of the allowance for loan and lease losses to loans and leases 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 impaired 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.

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.

A loan is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

While non-performing loans and leases increased from $38.7 million on December 31, 2009 to $43.0 million on December 31, 2010, the allowance for loan and lease losses was 1.36% of total loans and leases on December 31, 2010 compared to 1.27% of total loans and leases on December 31, 2009. The increase in non-accrual loans, as discussed above, was in residential mortgages and leases. 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, 2010. The preceding statement constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

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.

			At December 31, (in thousands)		
	2010	**2009**	**2008**	**2007**	**2006**
Commercial, secured by real estate(1)	**$ 11,366**	$ 9,285	$ 8,954	$ 8,048	$ 8,327
Commercial, Industrial and other(1)	**5,113**	4,647			
Leases	**3,477**	4,308	11,212	2,310	1,589
Real estate residential mortgage	**2,628**	1,286	626	272	299
Real estate construction	**2,176**	3,198	2,054	1,680	648
Home equity and consumer	**2,571**	2,839	2,207	2,379	2,591
	$ 27,331	$ 25,563	$ 25,053	$ 14,689	$ 13,454

(1) Data related to the allocation of the allowance for loan and lease losses between commercial loan categories was not available prior to 2009.

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.

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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.

		December 31,	
	2010	**2009**	**2008**
		(in thousands)	
U.S. Treasury and U.S. government agencies	**$ 112,293**	$ 86,475	$ 74,934
Obligations of states and political subdivisions	**66,784**	62,414	63,616
Mortgage-backed securities	**326,626**	272,665	216,181
Equity securities	**24,536**	20,898	23,286
Other debt securities	**23,441**	14,899	14,271
	$ 553,680	$ 457,351	$ 392,288

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.

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, 2010:

Available for sale	**Within one year**	**Over one but within five years**	**Over five but within ten years**	**After ten years**	**Total**
			(dollars in thousands)		
U.S. government agencies					
Amount	$ 4,995	$ 84,608	$ 12,673	$ 5,021	$ 107,297
Yield	0.26%	1.88%	4.82%	2.55%	2.18%
Obligations of states and political subdivisions					
Amount	3,786	7,626	15,107	1,030	27,549
Yield	2.08%	3.47%	3.45%	3.08%	3.25%
Mortgage-backed securities					
Amount	901	1,063	30,188	273,700	305,852
Yield	4.00%	4.19%	4.32%	3.76%	3.82%
Other debt securities					
Amount	1,526	9,203	9,661	1,483	21,873
Yield	3.47%	2.32%	1.24%	0.85%	1.82%
Other equity securities					
Amount	24,536				24,536
Yield	0.60%	%	%	%	0.60%
Total securities					
Amount	$ 35,744	$ 102,500	$ 67,629	$ 281,234	$ 487,107
Yield	0.92%	2.06%	3.78%	3.72%	3.17%

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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, 2010:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years	After ten years	Total
			(dollars in thousands)		
U.S. government agencies					
Amount	$ 1,000	$ 3,996	$	$	$ 4,996
Yield	4.63%	4.20%	%	%	4.29%
Obligations of states and political subdivisions					
Amount	11,934	15,476	10,896	929	39,235
Yield	2.45%	3.84%	3.89%	4.00%	3.43%
Mortgage-backed securities					
Amount		316	4,610	15,848	20,774
Yield	%	4.48%	4.62%	4.49%	4.52%
Other debt securities					
Amount		505	1,063		1,568
Yield	%	5.25%	6.67%	%	6.21%
Total securities					
Amount	$ 12,934	$ 20,293	$ 16,569	$ 16,777	$ 66,573
Yield	2.62%	3.96%	4.27%	4.46%	3.90%

Other Assets

Other assets decreased from $47.9 million at December 31, 2009 to $35.1 million at December 31, 2010 due primarily to a decrease in taxes receivable of $8.8 million and the prepaid FDIC assessment of $3.5 million. Net deferred tax assets remained at $13.6 million on December 31, 2010.

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, 2010 will be realized.

Deposits

Total deposits increased from $2.16 billion on December 31, 2009 to $2.20 billion on December 31, 2010, an increase of $38.7 million, or 2%. Total noninterest-bearing demand accounts increased from $323.2 million to $383.9 million, a $60.7 million, or 19%, increase. Savings and interest-bearing transaction accounts increased from $1.37 billion to $1.40 billion, an increase of $30.9 million, or 2%. Total core deposits, which are defined as noninterest-bearing deposits and savings and interest-bearing transaction accounts, increased from $1.69 billion on December 31, 2009 to $1.78 billion on December 31, 2010, an increase of $91.6 million, or 5%. Core deposits represent 81% of total deposits at December 31, 2010 compared to 78% at the end of 2009. Total time deposits decreased from $465.7 million on December 31, 2009 to $412.8 million on December 31, 2010, a decrease of $52.9 million, or 11%. 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 $2.06 billion on December 31, 2008 to $2.16 billion on December 31, 2009, an increase of $101.1 million, or 5%.

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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, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
			(Dollars in thousands)			
Noninterest-bearing demand deposits	**$ 359,915**	**%**	$ 315,193	%	$ 300,950	%
Interest-bearing transaction accounts	**1,082,026**	**0.74%**	914,695	1.02%	805,515	1.75%
Savings	**317,620**	**0.19%**	304,084	0.51%	310,565	1.23%
Time deposits	**456,692**	**1.44%**	589,499	2.70%	561,069	3.82%
Total	**$ 2,216,253**	**0.69%**	$ 2,123,471	1.26%	$ 1,978,099	1.99%

As of December 31, 2010, 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):

Maturity	
Within 3 months	$ 52,869
Over 3 through 6 months	33,853
Over 6 through 12 months	46,706
Over 12 months	37,510
Total	$ 170,938

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 $56.0 million in 2010 compared to $22.5 million and $30.9 million in 2009 and 2008, respectively.

Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2010, Lakeland generated $38.7 million in deposit growth.

Sales of securities and overnight funds. At year-end 2010, the Company had $487.1 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. As a member of the Federal Home Loan Bank of New York (FHLB), Lakeland has the ability to borrow overnight based on the market value of collateral pledged. Lakeland had no overnight borrowings from the FHLB on December 31, 2010. Lakeland also has overnight federal funds lines available for it to borrow up to $162.0 million. Lakeland had borrowings against these lines of $5.5 million at December 31, 2010. 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, 2010.

Other borrowings. 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.

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Management and the Board monitor the Company s liquidity through the asset/liability committee, which monitors the Company s compliance with certain regulatory ratios and other various liquidity guidelines.

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.

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2010. Interest on subordinated debentures and other borrowings 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	$ 13,854	$ 1,780	$ 2,964	$ 2,480	$ 6,630
Benefit plan commitments	5,128	185	370	335	4,238
Remaining contractual maturities of time deposits	412,849	306,498	88,942	16,233	1,176
Subordinated debentures	77,322				77,322
Loan commitments	407,164	334,406	37,219	2,252	33,287
Other borrowings	195,000	80,000	30,000	40,000	45,000
Interest on other borrowings*	123,070	9,094	16,763	13,499	83,714
Series A Preferred Stock	39,000				39,000
Interest on Series A Preferred Stock	23,644	1,950	3,900	6,825	10,969
Standby letters of credit	8,873	7,902	754	137	80
Total	$ 1,305,904	$ 741,815	$ 180,912	$ 81,761	$ 301,416

* Includes interest on other borrowings and subordinated debentures at a weighted rate of 3.47%.

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 (the ALCO), 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.

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 2011 (the base case) is $100.8 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.

	Changes in interest rates			
Rate Ramp	**+200 bp**	**+100 bp**	**-100 bp**	**-200 bp**
Asset/Liability Policy Limit	-5.0%			-5.0%
December 31, 2010	-3.3%	-1.5%	-1.9%	-2.6%
December 31, 2009	-3.0%	-1.4%	-1.8%	-2.7%

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, 2010 (the base case) was $350.8 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.

	Changes in interest rates			
Rate Shock	**+200 bp**	**+100 bp**	**-100 pb**	**-200 bp**
Asset/Liability Policy Limit	-25.0%			-25.0%
December 31, 2010	-7.9%	-2.0%	-2.5%	-8.6%
December 31, 2009	-5.2%	-0.7%	-2.4%	-9.9%

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

Capital Resources

Stockholders equity decreased from $268.0 million on December 31, 2009 to $260.7 million on December 31, 2010. The decrease in stockholders equity from December 31, 2009 to December 31, 2010 was primarily due to redemption of preferred stock from the U.S Treasury Department totaling $20.0 million and the payment of dividends on common and preferred stock of $6.8 million. Partially offsetting these items was net income of $19.2 million. For more information on the redemption of preferred stock, please see Note 7 in Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Book value per common share (total common stockholders equity divided by the number of shares outstanding) increased from $8.46 on December 31, 2009 to $8.82 on December 31, 2010 primarily as a result of net income. Book value per common share was $8.88 on December 31, 2008.

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, 2010 and 2009:

	Tier 1 Capital to Total Average Assets Ratio December 31,		Tier 1 Capital to Risk-Weighted Assets Ratio December 31,		Total Capital to Risk-Weighted Assets Ratio December 31,	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Capital Ratios:						
The Company	**9.21%**	9.44%	**12.43%**	12.65%	**13.68%**	13.90%
Lakeland Bank	**8.71%**	8.99%	**11.75%**	12.07%	**13.00%**	13.32%
Well capitalized institution under FDIC Regulations	**5.00%**	5.00%	**6.00%**	6.00%	**10.00%**	10.00%

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Non-GAAP Financial Measures

Reported amounts are presented in accordance with U.S. GAAP. The Company s management believes that the supplemental non-GAAP information, which consists of measurements and ratios based on tangible equity and tangible assets, is utilized by regulators and market analysts to evaluate a company s financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures which may be presented by other companies.

	December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
	(dollars in thousands, except per share amounts)				
Calculation of tangible book value per common share					
Total common stockholders equity at end of period GAAP	**$ 223,235**	$ 211,963	$ 220,941	$ 211,599	$ 199,500
Less:					
Goodwill	**87,111**	87,111	87,111	87,111	87,111
Other identifiable intangible assets, net	**578**	1,640	2,701	3,763	4,942
Total tangible common stockholders equity at end of period Non-GAAP	**$ 135,546**	$ 123,212	$ 131,129	$ 120,725	$ 107,447
Shares outstanding at end of period(1)	**25,322**	25,066	24,871	24,445	24,318
Book value per share GAAP(1)	**$ 8.82**	$ 8.46	$ 8.88	$ 8.66	$ 8.20
Tangible book value per share Non-GAAP(1)	**$ 5.35**	$ 4.92	$ 5.27	$ 4.94	$ 4.42
Calculation of tangible common equity to tangible assets					
Total tangible common stockholders equity at end of period Non-GAAP	**$ 135,546**	$ 123,212	$ 131,129	$ 120,725	$ 107,447
Total assets at end of period	**$ 2,792,674**	$ 2,723,968	$ 2,642,625	$ 2,513,771	$ 2,263,573
Less:					
Goodwill	**87,111**	87,111	87,111	87,111	87,111
Other identifiable intangible assets, net	**578**	1,640	2,701	3,763	4,942
Total tangible assets at end of period Non-GAAP	**$ 2,704,985**	$ 2,635,217	$ 2,552,813	$ 2,422,897	$ 2,171,520
Common equity to assets GAAP	**7.99%**	7.78%	8.36%	8.42%	8.81%
Tangible common equity to tangible assets Non-GAAP	**5.01%**	4.68%	5.14%	4.98%	4.95%

(1) Adjusted for 5% stock dividend payable on February 16, 2011 to shareholders of record January 31, 2011.

	For the year ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
			(dollars in thousands)		
Calculation of return on average tangible common equity					
Net income (loss) GAAP	**$ 19,211**	$ (5,396)	$ 15,165	$ 17,988	$ 16,977
Total average common stockholders equity	**$ 220,796**	$ 217,062	$ 216,931	$ 204,127	$ 191,732
Less:					
Average goodwill	**87,111**	87,111	87,111	87,111	87,111
Average other identifiable intangible assets, net	**1,120**	2,182	3,247	4,359	5,580
Total average tangible common stockholders equity Non-GAAP	**$ 132,565**	$ 127,769	$ 126,573	$ 112,657	$ 99,041
Return on average common stockholders equity GAAP	**8.70%**	-2.49%	6.99%	8.81%	8.85%
Return on average tangible common stockholders equity Non-GAAP	**14.49%**	-4.22%	11.98%	15.97%	17.14%

Recent Accounting Pronouncements

On June 12, 2009, the Financial Accounting Standards Board (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 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 is 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. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The Company applied this guidance on January 1, 2010, and application did not have a material impact on the Company s consolidated financial statements.

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. The Company applied this guidance in the first quarter of 2010 and application did not have a material impact on the Company s consolidated financial statements.

In July 2010, the FASB issued accounting guidance to provide financial statement users with greater transparency about an entity s allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio s risk and

performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010 with the exception of the troubled debt restructuring disclosures which are anticipated to be effective for interim and annual reporting periods ending after June 15, 2011. The application of this guidance did not have a material impact on the Company s consolidated financial statements. See Note 3 to the Consolidated Financial Statements for the disclosures required by this guidance.

In December 2010, the FASB issued accounting guidance that modifies Step One of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step Two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company s 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.

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ITEM 8 Financial Statements and Supplementary Data

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
	(dollars in thousands)	
ASSETS		
Cash	**$ 26,063**	$ 31,869
Interest-bearing deposits due from banks	**23,215**	26,794
Total cash and cash equivalents	**49,278**	58,663
Investment securities, available for sale	**487,107**	375,530
Investment securities, held to maturity; fair value of $68,815 in 2010 and $84,389 in 2009	**66,573**	81,821
Leases held for sale	**1,517**	7,314
Loans, net of deferred costs	**2,013,100**	2,009,721
Less: allowance for loan and lease losses	**27,331**	25,563
Net loans	**1,987,286**	1,991,472
Premises and equipment net	**27,554**	29,196
Accrued interest receivable	**8,849**	8,943
Goodwill	**87,111**	87,111
Other identifiable intangible assets, net	**578**	1,640
Bank owned life insurance	**43,284**	41,720
Other assets	**35,054**	47,872
TOTAL ASSETS	**$ 2,792,674**	$ 2,723,968
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	**$ 383,877**	$ 323,175
Savings and interest-bearing transaction accounts	**1,399,163**	1,368,272
Time deposits under $100 thousand	**241,911**	283,512
Time deposits $100 thousand and over	**170,938**	182,228
Total deposits	**2,195,889**	2,157,187
Federal funds purchased and securities sold under agreements to repurchase	**52,123**	63,672
Other borrowings	**195,000**	145,900
Subordinated debentures	**77,322**	77,322
Other liabilities	**11,631**	11,901
TOTAL LIABILITIES	**2,531,965**	2,455,982
Commitments and contingencies		
Stockholders equity:		
Preferred stock, Series A, no par value, $1,000 liquidation value, authorized 1,000,000 shares; issued 39,000 shares at December 31, 2010 and 59,000 at December 31, 2009	**37,474**	56,023
Common stock, no par value; authorized shares, 40,000,000; issued shares, 25,977,592 at December 31, 2010 and 2009; outstanding shares, 25,321,824 at December 31, 2010 and 25,065,743 at December 31, 2009	**271,595**	259,521
Accumulated Deficit	**(38,004)**	(34,961)

Treasury stock, at cost, 655,768 shares in 2010 and 911,849 shares in 2009	**(8,683)**	(11,940)
Accumulated other comprehensive loss	**(1,673)**	(657)
TOTAL STOCKHOLDERS EQUITY	**260,709**	267,986
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,792,674**	$ 2,723,968

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2010	**2009**	**2008**
	(dollars In thousands, except per share data)		
INTEREST INCOME			
Loans, leases and fees	**$ 111,584**	$ 117,123	$ 127,414
Federal funds sold and interest-bearing deposits with banks	**121**	109	420
Taxable investment securities	**11,934**	14,351	13,713
Tax-exempt investment securities	**2,010**	2,239	2,390
TOTAL INTEREST INCOME	**125,649**	133,822	143,937
INTEREST EXPENSE			
Deposits	**15,195**	26,793	39,303
Federal funds purchased and securities sold under agreements to repurchase	**127**	139	1,487
Other borrowings	**10,573**	13,511	14,568
TOTAL INTEREST EXPENSE	**25,895**	40,443	55,358
NET INTEREST INCOME	**99,754**	93,379	88,579
Provision for loan and lease losses	**19,281**	51,615	23,730
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	**80,473**	41,764	64,849
NONINTEREST INCOME			
Service charges on deposit accounts	**10,278**	10,918	11,106
Commissions and fees	**3,533**	3,709	3,422
Gains on sales and calls of investment securities, net	**1,742**	3,845	53
Other-than-temporary impairment loss on securities	**(128)**	(940)	
Income on bank owned life insurance	**1,516**	1,930	1,741
Gains (losses) on leasing related assets, net	**1,580**	(1,142)	978
Other income	**747**	537	311
TOTAL NONINTEREST INCOME	**19,268**	18,857	17,611
NONINTEREST EXPENSE			
Salaries and employee benefits	**36,086**	34,505	32,263
Net occupancy expense	**6,735**	6,637	6,098
Furniture and equipment	**4,867**	5,038	4,848
Stationery, supplies and postage	**1,636**	1,605	1,764
Marketing expense	**2,700**	2,633	2,348
Core deposit intangible amortization	**1,062**	1,062	1,062
FDIC insurance expense	**3,764**	5,819	1,478
Collection expense	**592**	1,552	572
Legal expense	**1,698**	1,003	633
Other real estate and repossessed asset expense	**483**	1,002	155
Long-term debt prepayment fee	**1,835**	3,075	
Other expenses	**8,947**	9,863	8,850
TOTAL NONINTEREST EXPENSE	**70,405**	73,794	60,071

Income (loss) before provision (benefit) for income taxes		**29,336**		(13,173)		22,389
Provision (benefit) for income taxes		**10,125**		(7,777)		7,224
NET INCOME (LOSS)	**$**	**19,211**	$	(5,396)	$	15,165
Dividends on Preferred Stock and Accretion	**$**	**3,987**	$	3,194	$	
Net Income (Loss) Available to Common Stockholders	**$**	**15,224**	$	(8,590)	$	15,165
PER SHARE OF COMMON STOCK:						
Basic earnings (loss)	**$**	**0.60**	$	(0.35)	$	0.61
Diluted earnings (loss)	**$**	**0.60**	$	(0.35)	$	0.61
Cash dividends	**$**	**0.20**	$	0.29	$	0.38

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the years ended December 31, 2010, 2009 and 2008

	Common stock					Accumulated	
	Number of Shares	Amount	Series A Preferred Stock	Accumulated Deficit	Treasury Stock	Other Comprehensive Loss	Total
				(dollars in thousands)			
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
Comprehensive income 2008:							
Net Income				15,165			15,165
Other comprehensive loss, net of tax						(535)	(535)
Total comprehensive income							14,630
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
Comprehensive income 2009:							
Net Loss				(5,396)			(5,396)
Other comprehensive income, net of tax						1,711	1,711
Total comprehensive loss							(3,685)
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
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)
BALANCE DECEMBER 31, 2009	24,740,564	259,521	56,023	(34,961)	(11,940)	(657)	267,986
Comprehensive income 2010:							
Net Income				19,211			19,211
Other comprehensive loss, net of tax						(1,016)	(1,016)
Total comprehensive income							18,195
Preferred dividends				(2,536)			(2,536)

Accretion of discount			1,451	(1,451)			
Stock based compensation		538					538
Redemption of preferred stock			(20,000)				(20,000)
Stock dividend	1,237,028	13,224		(13,224)			
Issuance of restricted stock awards		(476)			476		
Issuance of stock to dividend reinvestment and stock purchase plan		(516)		(864)	1,437		57
Exercise of stock options, net of excess tax benefits		(696)			1,344		648
Cash dividends, common stock				(4,179)			(4,179)
BALANCE DECEMBER 31, 2010	**25,977,592**	**$ 271,595**	**$ 37,474**	**$ (38,004)**	**$ (8,683)**	**$ (1,673)**	**$ 260,709**

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	**$ 19,211**	$ (5,396)	$ 15,165
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	**4,404**	4,160	1,928
Depreciation and amortization	**3,061**	3,306	3,398
Amortization of intangible assets	**1,062**	1,062	1,062
Provision for loan and lease losses	**19,281**	51,615	23,730
Stock based compensation	**538**	443	351
Gains on securities, net	**(1,742)**	(3,845)	(53)
Other-than-temporary impairment loss on securities	**128**	940	
(Gains) losses on sales of leases held for sale	**(772)**	1,631	
Writedown of other repossessed assets		782	99
(Gains) losses on other repossessed assets	**(808)**	(230)	17
Gain on sale of premises and equipment	**(48)**		
Deferred tax provision (benefit)	**547**	(2,725)	(4,490)
Decrease (increase) in other assets	**11,105**	(26,247)	(2,975)
Increase (decrease) in other liabilities	**23**	(2,957)	(7,295)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**55,990**	22,539	30,937
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayments on and maturity of securities:			
Available for sale	**160,581**	147,300	108,207
Held to maturity	**26,054**	41,890	33,463
Proceeds from sales of securities:			
Available for sale	**76,048**	153,763	10,108
Purchase of securities:			
Available for sale	**(352,011)**	(391,948)	(127,916)
Held to maturity	**(10,939)**	(13,742)	(14,403)
Purchase of bank owned life insurance		(1,304)	
Proceeds from sales of leases	**1,077**	53,407	
Net increase in loans and leases	**(19,057)**	(94,874)	(162,905)
Proceeds from dispositions of premises and equipment	**288**	3	
Capital expenditures	**(1,659)**	(3,026)	(2,784)
Proceeds from sales of other repossessed assets	**4,133**	6,853	1,966
NET CASH USED IN INVESTING ACTIVITIES	**(115,485)**	(101,678)	(154,264)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	**38,702**	101,054	68,728
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	**(11,549)**	1,309	13,069
Proceeds from other borrowings	**80,000**		125,103
Repayments of other borrowings	**(30,900)**	(65,000)	(85,892)
Issuance of stock to Dividend Reinvestment and Stock Purchase Plan	**57**	35	75
Proceeds on issuance of preferred stock, net		58,837	
Redemption of preferred stock	**(20,000)**		
Exercise of stock options	**627**	(55)	2,788

Excess tax benefits	**21**	2	105
Dividends paid on preferred stock	**(2,669)**	(2,287)	
Dividends paid on common stock	**(4,179)**	(5,869)	(8,061)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**50,110**	88,026	115,915
Net (decrease) increase in cash and cash equivalents	**(9,385)**	8,887	(7,412)
Cash and cash equivalents, beginning of year	**58,663**	49,776	57,188
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 49,278**	$ 58,663	$ 49,776

The accompanying notes are an integral part of these statements.

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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 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 NJ Investment Corp., Lakeland Investment Corp., Lakeland Equity, Inc., and Lakeland Preferred Equity, Inc. All intercompany balances and transactions have been eliminated. Lakeland Preferred Equity, Inc. is a Real Estate Investment Trust formed by Lakeland in the fourth quarter of 2010.

The Company evaluated its December 31, 2010 financial statements for subsequent events through the date the financial statements were 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 investment securities portfolio, the realizability of the Company s deferred tax asset and the analysis of goodwill and intangible 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.

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The Company s operating segments are components of its enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company s chief operating decision maker is its Chief Executive Officer. 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. All significant operating decisions are based upon analysis of the Company as one operating segment or unit. Accordingly, the Company has determined that it has one operating segment and thus one reporting segment.

Investment Securities

Investment 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 effective 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 securities 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 through the statement of operations 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.

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 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. As a general rule, a non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, satisfactory payments have been received for a sustained period (usually six months), or when it otherwise becomes well-secured and in the process of collection.

Loans and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan

agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected 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. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $250,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

Loans are classified as 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. Nonetheless, restructured loans are classified as impaired loans.

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 analyzes historical losses by loan and lease category, and considers the resulting loss rates when determining the reserves on 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.

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.

The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including impaired 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.

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.

A loan is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

The Company transfers leases to held for sale status when it identifies leases that it intends to sell. At that time, the specific 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 recent 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 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, 2010 and 2009, Lakeland was servicing approximately $30.8 million and $23.2 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 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 specifically identified and 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. No mortgage loans were identified as held for sale as of December 31, 2010 and 2009.

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, 2010 and 2009 were approximately $454,000 and $559,000, respectively.

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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 including the 5% stock dividend which was distributed on February 16, 2011.

Employee Benefit Plans

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

U.S. GAAP 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

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 2.1 million shares in connection with options and awards granted under the 2009 program. The Company s stock option grants under this plan expire 10 years from the date of grant, ninety days after termination of service other than for cause, or one year after death or disability of the grantee. The Company currently has no option or restricted stock awards with market or performance conditions attached to them.

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 2,370,237 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 using the cost method. No further awards will be granted from the 2000 program.

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:

	2010	**2009**	**2008**
		(in thousands)	
Transfer of loans and leases receivable to other real estate owned and other repossessed assets	$ 3,052	$ 5,271	$ 5,877
Cash paid for income taxes	6,460	2,434	12,672
Cash paid for interest	26,508	42,448	56,602
Transfer of leases receivable to leases held for sale at fair value		67,945	
Transfer of leases from held for sale to held for investment	1,888		

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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 (loss).

	Year ended December 31, 2010		
	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	$ (139)	$ 75	$ (64)
Less reclassification adjustment for net gains realized in net income	1,614	(565)	1,049
Net unrealized losses on available for sale securities	(1,753)	640	(1,113)
Change in pension liabilities	161	(64)	97
Other comprehensive loss, net	$ (1,592)	$ 576	$ (1,016)

	Year ended December 31, 2009		
	Before tax amount	Tax 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)

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, 2010 and 2009. Core deposit intangibles were $578,000 and $1.6 million at December 31, 2010 and 2009, respectively. Amortization expense of core deposit intangibles was $1.1 million for each of the years ended December 31, 2010, 2009 and 2008. Amortization expense of core deposit intangibles is expected to be $578,000 in 2011.

The Company tests goodwill for impairment annually as of November 30 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 a 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, as well as a third party valuation as of November 30, 2010, there was no indication that the Company s goodwill was impaired as of December 31, 2010, 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, 2010 and 2009, the Company had $43.3 million and $41.7 million, respectively, in BOLI. Income earned on BOLI was $1.5 million, $1.9 million and $1.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. Income earned on BOLI in 2009 and 2008 included $485,000 and $392,000, respectively, in proceeds from insurance policy payouts.

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 and valuation reserves on leases held for sale.

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. 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. 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

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holding companies to continue to count trust preferred securities as Tier 1 Capital 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. Under the Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act, any new issuance of trust preferred securities by the Company would not be eligible as regulatory capital.

New Accounting Pronouncements

On June 12, 2009, the Financial Accounting Standards Board (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 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 is 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. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The Company applied this guidance on January 1, 2010 and application did not have a material impact on the Company s consolidated financial statements.

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. The Company applied this guidance in the first quarter of 2010 and application did not have a material impact on the Company s consolidated financial statements.

In July 2010, the FASB issued accounting guidance to provide financial statement users with greater transparency about an entity s allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio s risk and performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010 with the exception of the troubled debt restructuring disclosures which are anticipated to be effective for interim and annual reporting periods ending after June 15, 2011. The application of this guidance did not have a material impact on the Company s consolidated financial statements. See Note 3 to the Consolidated Financial Statements for the disclosures required by this guidance.

In December 2010, the FASB issued accounting guidance that modifies Step One of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step Two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company s financial statements.

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Reclassifications

Certain reclassifications have been made to prior period consolidated financial statements to conform to the 2010 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, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
AVAILABLE FOR SALE								
U.S. government agencies								