LAKELAND BANCORP INC
Form 10-K
March 16, 2009
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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, 2008.**

¨ **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: 33-27312

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock, no par value

Title of Each Class

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 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, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $247,000,000, 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, 2009, was 23,701,402.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2009 Annual Meeting of Shareholders (Part III).

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PART I

ITEM 1 Business

GENERAL

Lakeland Bancorp, Inc. (the Company) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland or the Bank). Through Lakeland, the Company operates 49 banking offices, located in Morris, Passaic, Sussex, Warren, Essex and Bergen counties in New Jersey. Lakeland offers a full range of lending services, including commercial loans and leases, real estate and consumer loans to small and medium-sized businesses, professionals and individuals located in its markets.

The Company has grown substantially over the last several years, through a combination of organic growth and acquisitions. Lakeland has opened twelve new branches since January 1, 2001.

The Company also has grown through acquisitions. Since 1998, the Company has 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. A summary of the Company s community bank acquisitions is as follows:

Year	Financial Institutions Acquired		Assets of Financial Institutions Acquired(1)
1998	Metropolitan State Bank	$	85.5 million
1999	High Point Financial Corp. and its National Bank of Sussex County subsidiary	$	252.7 million
2003	CSB Financial Corp. and its Community State Bank subsidiary	$	122.2 million
2004	Newton Financial Corp. and its Newton Trust Company subsidiary	$	320.5 million

(1) Measured as of the end of the last quarter prior to the Company s announcement of the acquisition.

The Company has also diversified its business through opportunistic purchases of specialized lending platforms. In 2000, Lakeland acquired NIA National Leasing and opened a leasing division which provides equipment lease financing to small and medium-sized business clients. In 2004, Lakeland acquired $25.0 million of net receivables and opened an asset based lending department which specializes in utilizing particular assets to fund the working capital needs of borrowers.

At December 31, 2008, the Company had total consolidated assets of $2.6 billion, total consolidated deposits of $2.1 billion, total consolidated loans, net of the allowance for loan and lease losses, of $2.0 billion and total consolidated stockholders equity of $220.9 million.

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

Commercial Bank Services

Through Lakeland, the Company offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located primarily in northern New Jersey. In the lending area, these services include short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans, mortgage loans and merchant credit card services. The

Lakeland Bank Equipment Leasing Division provides a solution to small and medium sized companies who prefer to lease equipment over other financial alternatives. 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 collection, wire transfer, internet banking and night depository services to the business community. In addition, Lakeland offers cash management services, such as remote capture of deposits and overnight sweep repurchase agreements.

Consumer Banking

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

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 handling of loans 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, 2008, the Company had 521 full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

SUPERVISION AND REGULATION

General

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

Lakeland is a state chartered banking association subject to supervision and examination by the Department of Banking and Insurance of the State of New Jersey (the Department) and the Federal Deposit Insurance Corporation (the FDIC). The regulations of the State of New Jersey and FDIC govern most aspects of Lakeland s business, including reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends, and location of branch offices. Lakeland is subject to certain restrictions imposed by law on, among other things, (i) the maximum amount of obligations of any one person or entity which may be outstanding at any one time, (ii) investments in stock or other securities of the Company or any subsidiary of the Company, and (iii) the taking of such stock or securities as collateral for loans to any borrower.

The Holding Company Act

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

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

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

Regulation of Bank Subsidiaries

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

Commitments to Affiliated Institutions

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

Interstate Banking

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

Gramm-Leach Bliley Act of 1999

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

- allows bank holding companies meeting management, capital, and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

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

The USA PATRIOT Act

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

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

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

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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.

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, former President Bush signed into law the Sarbanes-Oxley Act of 2002, or the SOA. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

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

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

The SOA addresses, among other matters:

audit committees for all reporting companies;

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

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

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

disclosure of off-balance sheet transactions;

- a prohibition on personal loans to directors and officers (other than loans made by an insured depository institution (as defined in the Federal Deposit Insurance Act), if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act);
- expedited filing requirements for Forms 4 s;
- 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.

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

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

Capital Adequacy Guidelines

The Federal Reserve Board has adopted Risk-Based Capital Guidelines. These guidelines establish minimum levels of capital and require capital adequacy to be measured in part upon the degree of risk associated with certain assets. Under these guidelines all banks and bank holding companies must have a core or Tier 1 capital to risk-weighted assets ratio of at least 4% and a total capital to risk-weighted assets ratio of at least 8%. At December 31, 2008, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 10.24% and 11.52%, 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 8.08% at December 31, 2008.

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, 2008, the Company and Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action.

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

Temporary Liquidity Guarantee Program

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (the TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, to strengthen confidence and encourage liquidity in the banking system. The TLG Program has two components. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 (the Debt Guarantee Program) and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, NOW accounts paying less than 0.5% interest per annum and certain types of interest paying attorney trust accounts held at participating FDIC-insured institutions through December 31, 2009 (the Transaction Account Guarantee Program). Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts

exceeding $250,000. The Company has elected to participate in both the Transaction Account Guarantee Program and the Debt Guarantee Program. As of December 31, 2008, the Company had no senior unsecured debt scheduled to mature on or before June 30, 2009.

Deposit Insurance and Premiums

Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating, known as a CAMEL rating . In 2008, Lakeland paid an assessment of $1.3 million. On December 16, 2008, the FDIC adopted a final rule increasing risk-based assessment rates uniformly by 7 basis points (7 cents for every $100 of deposits), on an annual basis, for the first quarter of 2009. In October 2008, the FDIC had also proposed changes to take effect beginning in the second quarter of 2009 that would make deposit insurance assessments fairer by requiring riskier institutions to pay a larger share.

On February 27, 2009, the Board of Directors of the FDIC adopted an interim rule imposing a 20 basis point emergency special assessment on the entire banking industry on June 30, 2009. The assessment is to be collected on September 30, 2009. The interim rule would also permit the Board to impose an emergency special assessment after June 30, 2009, of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance. Subsequently, on March 5, 2009 the Chairman of the FDIC announced that it may cut the 20 basis point emergency special assessment to 10 basis points if legislation passes to expand the FDIC s existing line of credit with the U.S. Treasury Department. In addition, the FDIC Board adopted a final rule on February 27, 2009 which sets assessment rates beginning on April 1, 2009 and makes adjustments that improve how the assessment system differentiates for risk.

As the rules governing assessments have been changing and may continue to change in the future, the Company cannot provide assurance as to the amount of the assessment it will pay for 2009. However, based on available information, the Company estimates that it will pay an assessment of approximately $4.0 million, plus the special assessment of approximately an additional $2.0 million to $4.0 million, (depending on whether the emergency special assessment described above is ultimately determined to be 10 basis points or 20 basis points), in 2009.

The enactment of the Emergency Economic Stabilization Act of 2008 (EESA) temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase in deposit insurance coverage became effective on October 3, 2008. EESA provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of $220,000 in 2008 and expects to pay a similar premium in 2009.

Legislation Implemented in Response to Recent Periods of Economic Turmoil

In response to recent unprecedented market turmoil, EESA was enacted on October 3, 2008. EESA authorizes the U.S. Treasury Department to provide up to $700 billion in funding for the financial services industry. Pursuant to the EESA, the Treasury was initially authorized to use $350 billion for the Troubled Asset Relief Program (TARP). Of this amount, the Treasury allocated $250 billion to the TARP Capital Purchase Program. On January 15, 2009, the second $350 billion of TARP monies was released to the Treasury. As described elsewhere in this Annual Report on Form 10-K, the Company has received $59,000,000 under the TARP Capital Purchase Program.

Participants in the TARP Capital Purchase Program were required to accept several compensation-related limitations associated with this Program. In February 2009, five executive officers of the Company (Messrs. Shara, Hurley, Vandenbergh, Buonforte and Luddecke) agreed in writing to accept the compensation standards in existence at that time under the Capital Purchase Program and thereby cap or eliminate some of their contractual or legal rights. The provisions agreed to were as follows:

No golden parachute payments. The term golden parachute payment under the TARP Capital Purchase Program (as distinguished from the definition under the Stimulus Bill referred to below) refers to a

severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, that exceeds three times the terminated employee s average annual base salary over the five years prior to termination. The Company s senior executive officers have agreed to forego all golden parachute payments for as long as they remain senior executive officers (the CEO, the CFO and the next three highest-paid executive officers) of the Company and the Treasury continues to hold the equity securities that the Company issued to it under the TARP Capital Purchase Program (the period during which the Treasury holds those securities is referred to herein as the CPP Covered Period.).

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

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

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

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) was enacted. The Stimulus Bill contains several provisions designed to establish executive compensation and governance standards for financial institutions (such as the Company) that received or will receive financial assistance under TARP. In certain instances, the Stimulus Bill modified the compensation-related limitations contained in the TARP Capital Purchase Program; in addition, the Stimulus Bill created additional compensation-related limitations and directed the Treasury to establish standards for executive compensation applicable to participants in the TARP. In their February 2009 agreements, the Company s executives did not waive their rights with respect to the provisions implemented by the Stimulus Bill; other employees now covered by these provisions were not asked and did not agree to waive their rights. 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 will require 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 SEC is required to promulgate rules requiring a non-binding 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. The SEC has issued guidance indicating that this requirement will apply to the Company s 2009 annual meeting of shareholders.

Proposed Legislation

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

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

ITEM 1A Risk Factors.

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

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

Negative developments in the latter half of 2007 and all of 2008 in the capital markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing for

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

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

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

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

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

- inflation or recession;
- a rise or fall in unemployment;
- tightening or expansion of the money supply;
- domestic and international disorder; and
- instability in domestic and foreign financial markets.

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 impairments to goodwill.

We review our goodwill at least annually. Significant negative industry or economic trends, including the lack of recovery in the market place of our common stock price, reduced estimates of future cash flows or disruptions to our businesses, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if

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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, the Bank 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. The Bank is also subject to a number of laws which, among other things, govern its lending practices and require the Bank to establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The United States Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes, especially for the TARP Capital Purchase Program (in which the Company is a participant). Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

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

On February 6, 2009, pursuant to the Letter Agreement and related Securities Purchase Agreement, we issued to the Treasury for an aggregate consideration of $59,000,000 (i) 59,000 Series A Preferred Shares, with a liquidation preference of $1,000 per share, and (ii) a Warrant to purchase 949,571 shares of our common stock. Pursuant to the terms of the Letter Agreement and the related Securities Purchase Agreement, our ability to declare or pay dividends on any of our shares is subject to restrictions. Specifically, we are unable to declare dividend payments on common, junior preferred or *pari passu* preferred shares if we are in arrears in the payment of dividends on the Series A Preferred Shares. Further, until the third anniversary of the investment or when all of the Series A Preferred Shares have been redeemed or transferred, we are not permitted to increase the cash dividends on our common stock without the Treasury s approval. Additionally, our ability to repurchase our shares of outstanding common stock is restricted. The Treasury s consent generally is required for us to make any stock repurchase until the third anniversary of the investment by the Treasury unless all of the Series A Preferred Shares have been redeemed or transferred. Further, common, junior preferred or *pari passu* preferred shares may not be repurchased if we are in arrears in the payment of dividends on the Series A Preferred Shares.

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

The documents that we executed with the Treasury when the Treasury purchased our Series A Preferred Shares allow the Treasury to unilaterally change the terms of the Series A Preferred Shares or impose additional requirements on the Company if there is a change in law. These changes or additional requirements could restrict our ability to conduct business, could subject us to additional cost and expense or could change the terms of the Series A Preferred Shares to the detriment of our common shareholders. While it may be possible for us to

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redeem the Series A Preferred Shares in the event that the Treasury imposes any changes or additional requirements that we believe are detrimental, there can be no assurances that our federal regulator will approve such redemption or that we will have the ability to implement such redemption.

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

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

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

The capital markets have been experiencing unprecedented volatility for more than a year. Such negative developments and disruptions have resulted in uncertainty in the financial market in general with the expectation of a continuing general economic downturn throughout 2009. 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 recent 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. 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

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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. An increase 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 hurt 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, 2008, we had approximately $282.2 million and $110.1 million in available for sale and held to maturity investment securities, respectively. We may be required to record 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 the Bank 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.

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

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

Our deposit insurance premium will be substantially higher in 2009, which 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 recently adopted an interim rule imposing an emergency special assessment on the entire banking industry on June 30, 2009. The FDIC may further increase these rates and impose additional special assessments in the future.

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.

ITEM 1B Unresolved Staff Comments

Not Applicable.

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

Location	Lease Expiration Date
Bristol Glen	October 31, 2009
Caldwell	September 30, 2024
Carlstadt	July 15, 2016
Cedar Crest	August 19, 2011
Fairfield	February 28, 2010
Hackensack	March 31, 2013
Hampton	September 30, 2019
Little Falls	November 30, 2010
Morristown	August 31, 2009
Madison Avenue	May 7, 2012
North Haledon	June 30, 2017
Park Ridge	December 31, 2009
Pompton Plains	March 31, 2015
Ringwood	February 28, 2013
Rochelle Park	January 12, 2019
Rockaway	May 31, 2009
Sussex/Wantage	June 19, 2012
Trinity Street	December 31, 2011
Vernon	September 30, 2011
Wantage	October 31, 2011
Wayne	June 30, 2028
Wharton	June 30, 2010
Woodland Commons	August 31, 2016

In addition, the Company has leased property (under a lease which expires in April 2029) for a location in West Caldwell, which it intends to open as a branch during 2009. For information regarding all of the Company s rental obligations, see Notes to Consolidated Financial Statements.

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

ITEM 3 Legal Proceedings

From time to time, the Company and its subsidiaries are defendants in legal proceedings relating to their respective businesses. While the ultimate outcome of any pending matter cannot be determined at this time, management does not believe that the outcome of any pending legal proceeding will materially affect the consolidated financial position of the Company, but could possibly be material to the consolidated results of operations of any one period.

ITEM 4 Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders of the Company during the fourth quarter of 2008.

ITEM 4A 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 51	2008	President and Chief Executive Officer of the Company (April 2008 Present); President and Chief Executive Officer of Lakeland Bank (April 2008 Present); TD Bank North/Hudson United Bank President and Chief Credit Officer (May 2007 April 2008); Executive Vice President and Senior Commercial Banking Officer (February 2006 May 2007); Executive Vice President and Senior Loan Officer, (1983 February 2006)
Robert A. Vandenbergh Age 57	1999	Senior Executive Vice President and Chief Operating Officer of the Company (October 2008 Present); Senior Executive Vice President and Chief Lending Officer of the Company (December 2006 October 2008); Executive Vice President and Chief Lending Officer of the Company (October 1999 December 2006)
Joseph F. Hurley Age 58	1999	Executive Vice President and Chief Financial Officer of the Company (November 1999 Present)
Jeffrey J. Buonforte Age 57	1999	Executive Vice President and Chief Retail Officer of the Company (November 1999 Present)
Louis E. Luddecke Age 62	1999	Executive Vice President and Chief Operations Officer of the Company (October 1999 Present)
David S. Yanagisawa Age 57	2008	Executive Vice President and Chief Lending Officer of the Company (November 2008 Present); Senior Vice President, TD Bank, NA (February 2006 November 2008); Hudson United Bank, Senior Vice President (1997 February 2006)
James R. Noonan Age 57	2003	Executive Vice President and Chief Credit Officer of the Company (December 2003 Present); Senior Vice President and Chief Credit Officer of the Company (March 2003 December 2003)
Timothy J. Matteson, Esq. Age 39	2008	Senior Vice President and General Counsel of the Company (September 2008 Present); Assistant General Counsel, Israel Discount Bank (November 2007 September 2008); Senior Attorney and Senior Vice President, TD Banknorth, N.A. (February 2006 May 2007); General Counsel and Senior Vice President, Hudson United Bancorp and Hudson United Bank (January 2005 February 2006); Commercial Asset Recovery Counsel and Senior Vice President, Hudson United Bank (May 2001 December 2004)

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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, 2008, there were 3,662 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. Prices and dividends have been adjusted to reflect the Company s 5% stock dividend paid on November 16, 2007.

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

	High	Low	Dividends Declared
Year ended December 31, 2007			
First Quarter	$ 14.71	$ 12.48	$ 0.095
Second Quarter	13.48	12.34	0.095
Third Quarter	13.42	9.97	0.095
Fourth Quarter	13.97	11.15	0.095

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 $185.2 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2008.

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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Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options under the Company s Amended and Restated 2000 Equity Compensation Program (the Stock Option Plan), as of December 31, 2008. This plan was the Company s only equity compensation plan in existence as of December 31, 2008. No warrants or rights may be granted, or are outstanding, under the Stock Option Plan.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights		(b) Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	(c) Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
Equity Compensation Plans Approved by Shareholders	1,009,477	$	12.49	609,577
Equity Compensation Plans Not Approved by Shareholders				
TOTAL	1,009,477	$	12.49	609,577

The number in column (a) includes 113,957 shares subject to restricted stock awards granted under the Company s Stock Option Plan, including unvested shares. Shares subject to restricted stock awards have been excluded for purposes of calculating the weighted-average exercise price in column (b).

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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 Hemscott Group Index, which consists of 189 Regional Northeast Banks.

			FISCAL YEAR ENDING			
COMPANY/INDEX/MARKET	**12/31/2003**	**12/31/2004**	**12/30/2005**	**12/29/2006**	**12/31/2007**	**12/31/2008**
Lakeland Bancorp	100.00	112.25	101.34	110.90	93.44	93.80
Regional-Northeast Banks	100.00	108.63	109.97	125.82	118.18	83.57
NASDAQ Market Index	100.00	108.41	110.79	122.16	134.29	79.25

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ITEM 6 Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

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

	2008	2007	2006	2005	2004(2)
		(in thousands except per share data)			
Years Ended December 31					
Interest income	**$ 143,937**	$ 136,378	$ 119,808	$ 103,839	$ 83,319
Interest expense	**55,358**	64,650	53,104	33,632	21,817
Net interest income	**88,579**	71,728	66,704	70,207	61,502
Provision for loan and lease losses	**23,730**	5,976	1,726	1,555	3,602
Noninterest income	**17,558**	16,858	17,175	15,128	12,761
Gains (losses) on sales of investment securities	**53**	1,769	(2,995)	(583)	638
Noninterest expenses	**60,071**	58,190	54,721	53,392	47,185
Income before income taxes	**22,389**	26,189	24,437	29,805	24,114
Income tax provision	**7,224**	8,201	7,460	9,584	7,619
Net income	**$ 15,165**	$ 17,988	$ 16,977	$ 20,221	$ 16,495
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	**23,465**	23,187	23,141	23,637	21,310
Diluted	**23,549**	23,285	23,292	23,815	21,572
Earnings per share:					
Basic	**$ 0.65**	$ 0.78	$ 0.73	$ 0.86	$ 0.77
Diluted	**$ 0.64**	$ 0.77	$ 0.73	$ 0.85	$ 0.76
Cash dividend per common share	**$ 0.40**	$ 0.38	$ 0.37	$ 0.35	$ 0.35
Book value per common share	**$ 9.33**	$ 9.09	$ 8.61	$ 8.24	$ 8.13
At December 31					
Investment securities available for sale	**$ 282,174**	$ 273,247	$ 280,509	$ 515,903	$ 582,106
Investment securities held to maturity	**110,114**	129,360	142,838	154,569	162,922
Loans and leases, net of deferred fees	**2,034,831**	1,886,535	1,591,644	1,312,767	1,176,005
Goodwill and other identifiable intangible assets	**89,812**	90,874	90,874	93,395	94,119
Total assets	**2,642,625**	2,513,771	2,263,573	2,206,033	2,141,021
Total deposits	**2,056,133**	1,987,405	1,860,627	1,798,160	1,726,804
Total core deposits	**1,445,101**	1,383,234	1,357,748	1,350,567	1,360,980
Long-term borrowings	**288,222**	249,077	148,413	101,764	98,991
Total stockholders equity	**220,941**	211,599	199,500	191,781	194,548
Performance ratios					
Return on Average Assets	**0.59%**	0.76%	0.76%	0.94%	0.90%
Return on Average Equity	**6.99%**	8.81%	8.85%	10.55%	10.79%
Return on Tangible Equity(3)	**11.98%**	15.97%	17.14%	20.69%	17.99%
Efficiency ratio	**54.80%**	63.18%	62.28%	59.76%	60.70%
Net Interest Margin (tax equivalent basis)	**3.79%**	3.41%	3.39%	3.73%	3.82%
Loans to Deposits	**98.96%**	94.92%	85.54%	73.01%	68.10%
Capital ratios					
Tier 1 leverage ratio	**8.08%**	8.11%	7.51%	7.49%	7.71%

Total risk-based capital ratio	**11.52%**	11.08%	10.96%	12.47%	13.27%

(1) Restated for 5% stock dividends in 2007, 2006 and 2005.
(2) The results of operations include Newton Trust Company from July 1, 2004 forward.
(3) This is a non-GAAP ratio. Return on Tangible Equity is defined as net income as a percentage of average total equity reduced by recorded intangible assets. This may be important to investors that are interested in analyzing our return on equity exclusive of the effect of changes in intangible assets on equity.

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The following reconciliation table provides a more detailed analysis of this non-GAAP performance measure:

	2008	2007	2006	2005	2004
Years Ended December 31					
Return on average equity	**6.99%**	8.81%	8.85%	10.55%	10.79%
Effect of intangibles	**4.99%**	7.16%	8.29%	10.14%	7.20%
Return on average tangible equity	**11.98%**	15.97%	17.14%	20.69%	17.99%

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 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. The Newton Trust Company (Newton) was merged into Lakeland on November 4, 2005. Newton Financial Corporation (NFC), the parent company of Newton, was merged into the Company on July 1, 2004.

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, 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 and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland Investment Corp., and Lakeland NJ Investment Corp. All intercompany balances and transactions have been eliminated.

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

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the valuation of the Company s security portfolio, 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 details historical losses by loan and lease category, the resulting loss rates for which are projected at current loan and lease total amounts. Loss estimates for specified problem loans and leases are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

The Company accounts for impaired loans and leases in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. Impairment is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

The Company s available-for-sale securities portfolio is recorded at fair value. Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . We also adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 157-3 which provided additional guidance on valuation and disclosures. Fair values 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.

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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 the allowance for loan and lease losses, core deposit intangible, deferred loan fees, deferred compensation and securities available for sale.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), to account for any tax positions that may be uncertain. FIN 48 prescribes 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 accounts for goodwill and other identifiable intangible assets in accordance with SFAS No. 142, Goodwill and Intangible Assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company tests goodwill for impairment annually at the reporting unit level. The Company has determined that it has one reporting unit, Community Banking. The Company analyzes goodwill using various market valuation methodologies including an analysis of the Company s enterprise value and a comparison of pricing multiples in recent acquisitions of similar companies and applying these multiples to the Company. The Company has tested the goodwill as of December 31, 2008 and has determined that it is not impaired.

Financial Overview

The year ended December 31, 2008 represented a year of continued growth for the Company. As discussed in this management s discussion and analysis:

- Total loans and leases increased by $149.5 million or 8% from 2007 to 2008.
- Total assets increased to $2.64 billion, a 5% increase from 2007.
- Lakeland s net interest margin increased to 3.79%, up 38 basis points from 2007.
- The Company received preliminary approval to issue up to $59.0 million in nonvoting senior preferred stock plus a warrant to purchase 949,571 shares of common stock to the U.S. Treasury Department under the TARP Capital Purchase Program. The Company received $59.0 million upon the closing of the transaction on February 6, 2009.

Net income for 2008 was $15.2 million or $0.64 per diluted share compared to net income of $18.0 million and $0.77 per diluted share in 2007. For 2008, Return on Average Assets was 0.59% and Return on Average Equity was 6.99%. For 2007, Return on Average Assets was 0.76% and Return on Average Equity was 8.81%.

In 2008, the Company recorded a provision for loan and lease losses of $23.7 million compared to $6.0 million in 2007. The higher loan loss provision includes a $17.8 million provision for the leasing division. During 2008, the Company was informed by two leasing originators that they could no longer fulfill all of their obligations under contractual recourse provisions. In 2007, the Company recognized a $1.8 million gain on equity securities in its investment portfolio resulting from the acquisition of a financial institution in which the Company owned stock compared to gains of $53,000 in 2008.

In 2006, net income was $17.0 million and $0.73 per diluted share. Return on Average Assets was 0.76% and Return on Average Equity was 8.85%.

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

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

Net interest income for 2007 on a tax-equivalent basis was $73.4 million, representing an increase of $4.6 million, or 7%, from the $68.7 million earned in 2006. The increase in net interest income resulted from an increase in earning assets of $122.1 million and a 41 basis point increase in the yield on earning assets partially offset by a 45 basis point increase in the cost of funds and a $108.3 million increase in interest-bearing liabilities. Also contributing to the increase in net interest income was an increase in income earned on free funds (interest-earning assets funded by noninterest bearing liabilities) resulting from the increase in yield on interest-earning assets.

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)

	2008 vs. 2007 Increase (Decrease) Due to Change in:			**2007 vs. 2006 Increase (Decrease) Due to Change in:**		
	Volume	**Rate**	**Total Change**	**Volume**	**Rate**	**Total Change**
Interest Income						
Loans and leases	**$ 17,158**	**($6,783)**	**$ 10,375**	$ 19,761	$ 2,369	$ 22,130
Taxable investment securities	**(698)**	**(258)**	**(956)**	(7,353)	1,907	(5,446)
Tax-exempt investment securities	**(890)**	**(88)**	**(978)**	(1,115)	41	(1,074)
Federal funds sold	**(304)**	**(920)**	**(1,224)**	586	(2)	584
Total interest income	**15,266**	**(8,049)**	**7,217**	11,879	4,315	16,194
Interest Expense						
Savings deposits	**(241)**	**(1,746)**	**(1,987)**	(110)	1,578	1,468
Interest-bearing transaction accounts	**1,801**	**(9,629)**	**(7,828)**	1,127	1,923	3,050
Time deposits	**1,095**	**(4,251)**	**(3,156)**	2,653	3,557	6,210
Borrowings	**5,391**	**(1,712)**	**3,679**	643	175	818
Total interest expense	**8,046**	**(17,338)**	**(9,292)**	4,313	7,233	11,546
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 7,220**	**$ 9,289**	**$ 16,509**	$ 7,566	$ (2,918)	$ 4,648

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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

	2008			2007			2006		
	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)	**$ 1,969,581**	**$ 127,414**	**6.47%**	1,708,467	117,039	6.85%	$ 1,419,272	$ 94,909	6.69%
Taxable investment securities	**310,651**	**13,713**	**4.41%**	326,376	14,669	4.49%	485,607	20,115	4.14%
Tax-exempt securities	**66,266**	**3,677**	**5.55%**	82,294	4,655	5.66%	102,003	5,729	5.62%
Federal funds sold(B)	**25,832**	**420**	**1.63%**	33,208	1,644	4.95%	21,379	1,060	4.96%
Total interest-earning assets	**2,372,330**	**145,224**	**6.12%**	2,150,345	138,007	6.42%	2,028,261	121,813	6.01%
Noninterest earning assets:									
Allowance for loan and lease losses	**(17,840)**			(14,018)			(13,007)		
Other assets	**224,129**			224,608			218,901		
TOTAL ASSETS	**$ 2,578,619**			$ 2,360,935			$ 2,234,155		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	**$ 310,565**	**$ 3,828**	**1.23%**	324,573	5,815	1.79%	$ 332,821	$ 4,347	1.31%
Interest-bearing transaction accounts	**805,515**	**14,058**	**1.75%**	749,093	21,886	2.92%	708,224	18,836	2.66%
Time deposits	**561,069**	**21,417**	**3.82%**	538,376	24,573	4.56%	474,693	18,363	3.87%
Borrowings	**368,233**	**16,055**	**4.36%**	229,095	12,376	5.40%	217,148	11,558	5.32%
Total interest-bearing liabilities	**2,045,382**	**55,358**	**2.71%**	1,841,137	64,650	3.51%	1,732,886	53,104	3.06%
Noninterest-bearing liabilities:									
Demand deposits	**300,950**			300,156			296,853		
Other liabilities	**15,356**			15,515			12,684		
Stockholders equity	**216,931**			204,127			191,732		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,578,619**			$ 2,360,935			$ 2,234,155		
Net interest income/spread		**89,866**	**3.42%**		73,357	2.91%		68,709	2.94%
Tax equivalent basis adjustment		**1,287**			1,629			2,005	
NET INTEREST INCOME		**$ 88,579**			$ 71,728			$ 66,704	
Net interest margin(C)			**3.79%**			3.41%			3.39%

(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.

Total interest income on a tax equivalent basis increased from $138.0 million in 2007 to $145.2 million in 2008, an increase of $7.2 million due to a $222.0 million increase in average interest-earning assets. Loans and leases as a percent of average interest-earning assets increased to 83% in 2008 compared to 79% in 2007. Investment securities as a percent of average interest-earning assets decreased to 16% in 2008 from 19% in 2007. Loans and leases typically earn a higher rate than investment securities.

Total interest income on a tax equivalent basis increased from $121.8 million in 2006 to $138.0 million in 2007, an increase of $16.2 million due to a $122.1 million increase in average interest-earning assets along with an increase in the yield on interest-earning assets. The change in mix also contributed to the increase in interest income. Loans as a percent of interest-earning assets increased to 79% in 2007 compared to 70% in 2006. Investment securities as a percent of interest-earning assets decreased to 19% in 2007 from 29% in 2006.

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

Total interest expense increased from $53.1 million in 2006 to $64.7 million in 2007 primarily as a result of an increase in average rates paid on interest-bearing liabilities from 3.06% in 2006 to 3.51% in 2007. Also impacting interest expense was an increase in total interest-bearing liabilities of $108.3 million or 6% from 2006 with the majority of the increase in average time deposits which increased $63.7 million or 13%. The cost of time deposits increased 69 basis points to 4.56% in 2007 resulting from a certificate of deposit promotion that Lakeland used to fund loan growth. Time deposits as a percent of interest-bearing liabilities increased from 27% in 2006 to 29% in 2007.

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 3.79%, 3.41% and 3.39% for 2008, 2007 and 2006, respectively. The increase in the net interest margin from 2007 to 2008 reflects the decrease in short term interest rates and a shift in earning assets from the lower yielding investment portfolio to the higher yielding loan and lease portfolio. The increase in the net interest margin from 2006 to 2007 resulted from the shift in interest-earning assets from lower yielding investments to higher yielding loans.

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 at $23.7 million in 2008 increased from $6.0 million in 2007 due to management s evaluation of the loan and lease portfolio and reflected higher levels of nonperforming loans and leases and charge-offs in 2008 compared to 2007. As mentioned in the Financial Overview above, the 2008 provision included $17.8 million for the Company s leasing portfolio. For more information, see Financial Condition Risk Elements below. Net charge-offs increased from $4.7 million in 2007 to $13.4 million in 2008, including $11.1 million in net charge-offs of leases. Net charge-offs as a percent of average loans and leases outstanding increased from 0.28% in 2007 to 0.68% in 2008.

The provision for loan and lease losses at $6.0 million in 2007 increased from $1.7 million in 2006 due to management s evaluation of the loan and lease portfolio and reflected higher levels of nonperforming loans and leases and charge-offs in 2007 compared to 2006. Net charge-offs increased from $1.4 million in 2006 to $4.7 million in 2007, including a $3.1 million charge-off of a single commercial and industrial loan. Net charge-offs as a percent of average loans and leases outstanding increased from 0.10% in 2006 to 0.28% in 2007.

Noninterest Income

Noninterest income decreased from $18.6 million in 2007 to $17.6 million in 2008, primarily as a result of a decrease in gains on the sale of investment securities from $1.8 million in 2007 to $53,000 in 2008. The decrease was partially offset by an increase in bank owned life insurance income of $436,000 resulting from $392,000 in proceeds received on a life insurance policy. Commissions and fees increased $326,000 or 11% to $3.4 million in 2008 primarily due to increased investment commission income. Other income decreased $538,000 to $1.3 million as a result of a sale of a branch in 2007 resulting in a $319,000 gain. Noninterest income represented 17% of total revenue in 2008. (Total revenue is defined as net interest income plus noninterest income.)

Noninterest income increased from $14.2 million in 2006 to $18.6 million in 2007 as a result of an increase in gains (losses) on securities from a loss of $3.0 million in 2006 to a gain of $1.8 million in 2007. In 2007, the Company recognized a $1.8 million gain on equity securities in its investment portfolio resulting from the acquisition of a financial institution in which the Company owned stock. In 2006, the Company effected a balance sheet restructuring in which the Company sold $97.3 million in securities at a loss of $3.3 million. Commissions and fees decreased $499,000 or 14% to $3.1 million in 2007 due to a decrease in investment services brokerage income and a decrease in loan fee income. Other income increased $276,000 to $1.8 million as a result of noninterest related leasing income. Noninterest income represented 21% of total revenue in 2007.

Noninterest Expense

Noninterest expense increased $1.9 million or 3% from $58.2 million in 2007 to $60.1 million in 2008. Total salaries and benefit expense decreased $601,000 or 2% from $32.9 million in 2007 to $32.3 million in 2008, resulting from decreased leasing commissions and elimination of executive bonuses partially offset by increased staffing levels and normal salary and benefit increases. Stationery, supplies and postage expense increased $137,000 or 8% to $1.8 million, resulting from expenses related to new branches and increased mailings to our customer base. Marketing expense increased from $1.8 million in 2007 to $2.3 million in 2008 as a result of deposit promotions, debit card promotions, customer satisfaction surveys and branch openings. FDIC insurance expense increased from $220,000 in 2007 to $1.5 million in 2008, resulting from an increase in the FDIC rates charged to banks. Other expenses increased from $9.7 million in 2007 to $10.2 million in 2008, an increase of $469,000 or 5%, resulting from increases in legal fees and collection expenses.

Noninterest expense increased $3.5 million or 6% from $54.7 million in 2006 to $58.2 million in 2007. Total salaries and benefit expense increased $2.0 million or 7% from $30.8 million in 2006 to $32.9 million in 2007, resulting from normal salary and benefit increases, increased leasing commissions and expenses related to new branches. Net occupancy expense increased $491,000 or 9% to $5.9 million as a result of expense related to branches opened in 2007 and mid-2006. Marketing expense increased from $1.6 million in 2006 to $1.8 million in 2007 as a result of deposit promotions and branch openings. Other expenses increased from $9.2 million in 2006 to $9.7 million in 2007, an increase of $528,000 or 6%. This increase resulted from increased telecommunications expense and other miscellaneous expense related to branch openings.

The efficiency ratio expresses the relationship between noninterest expense (excluding other real estate expense and core deposit amortization) to total tax-equivalent revenue (excluding gains (losses) on sales of securities). In 2008, the Company s efficiency ratio on a tax equivalent basis decreased to 54.8% from 63.2% in 2007. The efficiency ratio was 62.3% in 2006. The decrease in the efficiency ratio from 2007 to 2008 resulted from an increase in net interest income as discussed above.

Income Taxes

The Company s effective income tax rate was 32.2%, 31.3% and 30.5%, in the years ended December 31, 2008, 2007 and 2006, respectively. The Company s effective tax rate increased from 2007 to 2008 because interest on its tax-exempt securities decreased from $3.0 million in 2007 to $2.4 million in 2008. The Company s effective tax rate increased from 2006 to 2007 because its interest on tax-exempt securities decreased from $3.7 million in 2006 to $3.0 million in 2007.

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Financial Condition

Total assets increased from $2.51 billion on December 31, 2007 to $2.64 billion on December 31, 2008, an increase of $128.9 million, or 5%. Total assets at year-end 2007 increased $250.2 million or 11% from year-end 2006.

Loans and Leases

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

Total loans and leases increased from $1.88 billion on December 31, 2007 to $2.03 billion on December 31, 2008, an increase of $149.5 million or 8%. The increase occurred in all major loan categories except leasing. Commercial loans increased from $821.6 million to $958.6 million, an increase of $137.0 million or 17%. The residential real estate mortgage portfolio increased $35.2 million or 12%, resulting from an increase in demand in fixed rate residential mortgages. The home equity and consumer installment portfolio increased from $310.4 million in 2007 to $315.7 million in 2008, an increase of $5.3 million or 2%. Real estate construction loans, which include both residential and commercial construction loans, increased from $91.7 million in 2007 to $107.9 million in 2008, an increase of $16.2 million or 18%. Leases decreased from $355.6 million to $311.5 million, a decrease of $44.2 million or 12% resulting from management s decision to de-emphasize the leasing business. Total loans increased from $1.59 billion in 2006 to $1.88 billion in 2007, an increase of $295.4 million or 19%. The majority of the growth in 2007 was in the commercial loan portfolio and leases.

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

			December 31,		
	2008	**2007**	**2006**	**2005**	**2004**
			(in thousands)		
Commercial	**$ 958,620**	$ 821,621	$ 714,496	$ 589,646	$ 512,810
Leases	**311,463**	355,644	196,518	90,194	87,787
Real estate mortgage	**336,951**	301,798	272,102	256,621	217,500
Real estate construction	**107,928**	91,706	87,562	68,325	62,687
Home equity and consumer installment	**315,704**	310,359	315,038	302,236	289,920
	$ 2,030,666	$ 1,881,128	$ 1,585,716	$ 1,307,022	$ 1,170,704

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,		
	2008	**2007**	**2006**	**2005**	**2004**
Commercial	**47.2%**	43.7%	45.0%	45.1%	43.8%
Leases	**15.3%**	18.9%	12.4%	6.9%	7.5%
Real estate mortgage	**16.6%**	16.0%	17.2%	19.7%	18.6%
Real estate construction	**5.3%**	4.9%	5.5%	5.2%	5.3%
Home equity and consumer installment	**15.6%**	16.5%	19.9%	23.1%	24.8%
	100.0%	100.0%	100.0%	100.0%	100.0%

At December 31, 2008, 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.

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The following table sets forth certain categories of loans as of December 31, 2008, 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	$ 147,983	$ 165,184	$ 645,453	$ 958,620
Real Estate construction	52,016	13,138	42,774	107,928
Total	$ 199,999	$ 178,322	$ 688,227	$ 1,066,548
Amount of such loans with:				
Predetermined rates	$ 29,813	$ 122,793	$ 69,211	$ 221,817
Floating or adjustable rates	170,186	55,529	619,016	844,731
Total	$ 199,999	$ 178,322	$ 688,227	$ 1,066,548

Risk Elements

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

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

	2008	2007	At December 31, 2006	2005	2004
			(in thousands)		
Non-performing assets:					
Non-accrual loans and leases	**$ 16,544**	$ 10,159	$ 4,437	$ 3,907	$ 13,017
Other real estate and other repossessed assets	**3,997**	175			650
TOTAL NON-PERFORMING ASSETS	**$ 20,541**	$ 10,334	$ 4,437	$ 3,907	$ 13,667
Non-performing assets as a percent of total assets	**0.78%**	0.41%	0.20%	0.18%	0.64%
Past due loans and leases*	**$ 825**	$ 667	$ 876	$ 5,127	$ 2,347

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

restoration to a current status.

Non-accrual loans and leases increased to $16.5 million on December 31, 2008 from $10.2 million at December 31, 2007. The $6.4 million increase in non-accrual loans is attributable to a deterioration in the Company s leasing portfolio. At year-end 2008, $8.5 million in leases were on non-accrual, $7.1 million of which were attributable to two originators who indicated that they could no longer fulfill all of their obligations under contractual recourse provisions. At December 31, 2008, the Company had $68.2 million in leases outstanding from these originators, representing 1,833 leases of which approximately 80% were current or less than 30 days past due. Non-accrual loans also included $5.9 million in commercial loans which declined from $8.6 million at year-end 2007. All non-accrual loans and leases are in various stages of litigation, foreclosure, or workout.

Other real estate and other repossessed assets increased from $175,000 at the end of 2007 to $4.0 million at the end of 2008. This increase included $3.7 million in equipment that was repossessed from leasing customers.

For 2008, 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 $761,000. The amount of interest income actually recorded on those loans and leases for 2008 was $200,000. The resultant loss of $561,000 for 2008 compares to a loss of $566,000 for 2007 and income of $16,000 for 2006.

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

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

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

As of December 31, 2008, based on the above criteria, the Company had impaired loans and leases totaling $14.1 million (consisting primarily of non-accrual loans and leases). The impairment of these loans and leases is based on the fair value of the underlying collateral. Based upon such evaluation, $3.7 million has been allocated to the allowance for loan and lease losses for impairment. At December 31, 2008, the Company also had $35.8 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, 2008, other than those designated non-performing, impaired or substandard, where the Company was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans or leases being included as non-accrual, past due or renegotiated at a future date.

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The following table sets forth for each of the five years ended December 31, 2008, 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:

	2008	2007	December 31, 2006 (in thousands)	2005	2004
Balance of the allowance at the beginning of the year	**$ 14,689**	$ 13,454	$ 13,173	$ 16,638	$ 16,899
Loans and leases charged off:					
Commercial*	**593**	3,601	1,207	3,872	3,449
Leases	**11,211**	425	90	478	1,515
Home equity and consumer	**2,044**	1,341	1,493	1,923	1,718
Real estate mortgage	**123**				
Total loans and leases charged off	**13,971**	5,367	2,790	6,273	6,682
Recoveries:					
Commercial	**79**	209	728	552	102
Leases	**150**	2	83	201	43
Home equity and consumer	**376**	415	531	499	363
Real estate mortgage			3	1	10
Total Recoveries	**605**	626	1,345	1,253	518
Net charge-offs:	**13,366**	4,741	1,445	5,020	6,164
Addition related to acquisitions					2,301
Provision for loan and lease losses charged to operations	**23,730**	5,976	1,726	1,555	3,602
Ending balance	**$ 25,053**	$ 14,689	$ 13,454	$ 13,173	$ 16,638
Ratio of net charge-offs to average loans and leases outstanding	**0.68%**	0.28%	0.10%	0.41%	0.62%
Ratio of allowance at end of year as a percentage of year-end total loans and leases	**1.23%**	0.78%	0.85%	1.00%	1.41%

* Includes charge-offs of $3.0 million and $3.4 million in 2005 and 2004, respectively, related to the settlement of certain litigation concerning the commercial lease pools.

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

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

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

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

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, 2008. 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)				
	2008	**2007**	**2006**	**2005**	**2004**
Commercial	**$ 8,954**	$ 8,048	$ 8,327	$ 8,578	$ 12,215
Leases	**11,212**	2,310	1,589	1,243	1,383
Home equity and consumer	**2,207**	2,379	2,591	2,592	2,411
Real estate construction	**2,054**	1,680	648	350	146
Real estate mortgage	**626**	272	299	410	483
	$ 25,053	$ 14,689	$ 13,454	$ 13,173	$ 16,638

Investment Securities

The Company has classified its investment securities into the available for sale and held to maturity categories pursuant to SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities.

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

	December 31, (in thousands)		
	2008	**2007**	**2006**
U.S. Treasury and U.S. government agencies	**$ 74,934**	$ 79,945	$ 81,635
Obligations of states and political subdivisions	**63,616**	81,132	86,193
Mortgage-backed securities	**216,181**	200,915	219,369
Equity securities	**23,286**	23,417	22,025
Other debt securities	**14,271**	17,198	14,125
	$ 392,288	$ 402,607	$ 423,347

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.

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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 available for sale as of December 31, 2008:

Available for sale	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
U.S. government agencies					
Amount	$ 14,709	$ 38,465	$	$	$ 53,174
Yield	2.04%	5.25%	%	%	4.36%
Obligations of states and political subdivisions					
Amount	1,927	4,660	3,574	829	10,990
Yield	6.38%	6.21%	5.68%	5.30%	6.00%
Mortgage-backed securities					
Amount		12,405	68,477	101,158	182,040
Yield	%	3.88%	4.28%	4.13%	4.17%
Other debt securities					
Amount	4,106	507	7,000	1,071	12,684
Yield	4.78%	5.07%	1.51%	2.26%	2.77%
Other equity securities					
Amount	23,286				23,286
Yield	0.60%	%	%	%	0.60%
Total securities					
Amount	$ 44,028	$ 56,037	$ 79,051	$ 103,058	$ 282,174
Yield	1.72%	5.02%	4.10%	4.12%	3.92%

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, 2008:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
U.S. government agencies					
Amount	$ 16,768	$ 4,992	$	$	$ 21,760
Yield	4.01%	4.34%	%	%	4.09%
Obligations of states and political subdivisions					
Amount	12,789	17,341	20,161	2,335	52,626
Yield	4.38%	4.84%	5.39%	5.73%	4.98%
Mortgage-backed securities					
Amount	1,338	2,164	2,947	27,692	34,141
Yield	3.13%	3.80%	4.28%	4.33%	4.25%
Other debt securities					
Amount			1,587		1,587
Yield	%	%	5.39%	%	5.39%
Total securities					
Amount	$ 30,895	$ 24,497	$ 24,695	$ 30,027	$ 110,114
Yield	4.13%	4.65%	5.26%	4.44%	4.58%

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Deposits

Total deposits increased from $1.99 billion on December 31, 2007 to $2.06 billion on December 31, 2008, an increase of $68.7 million, or 3%. Total noninterest bearing demand accounts increased from $292.0 million to $302.5 million, a $10.5 million or 4% increase. Savings and interest bearing transaction accounts increased from $1.09 billion to $1.14 billion, an increase of $51.4 million or 5%. Total core deposits, which are defined as noninterest bearing deposits and savings and interest-bearing transaction accounts, increased from $1.38 billion on December 31, 2007 to $1.45 billion on December 31, 2008, an increase of $61.9 million or 4%. Total time deposits at $611.0 million were equivalent to last year s levels. In 2008, Lakeland utilized the CDARs (Certificate of Deposit Account Registry Service) to allow its customers to have their deposits fully protected by FDIC insurance. If a customer places a deposit in excess of the FDIC limit with Lakeland, these deposits can be placed in smaller increments with other banks in the CDARs network. At the same time, other banks in the CDARs network place the same types of deposits with Lakeland. At year-end 2008, Lakeland had $89.3 million in CDARs time deposits. Total deposits increased from $1.86 billion on December 31, 2006 to $1.99 billion on December 31, 2007, an increase of $126.8 million, or 7%.

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, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
			(Dollars in thousands)			
Noninterest-bearing demand deposits	**$ 300,950**	**%**	$ 300,156	%	$ 296,853	%
Interest-bearing transaction accounts	**805,515**	**1.75%**	749,093	2.92%	$ 708,224	2.66%
Savings	**310,565**	**1.23%**	324,573	1.79%	$ 332,821	1.31%
Time deposits	**561,069**	**3.82%**	538,376	4.56%	$ 474,693	3.87%
Total	**$ 1,978,099**	**1.99%**	$ 1,912,198	2.73%	$ 1,812,591	2.29%

As of December 31, 2008, 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	$ 58,556
Over 3 through 6 months	38,544
Over 6 through 12 months	109,027
Over 12 months	11,356
Total	$ 217,483

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 $36.7 million in 2008 compared to $27.0 million and $27.3 million in 2007 and 2006, respectively.

Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2008, the Company generated $68.7 million in deposit growth.

Sales of securities and overnight funds. At year-end 2008, the Company had $282.2 million in securities designated available for sale.

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

Overnight credit lines. Lakeland is a member of the Federal Home Loan Bank of New York (FHLB). One membership benefit is that members can borrow overnight funds. Lakeland has lines of credit of up to $200.0 million available for it to borrow from the FHLB subject to collateral requirements. Lakeland had no borrowings against these lines as of December 31, 2008. Lakeland also has overnight federal funds lines available for it to borrow up to $162.0 million. Lakeland borrowed $8.5 million against these lines as of December 31, 2008.

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

On February 6, 2009, the Company received $59.0 million in an investment by the U.S. Department of the Treasury. This investment is part of the Treasury s Capital Purchase Program and is in the form of 59,000 shares of preferred stock and a warrant to purchase 949,571 shares of common stock. The Company s primary anticipated use of the proceeds will be for its commercial and consumer lending businesses.

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, 2008. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

(dollars in thousands)	Total	Within one year	After one but within three years	After three but within five years	After five years
Minimum annual rentals or noncancellable operating leases	$ 13,118	$ 1,680	$ 2,773	$ 1,976	$ 6,689
Benefit plan commitments	3,998	185	370	370	3,073
Remaining contractual maturities of time deposits	611,032	570,676	31,509	6,941	1,906
Subordinated debentures	77,322				77,322
Loan commitments	402,404	338,804	26,112	6,159	31,329
Long-term debt	210,900	10,000	30,900	65,000	105,000
Interest on long-term debt*	168,090	13,465	24,556	19,954	110,115
Standby letters of credit	8,969	7,285	1,684		
Total	$ 1,495,833	$ 942,095	$ 117,904	$ 100,400	$ 335,434

* Includes interest on long-term debt and subordinated debentures.

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). Interest rate sensitivity is often measured by the extent to which mismatches or gaps occur in the repricing of assets and liabilities within a given time period. Gap analysis is utilized to quantify such mismatches. A positive gap results when the amount of earning assets repricing within a given time period exceeds the amount of interest-bearing liabilities repricing within that time period. A negative gap results when the amount of interest-bearing liabilities repricing within a given time period exceeds the amount of earning assets repricing within such time period.

In general, a financial institution with a positive gap in relevant time periods will benefit from an increase in market interest rates and will experience erosion in net interest income if such rates fall. Likewise, a financial institution with a negative gap in relevant time periods will normally benefit from a decrease in market interest rates and will be adversely affected by an increase in rates. By maintaining a balanced interest rate sensitivity position, where interest rate sensitive assets roughly equal interest sensitive liabilities in relevant time periods, interest rate risk can be limited.

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 hedging transactions in place, such as interest rate swaps and caps.

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. The Company s performance as compared to the Asset/Liability Policy is monitored by its Board of Directors. In addition, to effectively administer the Asset/Liability Policy and to monitor exposure to fluctuations in interest rates, the Company maintains an Asset/Liability Committee, consisting of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Chief Retail Officer, Chief Credit Officer, certain other senior officers and certain directors. This committee meets quarterly to review the Company s financial results and to develop strategies to implement the Asset/Liability Policy and to respond to market conditions.

The Company monitors and controls interest rate risk through a variety of techniques, including use of traditional interest rate sensitivity analysis (also known as gap analysis) and 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. Traditional gap analysis involves arranging the Company s interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference (or interest rate sensitivity gap) between the assets and liabilities that are estimated to reprice during each time period and cumulatively through the end of each time period.

Both interest rate sensitivity modeling and gap analysis are done at a specific point in time and involve 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.

Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice, and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Gap analysis does not account for the fact that repricing of assets and liabilities is discretionary and subject to competitive and other pressures.

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The following table sets forth the estimated maturity/repricing structure of the Company s interest-earning assets and interest-bearing liabilities at December 31, 2008. Except as stated below, the amounts of assets or liabilities shown which reprice or mature during a particular period were determined in accordance with the contractual terms of each asset or liability adjusted for prepayments assuming the interest rate environment prevailing in the fourth quarter of 2008. Interest-bearing demand, savings and money market accounts are estimated to exhibit some rate sensitivity based on management s analysis of deposit withdrawals and based on certain types of accounts that are tied to rate indices. The majority of interest-bearing demand deposits and savings deposits are assumed to be core deposits, or deposits that will generally remain at the Company regardless of market interest rates.

The table does not necessarily indicate the impact of general interest rate movements on the Company s net interest income because the repricing of certain categories of assets and liabilities, for example, prepayments of loans and withdrawal of deposits, is beyond the Company s control. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	Maturing or Repricing				
December 31, 2008	**Within three months**	**After 3 months but within 1 year**	**After 1 but within 5 years**	**After 5 Years**	**Total**
			(dollars in thousands)		
Interest-earning assets:					
Loans and leases	$ 379,497	$ 223,947	$ 1,010,519	$ 420,868	$ 2,034,831
Investment securities	76,776	113,365	142,699	59,448	392,288
Interest-bearing cash accounts	14,538				14,538
Total interest-earning assets	470,811	337,312	1,153,218	480,316	2,441,657
Interest-bearing liabilities:					
Deposits:					
Interest-bearing demand	304,964		421,324	124,350	850,638
Savings accounts	58,097		103,944	129,930	291,971
Time deposits	142,564	428,930	38,392	1,146	611,032
Total interest-bearing deposits	505,625	428,930	563,660	255,426	1,753,641
Borrowings:					
Fed funds purchased and securities sold under agreements to repurchase	62,363				62,363
Long-term debt	20,000	10,000	125,900	55,000	210,900
Subordinated debentures	20,619		56,703		77,322
Total borrowings	102,982	10,000	182,603	55,000	350,585
Total interest-bearing liabilities	608,607	438,930	746,263	310,426	2,104,226
Interest rate sensitivity gap	($ 137,796)	($ 101,618)	$ 406,955	$ 169,890	$ 337,431
Cumulative rate sensitivity gap	($ 137,796)	($ 239,414)	$ 167,541	$ 337,431	

Changes in estimates and assumptions made for interest rate sensitivity modeling and gap analysis could have a significant impact on projected results and conclusions. Therefore, these techniques may not accurately reflect the impact of general interest rate movements on the Company s net interest income or net portfolio value.

Because of the limitations in the gap analysis discussed above, members of the Company s Asset/Liability Committee believe that the interest sensitivity modeling more accurately reflects the effects and exposure to changes in interest 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

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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.

The starting point (or base case) for the following table is an estimate of the Company s net portfolio value at December 31, 2008 using current discount rates, and an estimate of net interest income for 2009 assuming that both interest rates and the Company s interest-sensitive assets and liabilities remain at December 31, 2008 levels. The information provided for the net portfolio value assumes fluctuations or rate shocks of plus 200 basis points and minus 200 basis points. Rate shocks assume that current interest rates change immediately. The information provided for net interest income for 2009 assumes that changes in interest rates of plus 200 basis points and minus 200 basis points change gradually in equal increments over the twelve month period. The information set forth in the following table is based on significant estimates and assumptions, and constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

	Net Portfolio Value of Equity at December 31, 2008		Net Interest Income for 2009	
Rate Scenario	**Amount**	**Percent Change from Base Case**	**Amount**	**Percent Change from Base Case**
	(dollars in thousands)			
+200 basis points	$ 300,476	-6.6%	$ 88,788	-2.8%
Base Case	321,559	%	91,365	%
-200 basis points	267,663	-16.8%	88,556	-3.1%

Although the Company has been traditionally liability sensitive, our simulation model is showing that our net portfolio value of equity and our net interest income for 2009 declines in a decreasing rate environment because the rates of our interest-bearing liabilities are already very low and cannot decline as much as the rates of our interest-earning assets in a declining rate environment.

Capital Resources

Stockholders equity increased $9.3 million from $211.6 million at December 31, 2007 to $220.9 million at December 31, 2008, reflecting net income during the year of $15.2 million, cash dividends to stockholders of $8.1 million, and a net change from the exercise of stock options of $2.9 million. Also impacting stockholders equity was other comprehensive loss of $535,000. The Company also adopted EITF 06-4, Accounting for Deferred Compensation and Post Retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements which resulted in a reduction in retained earnings of $546,000. For more information, please see Note 1 in the Notes to the Consolidated Financial Statements.

Book value per share (total stockholders equity divided by the number of shares outstanding) increased from $9.09 on December 31, 2007 to $9.33 on December 31, 2008 as a result of the factors discussed above. Book value per share was $8.61 on December 31, 2006.

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, 2008 and 2007:

	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,	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Capital Ratios:						
The Company	**8.08%**	8.11%	**10.24%**	10.08%	**11.52%**	11.08%
Lakeland Bank	**7.57%**	7.62%	**9.60%**	9.49%	**10.85%**	10.28%
Well capitalized institution under FDIC Regulations	**5.00%**	5.00%	**6.00%**	6.00%	**10.00%**	10.00%

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

The Company had received preliminary approval of the Treasury s investment in December, 2008. In order to close on the investment, the Company needed to obtain shareholder approval to amend its certificate of incorporation to authorize the issuance of preferred stock. At its special meeting on January 28, 2009, Lakeland received shareholder approval to issue preferred stock, from which 59,000 shares of preferred stock were issued to the Treasury on February 6, 2009. The preferred stock will be classified as Tier 1 Capital. As part of the investment, Lakeland issued to the Treasury a warrant to purchase 949,571 shares of its common stock at an exercise price of $9.32 per share. The warrant is exercisable for a period of 10 years. The Company anticipates that the primary use of the proceeds will be in its commercial and consumer lending businesses.

Including the impact of the $59.0 million in capital from the Treasury s Capital Purchase Program, the Company s Tier 1 Capital to Total Assets Ratio, its Tier 1 to Risk-Weighted Assets Ratio and its Total Capital to Risk-Weighted Assets Ratio would be 10.17%, 13.11% and 14.36%, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force on Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, (EITF 06-4) which requires employers that enter into endorsement split-dollar life insurance arrangements that provide an employee with a postretirement benefit to recognize a liability for the future benefits promised based on the substantive agreement made with the employee. Whether the accrual is based on a death benefit or on the future cost of maintaining the insurance would depend on what the employer has effectively agreed to provide during the employee s retirement. The purchase of an endorsement-type life insurance policy does not qualify as a settlement of the liability.

The consensus in EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-4 effective January 1, 2008. As a result of this adoption, the Company recorded an increase to accumulated deficit of $546,000.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The new standard became effective for the Company on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial position or results of operations.

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In October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active. FSP 157-3 clarifies the application of FASB Statement No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company did not elect the fair value option for any financial instruments.

In March, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), which amends SFAS No. 133. The statement requires enhanced disclosures about an entity s derivative and hedging activities, specifically, how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for all entities for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 161 to have a significant impact on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles, (SFAS No. 162). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States. The statement is not expected to result in a change in current practice nor have a material impact on the Company.

In April 2008, the FASB posted FASB Staff Position (FSP) No. 142-3, Determination of the Useful Life of Intangible Assets, (FSP FAS 142-3). This statement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows, particularly as used to measure fair value in business combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In June 2008, the FASB posted FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, (FSP EITF 03-6-1). This statement addressed whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the calculation of earnings per share (EPS) as described in FASB Statement No. 128, Earnings per Share. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period EPS data adjusted retrospectively to conform to its provisions, and is not expected to have a material effect on the Company s EPS.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FASB staff position revises the impairment guidance for beneficial interests in EITF 99-20 to make it consistent with the requirements of FASB Statement No. 115 for determining whether an impairment of debt or equity securities has occurred. This FASB staff position became effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The Company incorporated this guidance in its review of impairment as of December 31, 2008.

In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. This FASB staff position amends FASB Statement No. 132 to provide

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guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This FASB staff position becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting FSP FAS 132(R)-1 on the consolidated financial statements, but it is not expected to have a material impact.

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,	
	2008	**2007**
	(dollars in thousands)	
ASSETS		
Cash	**$ 35,238**	$ 46,837
Interest-bearing deposits due from banks	**14,538**	10,351
Total cash and cash equivalents	**49,776**	57,188
Investment securities available for sale	**282,174**	273,247
Investment securities held to maturity; fair value of $111,881 in 2008 and $129,207 in 2007	**110,114**	129,360
Loans, net of deferred fees	**2,034,831**	1,886,535
Less: allowance for loan and lease losses	**25,053**	14,689
Net loans	**2,009,778**	1,871,846
Premises and equipment net	**29,479**	30,093
Accrued interest receivable	**8,598**	8,579
Goodwill	**87,111**	87,111
Other identifiable intangible assets, net	**2,701**	3,763
Bank owned life insurance	**39,217**	38,112
Other assets	**23,677**	14,472
TOTAL ASSETS	**$ 2,642,625**	$ 2,513,771
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	**$ 302,492**	$ 292,029
Savings and interest-bearing transaction accounts	**1,142,609**	1,091,205
Time deposits under $100 thousand	**393,549**	364,477
Time deposits $100 thousand and over	**217,483**	239,694
Total deposits	**2,056,133**	1,987,405
Federal funds purchased and securities sold under agreements to repurchase	**62,363**	49,294
Long-term debt	**210,900**	171,755
Subordinated debentures	**77,322**	77,322
Other liabilities	**14,966**	16,396
TOTAL LIABILITIES	**2,421,684**	2,302,172
Commitments and contingencies		
Stockholders equity:		
Common stock, no par value; authorized shares, 40,000,000; issued shares, 24,740,564 at December 31, 2008 and 2007; outstanding shares, 23,687,003 at December 31, 2008 and 23,281,015 at December 31, 2007	**257,051**	258,037
Accumulated Deficit	**(19,246)**	(24,465)
Treasury stock, at cost, 1,053,561 shares in 2008 and 1,459,549 in 2007	**(14,496)**	(20,140)
Accumulated other comprehensive loss	**(2,368)**	(1,833)
TOTAL STOCKHOLDERS EQUITY	**220,941**	211,599

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,642,625**	$ 2,513,771

See accompanying notes to consolidated financial statements

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2008	**2007**	**2006**
	(In thousands, except per share data)		
INTEREST INCOME			
Loans, leases and fees	**$ 127,414**	$ 117,039	$ 94,909
Federal funds sold and interest-bearing deposits with banks	**420**	1,644	1,060
Taxable investment securities	**13,713**	14,669	20,115
Tax-exempt investment securities	**2,390**	3,026	3,724
TOTAL INTEREST INCOME	**143,937**	136,378	119,808
INTEREST EXPENSE			
Deposits	**39,303**	52,274	41,546
Federal funds purchased and securities sold under agreements to repurchase	**1,487**	2,303	4,297
Long-term debt	**14,568**	10,073	7,261
TOTAL INTEREST EXPENSE	**55,358**	64,650	53,104
NET INTEREST INCOME	**88,579**	71,728	66,704
Provision for loan and lease losses	**23,730**	5,976	1,726
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	**64,849**	65,752	64,978
NONINTEREST INCOME			
Service charges on deposit accounts	**11,106**	10,630	10,792
Commissions and fees	**3,422**	3,096	3,595
Gains (losses) on the sales of investment securities	**53**	1,769	(2,995)
Income on bank owned life insurance	**1,741**	1,305	1,237
Other income	**1,289**	1,827	1,551
TOTAL NONINTEREST INCOME	**17,611**	18,627	14,180
NONINTEREST EXPENSE			
Salaries and employee benefits	**32,263**	32,864	30,839
Net occupancy expense	**6,098**	5,877	5,386
Furniture and equipment	**4,848**	4,856	4,657
Stationery, supplies and postage	**1,764**	1,627	1,631
Marketing expense	**2,348**	1,825	1,573
Core deposit intangible amortization	**1,062**	1,180	1,196
FDIC insurance expense	**1,478**	220	226
Other expenses	**10,210**	9,741	9,213
TOTAL NONINTEREST EXPENSE	**60,071**	58,190	54,721
Income before provision for income taxes	**22,389**	26,189	24,437
Provision for income taxes	**7,224**	8,201	7,460
NET INCOME	**$ 15,165**	$ 17,988	$ 16,977
PER SHARE OF COMMON STOCK:			

Basic	**$ 0.65**	$ 0.78	$ 0.73
Diluted	**$ 0.64**	$ 0.77	$ 0.73
Cash dividends	**$ 0.40**	$ 0.38	$ 0.37

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
NET INCOME	**$ 15,165**	$ 17,988	$ 16,977
OTHER COMPREHENSIVE INCOME (LOSS) NET OF TAX:			
Unrealized securities gains (losses) arising during period	**(80)**	2,401	247
Less: reclassification for gains (losses) included in net income	**35**	1,203	(2,073)
Change in pension liabilities, net	**(420)**	39	(345)
Other Comprehensive Income (Loss)	**(535)**	1,237	1,975
TOTAL COMPREHENSIVE INCOME	**$ 14,630**	$ 19,225	$ 18,952

See accompanying notes to consolidated financial statements

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the years ended December 31, 2008, 2007 and 2006

	Common stock				Accumulated Other Comprehensive Loss	
	Number of Shares	Amount	Accumulated Deficit	Treasury Stock		Total
			(dollars in thousands)			
BALANCE DECEMBER 31, 2005	22,442,337	$ 226,322	($9,514)	($20,176)	($4,851)	$ 191,781
Net Income 2006			16,977			16,977
Other comprehensive income, net of tax and reclassification adjustments					1,975	1,975
Adjustments to initially adopt SFAS No. 158:						
Prior service cost (net of tax benefit)					(56)	(56)
Net gains (losses) (net of tax benefit)					(138)	(138)
Exercise of stock options		(133)		755		622
Stock dividend	1,121,126	16,472	(16,472)			
Cash dividends			(8,517)			(8,517)
Purchase of treasury stock				(3,144)		(3,144)
BALANCE DECEMBER 31, 2006	23,563,463	242,661	(17,526)	(22,565)	(3,070)	199,500
Cumulative adjustment for adoption for FIN 48			509			509
Balance JANUARY 1, 2007, as revised	23,563,463	242,661	(17,017)	(22,565)	(3,070)	200,009
Net Income 2007			17,988			17,988
Other comprehensive income, net of tax and reclassification adjustments					1,237	1,237
Stock based compensation expense		260				260
Issuance of stock for restricted stock awards		(966)		966		
Issuance of stock to dividend reinvestment plan		(94)	(464)	558		
Exercise of stock options, net of excess tax benefits		(401)		912		511
Repurchase of stock in recission offer				(11)		(11)
Stock dividend	1,177,101	16,577	(16,577)			
Cash dividends			(8,395)			(8,395)
BALANCE DECEMBER 31, 2007	24,740,564	258,037	(24,465)	(20,140)	(1,833)	211,599
Cumulative adjustment for adoption for EITF 06-04			(546)			(546)
Balance JANUARY 1, 2008, as revised	24,740,564	258,037	(25,011)	(20,140)	(1,833)	211,053
Net Income 2008			15,165			15,165
Other comprehensive loss, net of tax and reclassification adjustments					(535)	(535)
Stock based compensation expense		351				351
Issuance of stock for restricted stock awards		(1,117)		1,117		
Issuance of stock to dividend reinvestment and stock purchase plan		(150)	(1,339)	1,564		75
Exercise of stock options, net of excess tax benefits		(70)		2,963		2,893
Cash dividends			(8,061)			(8,061)
BALANCE DECEMBER 31, 2008	24,740,564	$ 257,051	($19,246)	($14,496)	($2,368)	$ 220,941

See accompanying notes to consolidated financial statements

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 15,165**	$ 17,988	$ 16,977
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	**1,928**	1,000	594
Depreciation and amortization	**3,398**	3,614	3,512
Amortization of intangible assets	**1,062**	1,180	1,196
Provision for loan and lease losses	**23,730**	5,976	1,726
Stock based compensation	**351**	260	
(Gains) losses on sales of securities	**(53)**	(1,769)	2,995
Loss on other repossessed assets	**17**		
Gain on sale of branch		(319)	(361)
Deferred tax benefit	**(4,490)**	(2,173)	(740)
(Increase) decrease in other assets	**2,903**	(1,784)	(641)
Increase (decrease) in other liabilities	**(7,295)**	2,993	2,084
NET CASH PROVIDED BY OPERATING ACTIVITIES	**36,716**	26,966	27,342
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayments on and maturity of securities:			
Available for sale	**108,207**	58,405	86,977
Held to maturity	**33,463**	28,098	29,910
Proceeds from sales of securities:			
Available for sale	**10,108**	2,438	178,124
Purchase of securities:			
Available for sale	**(127,916)**	(50,152)	(29,908)
Held to maturity	**(14,403)**	(14,841)	(18,378)
Net increase in loans and leases	**(162,905)**	(300,153)	(280,137)
Proceeds from sale of branch, net			(7,326)
Proceeds from dispositions of premises and equipment		995	51
Capital expenditures	**(2,784)**	(2,312)	(3,400)
Net increase in other real estate owned	**(3,813)**		0
NET CASH USED IN INVESTING ACTIVITIES	**(160,043)**	(277,522)	(44,087)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	**68,728**	126,778	70,459
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	**13,069**	8,233	(62,138)
Proceeds from long-term debt	**125,103**	120,900	50,000
Repayments of long-term debt	**(85,892)**	(40,855)	(3,351)
Issuance of stock to Dividend Reinvestment and Stock Purchase Plan	**75**	20,619	
Purchase of treasury stock		(11)	(3,144)
Exercise of stock options	**2,788**	408	519
Excess tax benefits	**105**	103	66
Dividends paid	**(8,061)**	(8,395)	(8,517)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**115,915**	227,780	43,894

Net increase (decrease) in cash and cash equivalents	**(7,412)**	(22,776)	27,149
Cash and cash equivalents, beginning of year	**57,188**	79,964	52,815
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 49,776**	$ 57,188	$ 79,964

See accompanying notes to consolidated financial statements

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). The Newton Trust Company (Newton), was merged into Lakeland on November 4, 2005 and Community State Bank (CSB) was merged into Lakeland on August 25, 2003. Lakeland operates under a state bank charter and provides full banking services and, as a state bank, is subject to regulation by the New Jersey Department of Banking and Insurance. Lakeland generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Northern New Jersey. Lakeland also provides securities brokerage services, including mutual funds and variable annuities.

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

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

Basis of Financial Statement Presentation

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

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

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the 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 Company provides disclosures under Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance.

The Company has one operating segment and accordingly one reportable segment, Community Banking. All of the Company s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of Lakeland to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The situation is also similar for consumer and residential mortgage lending. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

Investment Securities

The Company accounts for its investment securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investments in securities are classified in one of three categories: held to maturity, trading, or available for sale. Investments in debt securities, for which management has both the ability and intent to hold to maturity, are carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments in debt and equity securities, which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk, liquidity requirements, or other factors, are classified as available for sale. Net unrealized gains and losses for such securities, net of tax effect, are reported as other comprehensive income (loss) and excluded from the determination of net income. The Company does not engage in security trading. Gains or losses on disposition of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

FASB Staff Position 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1) codified the guidance set forth in EITF Topic D-44 and clarified that an investor should recognize an impairment loss no later than when the impairment is considered other-than-temporary, even if a decision to sell has not been made. FSP 115-1 also includes language from EITF Issue 03-1 regarding the accounting for debt securities subsequent to an other-than-temporary impairment. The Company has concluded that none of its securities have impairments that are other-than-temporary at December 31, 2008.

Loans and Leases and Allowance for Loan and Lease Losses

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

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan or lease when management believes, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that collection of interest is doubtful. When a loan or lease is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income. Commercial loans and leases 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection. Residential mortgage loans are placed on non-accrual status at the time when foreclosure proceedings are commenced except where there exists sufficient collateral to cover the defaulted principal and interest payments, and management s

knowledge of the specific circumstances warrant continued accrual. Consumer loans are generally charged off when principal and interest payments are four months in arrears unless the obligations are well secured and in the process of collection. Interest thereafter on such charged-off consumer loans is taken into income when received only after full recovery of principal.

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

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, is carried at the lower of the principal balance of the secured loan or lease or fair value less estimated disposal costs of the acquired property. 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, operating expenses and gains and losses realized from the sale of properties owned, 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, 2008 and 2007, Lakeland was servicing approximately $14.4 million and $15.6 million, respectively, of loans for others.

The Company accounts for its transfers and servicing of financial assets in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities as amended by SFAS No. 156. 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 in accordance with SFAS No. 156. The Company records mortgage servicing rights and the loans based on relative fair values at the date of origination.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Gains and losses on sales of loans are also accounted for in accordance with SFAS No. 134, Accounting for Mortgage Securities Retained after the Securitizations of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. This statement requires that an entity engaged in mortgage banking activities classify the retained mortgage-backed security or other interest, which resulted from the securitization of a mortgage loan held for sale, based upon its ability and intent to sell or hold these investments.

Restrictions On Cash And Due From Banks

Lakeland is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank of New York in a noninterest bearing account. The amounts of those reserves at December 31, 2008 and 2007 were approximately $1.6 million and $3.3 million, respectively.

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Earnings Per Share

The Company follows the provisions of SFAS No. 128, Earnings Per Share, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Unless otherwise indicated, all weighted average, actual shares or per share information in the financial statements have been adjusted retroactively for the effect of stock dividends.

Employee Benefit Plans

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

SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R), 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 established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company, which includes those employees serving as officers and directors of the Company. The plan authorized 2,257,369 shares of common stock of the Company. All of the Company s stock option grants expire 10 years from the date of grant, thirty days after termination of service other than for cause, or one year after death or disability of the grantee. The Company has no option or restricted stock awards with market or performance conditions attached to them. The Company generally issues shares for option exercises from its treasury stock.

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:

	2008	2007 (in thousands)	2006
Transfer of loans and leases receivable to other repossessed assets	$ 5,877	$	$
Cash paid for income taxes	12,672	8,509	8,479
Cash paid for interest	56,602	64,639	58,874

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Comprehensive Income

The Company follows the disclosure provisions of SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

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

	Year ended December 31, 2007		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
		(dollars in thousands)	
Unrealized gains on available for sale securities			
Unrealized holding gains arising during period	$3,687	($1,286)	$2,401
Less reclassification adjustment for net gains realized in net income	1,769	(566)	1,203
Net unrealized gains on available for sale securities	1,918	(720)	1,198
Change in pension liabilities	60	(21)	39
Other comprehensive income, net	$1,978	($741)	$1,237

	Year ended December 31, 2006		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
		(dollars in thousands)	
Unrealized holding gains arising during period	$378	($131)	$247
Less reclassification adjustment for net losses realized in net income	(2,995)	922	(2,073)
Net unrealized gains on available for sale securities	3,373	(1,053)	2,320
Change in pension liabilities	(530)	185	(345)
Other comprehensive income, net	$2,843	$ (868)	$1,975

Goodwill and Other Identifiable Intangible Assets

The Company accounts for goodwill and other identifiable intangible assets in accordance with SFAS No. 142, Goodwill and Intangible Assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company tests goodwill for impairment annually at the reporting unit level. The Company has determined that it has one reporting unit, Community Banking. The Company analyzes goodwill using various market valuation methodologies including an analysis of the Company s enterprise value and a comparison of pricing multiples in recent acquisitions of similar companies and applying these multiples to the Company.

The Company has tested the goodwill as of December 31, 2008 and has determined that it is not impaired.

Goodwill and core deposit intangibles resulting from the Newton and CSB acquisitions totaled $84.9 million and $7.9 million, respectively. Total goodwill was $87.1 million at December 31, 2008 and 2007. Core deposit intangibles were $2.7 million and $3.8 million at December 31, 2008 and 2007, respectively. Amortization expense of core deposit intangibles was $1.1 million for December 31, 2008, and $1.2 million for December 31, 2007 and 2006. Amortization expense of core deposit intangibles is expected to be $1.1 million in each of 2009 and 2010, and $577,000 in 2011.

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, 2008 and 2007, Lakeland had $39.2 million and $38.1 million, respectively, in BOLI. Income earned on BOLI was $1.7 million, $1.3 million and $1.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. Income in 2008 included $392,000 in proceeds from an insurance policy.

In September 2006, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force on Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, (EITF 06-4) which requires employers that enter into endorsement split-dollar life insurance arrangements that provide an employee with a postretirement benefit to recognize a liability for the future benefits promised based on the substantive agreement made with the employee. Whether the accrual is based on a death benefit or on the future cost of maintaining the insurance would depend on what the employer has effectively agreed to provide during the employee s retirement. The purchase of an endorsement-type life insurance policy does not qualify as a settlement of the liability.

The Company adopted EITF 06-4 effective January 1, 2008. Upon adoption, the Company recorded an increase to accumulated deficit of approximately $546,000.

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 intangible, deferred loan fees, deferred compensation and securities available for sale.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007. As a result of this adoption the Company recorded a decrease to its accumulated deficit of $509,000. For more information see Note 9 of these Consolidated Financial Statements.

Variable Interest Entities

Management has determined that Lakeland Bancorp Capital Trust I, Lakeland Bancorp Capital Trust II, Lakeland Bancorp Capital Trust III and Lakeland Bancorp Capital Trust IV (collectively, the Trusts) qualify as variable interest entities under FIN 46. The Trusts issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. The Trusts hold, as their sole asset, subordinated debentures issued by the Company.

The Federal Reserve has issued guidance on the regulatory capital treatment for the trust preferred securities issued by the Trusts as a result of the adoption of FIN 46(R). 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 took effect April 11, 2005; however, a five year transition period starting March 31, 2004 and leading up to March 31, 2009 allows bank holding companies to continue to count trust preferred securities as Tier 1 Capital after applying FIN 46(R). Management expects that its capital ratios will continue to be categorized as well-capitalized under the regulatory framework for prompt corrective action.

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The new standard became effective for the Company on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial position or results of operations.

In October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active. FSP 157-3 clarifies the application of FASB Statement No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company did not elect the fair value option for any financial instruments.

In March, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), which amends SFAS No. 133. The statement requires enhanced disclosures about an entity s derivative and hedging activities, specifically, how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for all entities for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 161 to have a significant impact on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles, (SFAS No. 162). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States. The statement is not expected to result in a change in current practice nor have a material impact on the Company.

In April 2008, the FASB posted FASB Staff Position (FSP) No. 142-3, Determination of the Useful Life of Intangible Assets, (FSP FAS 142-3). This statement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows, particularly as used to measure fair value in business combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

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In June 2008, the FASB posted FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, (FSP EITF 03-6-1). This statement addressed whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the calculation of earnings per share (EPS) as described in FASB Statement No. 128, Earnings per Share. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period EPS data adjusted retrospectively to conform to its provisions, and is not expected to have a material effect on the Company s EPS.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FASB staff position revises the impairment guidance for beneficial interests in EITF 99-20 to make it consistent with the requirements of FASB Statement No. 115 for determining whether an impairment of debt or equity securities has occurred. This FASB staff position became effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The Company incorporated this guidance in its review of impairment as of December 31, 2008.

In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. This FASB staff position amends FASB Statement No. 132 to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This FASB staff position becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting FSP FAS 132(R)-1 on the consolidated financial statements, but it is not expected to have a material impact.

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, 2008				December 31, 2007			
	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE								
U.S. government agencies	**$ 52,131**	**$ 1,045**	**$ (2)**	**$ 53,174**	$ 48,314	$ 289	$ (151)	$ 48,452
Mortgage-backed securities	**180,938**	**2,600**	**(1,498)**	**182,040**	161,520	307	(1,761)	160,066
Obligations of states and political subdivisions	**10,733**	**272**	**(15)**	**10,990**	25,550	199	(38)	25,711
Other debt securities	**16,567**	**3**	**(3,886)**	**12,684**	17,124		(1,523)	15,601
Equity securities	**24,149**	**129**	**(992)**	**23,286**	22,856	921	(360)	23,417
	$ 284,518	**$ 4,049**	**$ (6,393)**	**$ 282,174**	$ 275,364	$ 1,716	$ (3,833)	$ 273,247

	December 31, 2008				December 31, 2007			
	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
HELD TO MATURITY								
U.S. government agencies	**$ 21,760**	**$ 684**	**$**	**$ 22,444**	$ 31,493	$ 151	$ (13)	$ 31,631
Mortgage-backed securities	**34,141**	**524**	**(102)**	**34,563**	40,849	73	(338)	40,584
Obligations of states and political subdivisions	**52,626**	**872**	**(74)**	**53,424**	55,421	200	(158)	55,463
Other debt securities	**1,587**		**(137)**	**1,450**	1,597		(68)	1,529
	$ 110,114	**$ 2,080**	**$ (313)**	**$ 111,881**	$ 129,360	$ 424	$ (577)	$ 129,207

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

	December 31, 2008			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 20,601	$ 20,742	$ 29,557	$ 29,913
Due after one year through five years	42,607	43,632	22,333	23,086
Due after five years through ten years	13,482	10,574	21,748	21,974
Due after ten years	2,741	1,900	2,335	2,345
	79,431	76,848	75,973	77,318
Mortgage-backed securities	180,938	182,040	34,141	34,563
Equity securities	24,149	23,286		
Total securities	$ 284,518	$ 282,174	$ 110,114	$ 111,881

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

	Years ended December 31,		
	2008	2007	2006
	(in thousands)		
Sale proceeds	**$ 10,108**	$ 2,438	$ 178,124
Gross gains	**53**	1,769	1,204
Gross losses			(4,199)

Securities with a carrying value of approximately $280.9 million and $282.0 million at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2008 and 2007:

	Less than 12 months		12 months or longer			Total	
December 31, 2008	**Fair value**	**Unrealized Losses**	**Fair value**	**Unrealized Losses**	**Number of securities**	**Fair value**	**Unrealized Losses**
			(dollars in thousands)				
AVAILABLE FOR SALE							
U.S. government agencies	**$ 5,000**	**$ 2**	**$**	**$**	**1**	**$ 5,000**	**$ 2**
Mortgage-backed securities	**15,786**	**540**	**21,045**	**958**	**37**	**36,831**	**1,498**
Obligations of states and political subdivisions	**528**	**15**			**2**	**528**	**15**
Other debt securities	**507**	**1**	**8,071**	**3,885**	**5**	**8,578**	**3,886**
Equity securities	**5,480**	**551**	**4,674**	**441**	**6**	**10,154**	**992**
	$ 27,301	**$ 1,109**	**$ 33,790**	**$ 5,284**	**51**	**$ 61,091**	**$ 6,393**
HELD TO MATURITY							
U.S. government agencies	**$**	**$**		**$**		**$**	**$**

Mortgage-backed securities		**4,653**		**54**		**3,937**		**48**	**12**	**8,590**		**102**
Obligations of states and political subdivisions		**2,001**		**67**		**354**		**7**	**7**	**2,355**		**74**
Other debt securities						**1,450**		**137**	**3**	**1,450**		**137**
	$	**6,654**	**$**	**121**	**$**	**5,741**	**$**	**192**	**22**	**$ 12,395**	**$**	**313**

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December 31, 2007	Less than 12 months Fair value	Less than 12 months Unrealized Losses	12 months or longer Fair value	12 months or longer Unrealized Losses	Number of securities	Total Fair value	Total Unrealized Losses
	(dollars in thousands)						
AVAILABLE FOR SALE							
U.S. government agencies	$ 4,988	$ 8	$ 23,848	$ 143	8	$ 28,836	$ 151
Mortgage-backed securities	15,570	74	112,344	1,686	86	127,914	1,760
Obligations of states and political subdivisions	474	2	4,931	36	11	5,405	38
Other debt securities	6,389	86	9,212	1,437	8	15,601	1,523
Equity securities	782	130	8,543	231	6	9,325	361
	$ 28,203	$ 300	$ 158,878	$ 3,533	119	$ 187,081	$ 3,833
HELD TO MATURITY							
U.S. government agencies	$	$	7,739	$ 13	5	$ 7,739	$ 13
Mortgage-backed securities	4,836	15	28,402	323	24	33,238	338
Obligations of states and political subdivisions	10,920	44	14,370	114	62	25,290	158
Other debt securities	542	1	986	67	3	1,528	68
	$ 16,298	$ 60	$ 51,497	$ 517	94	$ 67,795	$ 577

Management has evaluated the securities in the above table and has concluded that none of these securities has impairments that are other-than-temporary. In its evaluation, management considered the types of securities including if the securities were US government issued, and what the credit rating was on the securities. Most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates since the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include US government agency securities and mortgage backed securities whose market values are sensitive to interest rates. The corporate securities and the obligations of state and political subdivisions listed in the above table all are investment grade securities.

NOTE 3 LOANS AND LEASES

	December 31, 2008	December 31, 2007
	(in thousands)	
Commercial	**$ 958,620**	$ 821,621
Leases	**311,463**	355,644
Real estate-mortgage	**336,951**	301,798
Real estate-construction	**107,928**	91,706
Home Equity and Consumer	**315,704**	310,359
Total loans and leases	**2,030,666**	1,881,128
Plus deferred costs	**4,165**	5,407
Loans and leases net of deferred fees	**$ 2,034,831**	$ 1,886,535

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Future minimum lease payments of lease receivables are as follows (in thousands):

2009	$ 122,137
2010	92,663
2011	59,657
2012	29,791
2013	6,986
2014 and thereafter	229
	$ 311,463

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

	Years ended December 31,		
	2008	2007	2006
		(in thousands)	
Balance at beginning of year	**$ 14,689**	$ 13,454	$ 13,173
Provision for loan and lease losses	**23,730**	5,976	1,726
Loans and leases charged off	**(13,971)**	(5,367)	(2,790)
Recoveries	**605**	626	1,345
Balance at end of year	**$ 25,053**	$ 14,689	$ 13,454

The balance of impaired loans and leases was $14.1 million and $9.8 million at December 31, 2008 and 2007, respectively. Lakeland identifies a loan or lease as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreements. The allowance for loan and lease losses associated with impaired loans and leases was $3.7 million and $2.7 million at December 31, 2008 and 2007, respectively. The average recorded investment on impaired loans and leases was $9.7 million, $7.0 million and $3.7 million during 2008, 2007 and 2006, respectively, and the income recognized, primarily on the cash basis, on impaired loans and leases was $200,000, $154,000 and $315,000 during 2008, 2007 and 2006, respectively. Interest which would have been accrued on impaired loans and leases during 2008, 2007 and 2006 was $761,000, $720,000 and $299,000, respectively. Lakeland s policy for interest income recognition on impaired loans is to recognize income on restructured loans and leases under the accrual method. Lakeland recognizes income on non-accrual loans and leases under the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to Lakeland; if these factors do not exist, Lakeland will not recognize income until all principal has been recovered.

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

	December 31,		
	2008	2007	2006
		(in thousands)	
Loans and leases past due 90 days or more and still accruing	**$ 825**	$ 667	$ 876
Non-accrual loans and leases	**$ 16,544**	$ 10,159	$ 4,437

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

December 31,	2008	2007	2006
		(in thousands)	
Interest income if performing in accordance with original terms	**$ 761**	$ 720	$ 299
Interest income actually recorded	**200**	154	315
	$ 561	$ 566	($16)

Lakeland has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on similar terms as those prevailing for comparable transactions with other borrowers. These loans at December 31, 2008, were current as to principal and interest payments, and do not involve more than normal risk of collectibility. At December 31, 2008, loans to these related parties amounted to $25.0 million. There were new loans of $22.4 million to related parties and repayments of $17.5 million from related parties in 2008.

NOTE 4 PREMISES AND EQUIPMENT

	Estimated useful lives	December 31, 2008	December 31, 2007
		(in thousands)	
Land	Indefinite	**$ 5,443**	$ 5,443
Buildings and building improvements	10 to 50 years	**30,808**	29,155
Leasehold improvements	10 to 25 years	**2,275**	2,275
Furniture, fixtures and equipment	2 to 30 years	**26,323**	25,322
		64,849	62,195
Less accumulated depreciation and amortization		**35,370**	32,102
		$ 29,479	$ 30,093

NOTE 5 DEPOSITS

At December 31, 2008, the schedule of maturities of certificates of deposit is as follows (in thousands):

Year	
2009	$ 570,676
2010	18,881
2011	12,628
2012	6,649
2013	292
Thereafter	1,906
	$ 611,032

NOTE 6 Debt

Lines of Credit

As of December 31, 2008 the Company had approved lines of credit with the Federal Home Loan Bank (FHLB) of New York of up to $200.0 million. Borrowings under this arrangement have an interest rate that fluctuates based on market conditions and customer demand. As of December 31, 2008 and 2007, there were no overnight borrowings against these lines. As of December 31, 2008, the Company also had overnight federal funds lines available for it to borrow $162.0 million. The Company had borrowed $8.5 and $7.0 million against these lines as of December 31, 2008 and 2007, respectively.

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Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

Short-term borrowings at December 31, 2008 and 2007 consisted of short-term securities sold under agreements to repurchase and federal funds purchased. Securities underlying the agreements were under Lakeland s control. The following tables summarize information relating to securities sold under agreements to repurchase and federal funds purchased for the years presented. For purposes of the tables, the average amount outstanding was calculated based on a daily average.

	2008	2007	2006
		(in thousands)	
Federal funds purchased:			
Balance at December 31	**$ 8,500**	$ 7,000	$
Interest rate at December 31	**0.50%**	4.00%	%
Maximum amount outstanding at any month-end during the year	**$ 120,525**	$ 60,800	$ 95,150
Average amount outstanding during the year	**$ 25,732**	$ 8,276	$ 32,614
Weighted average interest rate during the year	**2.42%**	5.28%	5.07%

	2008	2007	2006
		(in thousands)	
Securities sold under agreements to repurchase:			
Balance at December 31	**$ 53,863**	$ 42,294	$ 41,061
Interest rate at December 31	**0.29%**	3.39%	4.19%
Maximum amount outstanding at any month-end during the year	**$ 57,163**	$ 54,602	$ 74,336
Average amount outstanding during the year	**$ 51,515**	$ 46,431	$ 59,866
Weighted average interest rate during the year	**1.68%**	4.02%	4.42%

Long-Term Debt

FHLB Debt

At December 31, 2008, advances from the FHLB totaling $150.9 million will mature within one to ten years and are reported as long-term borrowings. These advances are collateralized by certain securities and first mortgage loans. The advances had a weighted average interest rate of 4.17%.

FHLB borrowings mature as follows (in thousands):

2009	$ 10,000
2010	20,900
2011	10,000
2012	40,000
2013	15,000
Thereafter	55,000
	$ 150,900

Long-term Securities Sold Under Agreements to Repurchase

At December 31, 2008, the Company had $60.0 million in long-term securities sold under agreements to repurchase. $10.0 million of these securities mature in 2013; the remainder of the securities have maturities greater than five years. These securities can be called starting in 2009. These advances are collateralized by certain securities. The advances had a weighted average interest rate of 4.39%. These borrowings have rates that can reset quarterly.

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Subordinated Debentures

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

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

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

On June 18, 2003, the Company also issued $20.6 million of junior subordinated debentures due June 30, 2033 to Lakeland Bancorp Capital Trust II, a Delaware business trust. The distribution rate on these securities is 5.71% for 5 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $20.0 million. The Company s obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust s obligations under the preferred securities. The preferred securities are callable by the Company on or after June 30, 2008, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2033.

NOTE 7 STOCKHOLDERS EQUITY

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

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

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On July 12, 2006, the Company announced a stock repurchase program for the purchase of up to 525,000 shares of the Company s common stock over the next year. The Company purchased no shares of its common stock under this repurchase program. This program expired in July 2007.

On July 12, 2006, the Company s Board of Directors authorized a 5% stock dividend which was distributed on August 16, 2006.

NOTE 8 SHAREHOLDER PROTECTION RIGHTS PLAN

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

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

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

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

NOTE 9 INCOME TAXES

The components of income taxes are as follows:

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
Current tax provision	**$ 11,714**	$ 10,374	$ 8,200
Deferred tax benefit	**(4,490)**	(2,173)	(740)
Total provision for income taxes	**$ 7,224**	$ 8,201	$ 7,460

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

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
Federal income tax, at statutory rates	**$ 7,836**	$ 9,166	$ 8,553
Increase (deduction) in taxes resulting from:			
Non-taxable interest income	**(1,614)**	(1,614)	(1,781)
State income tax, net of federal income tax effect	**1,039**	591	704
Other, net	**(37)**	58	(16)
Provision for income taxes	**$ 7,224**	$ 8,201	$ 7,460

The net deferred tax asset consisted of the following:

	December 31,	
	2008	**2007**
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	**$ 10,440**	$ 6,237
Valuation reserves for land held for sale and other real estate	**679**	679
Non-accrued interest	**646**	515
Depreciation	**154**	283
Deferred compensation	**1,192**	1,266
Capital loss carryforwards	**526**	541
Unfunded pension benefits	**495**	269
Unrealized loss on securities available for sale	**896**	784
Other, net	**310**	285
Deferred tax assets	**15,338**	10,859
Deferred tax liabilities:		
Core deposit intangible from acquired companies	**1,163**	1,597
Deferred loan costs	**1,114**	1,032
Prepaid expenses	**312**	288
Deferred gain on securities	**194**	194
Fair market value adjustments	**92**	115
Other	**568**	566
Deferred tax liabilities	**3,443**	3,792
Net deferred tax assets, included in other assets	**$ 11,895**	$ 7,067

The Company adopted the provisions of FIN 48, on January 1, 2007. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized a decrease of approximately $509,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings.

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

(in thousands)	2008	2007
Balance at January 1	**$ 954**	$ 902
Additions based on tax positions related to the current year		
Additions for tax positions of prior years	**172**	225
Reductions for tax positions resulting from lapse of statute of limitations	**(70)**	(60)
Settlements	**(344)**	(113)
Balance at December 31	**$ 712**	$ 954

The amount of unrecognized tax benefits as of December 31, 2008 and 2007, was $480,000 and $449,000, respectively, all of which, if ultimately recognized, would reduce the Company s annual effective tax rate.

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

2004.

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The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately $136,000 and $169,000 for the payment of interest and penalties at December 31, 2008 and 2007, respectively.

NOTE 10 EARNINGS PER SHARE

The Company s calculation of earnings per share in accordance with SFAS No. 128 is as follows:

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

Options to purchase 691,902 shares of common stock and 11,936 shares of restricted stock at a weighted average of $13.95 and $13.95 per share, respectively, were outstanding during 2008. These options and restricted stock were not included in the computation of diluted earnings per share because the option exercise price and the grant date price were greater than the average market price during the period.

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

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

	Year ended December 31, 2006		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share			
Net income available to common shareholders	$ 16,977	23,141	$ 0.73
Effect of dilutive securities			
Stock options and restricted stock		151	(0.00)

Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 16,977	23,292	$ 0.73

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Options to purchase 562,475 shares of common stock and 37,829 shares of restricted stock at a weighted average of $14.66 and $13.95 per share, respectively, were outstanding during 2006. These options and restricted stock were not included in the computation of diluted earnings per share because the option exercise price and the grant-date price were greater than the average market price during the period.

NOTE 11 EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Company has a profit sharing plan for all its eligible employees. The Company s annual contribution to the plan is determined by its Board of Directors. Annual contributions are allocated to participants on a point basis with accumulated benefits payable at retirement, or, at the discretion of the plan committee, upon termination of employment. Contributions made by the Company were approximately $581,000 for 2008, $675,000 for 2007 and $743,000 for 2006.

Salary Continuation Agreements

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

Former CEO Retirement Benefits

Metropolitan State Bank entered into an agreement in January 1997 with its former Chief Executive Officer (CEO), which provides for an annual retirement benefit of $35,000 for a fifteen year period. In February 1999, the Company entered into an additional agreement with this CEO. Such agreement provides for an additional retirement benefit of $35,000 per annum for a fifteen year period. During 2008, 2007 and 2006, $15,000, $10,000 and $11,000, respectively, was charged to operations related to these obligations.

Retirement Savings Plans (401K plans)

Beginning in January 2002, the Company began contributing to its 401(k) plan. All eligible employees can contribute a portion of their annual salary with the Company matching up to 40% of the employee s contributions. The Company s contributions in 2008, 2007 and 2006 totaled $424,000, $397,000 and $361,000, respectively. In 2009, the Company will contribute up to 50% of the employee s contribution.

Pension Plan

Newton had a defined benefit pension plan. As of March 31, 2004, Newton s Board of Directors elected to freeze the benefits of the pension plan. All participants of the plan ceased accruing benefits as of that date.

The investment policy and strategy of the Plan and its advisors includes target portfolio allocations of approximately 60% in equities and 40% in debt securities. Based on historical performance, the Plan assumes that the long term equity securities have earned a rate of return of approximately 10% and fixed income securities have earned a return of between 1% and 5%. The composition of plan assets at December 31, 2008 was as follows:

Asset Category	
Equity securities	**60%**
Debt securities	**34%**
Other securities	**6%**

The accumulated benefit obligation as of December 31, 2008 and 2007, is as follows:

(in thousands)	2008	2007
Accumulated postretirement benefit obligation	**$ 1,723**	$ 1,576
Interest Cost	**99**	98
Actuarial loss	**220**	126
Estimated benefit payments	**(143)**	(77)
Total accumulated postretirement benefit obligation	**1,899**	1,723
Fair value of plan assets beginning of period	**1,290**	1,176
Return on plan assets	**(307)**	91
Benefits paid	**(143)**	(77)
Contribution	**110**	100
Fair value of plan assets at end of year	**950**	1,290
Funded status	**(949)**	(433)
Unrecognized net actuarial loss	**0**	0
Prepaid benefit	**($949)**	($433)
Accumulated benefit obligation	**$ 1,899**	$ 1,723

The components of net periodic pension cost are as follows:

(in thousands)	2008	2007	2006
Amortization of actuarial loss	**$ 23**	$ 31	$ 25
Interest cost on APBO	**99**	98	95
Expected return on plan assets	**(92)**	(85)	(87)
Net periodic postretirement cost	**$ 30**	$ 44	$ 33

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

2009	$ 46
2010	55
2011	54
2012	54
2013	92
2014 2018	568

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

	2008	2007
Discounted rate	**5.00%**	5.75%
Expected return on plan assets	**7.25%**	7.25%
Rate of compensation	**0.00%**	0.00%

Deferred Compensation Arrangements

High Point Financial Corp. (a bank holding company acquired by the Company in 1999) had established deferred compensation arrangements for certain directors and executives of High Point Financial Corp. and NBSC. The deferred compensation plans differ, but generally provide for annual payments for ten to fifteen years following retirement. The Company s liabilities under these arrangements are being accrued from the commencement of the plans over the participants remaining periods of service. The Company intends to fund its obligations under the

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deferred compensation arrangements with the increase in cash surrender value of life insurance policies that it has purchased on the respective participants. The deferred compensation plans do not hold any assets. For the years ended December 31, 2008, 2007 and 2006, $42,000, $0, and $12,000, respectively, was charged to operations related to these obligations. As of December 31, 2008 and 2007, the accrued liability for these plans was $194,000 and $181,000, respectively.

Supplemental Executive Retirement Plans

In 2003, the Company entered into a supplemental executive retirement plan (SERP) agreement with its former Chief Executive Officer that provides annual retirement benefits of $150,000 a year for a 15 year period when the former Chief Executive Officer reaches the age of 65. Our former Chief Executive Officer retired and is receiving annual retirement benefits pursuant to the plan. In 2008, the Company entered into a SERP agreement with its current Chief Executive Officer that provides annual retirement benefits of $150,000 for a 15 year period when the Chief Executive Officer reaches the age of 65. In November 2008, the Company entered into a SERP with its Senior Executive Vice President and Chief Operating Officer that provides annual retirement benefits of $90,000 a year for a 10 year period upon his reaching the age of 65. The Company intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of bank owned life insurance policies. In 2008, 2007 and 2006, the Company recorded $120,000, $283,000 and $355,000, respectively, for these plans.

NOTE 12 DIRECTORS RETIREMENT PLAN

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

	December 31,	
	2008	**2007**
	(in thousands)	
Actuarial present value of benefit obligation		
Vested	**$ 699**	$ 694
Nonvested	**107**	76
Accumulated benefit obligation	**$ 806**	$ 770
Accrued plan cost included in other liabilities	**$ 1,117**	$ 1,025
Amount not recognized as component of net postretirement benefit cost		
Recognized in accumulated other comprehensive income		
Net actuarial loss	**$ 109**	$ 161
Unrecognized prior service cost		0
Amounts not recognized as a component of net postretirement benefit cost	**$ 109**	$ 161

	Years ended December 31,		
	2008	**2007**	**2006**
	(in thousands)		
Net periodic plan cost included the following components:			
Service cost	**$ 23**	$ 19	$ 24
Interest cost	**59**	59	47
Amortization of prior service cost	**40**	54	46
	$ 122	$ 132	$ 117

A discount rate of 5.00% and 5.75% was assumed in the plan valuation for 2008 and 2007, respectively. As the benefit amount is not dependent upon compensation levels, a rate of increase in compensation assumption was not utilized in the plan valuation.

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

2009	$ 80
2010	80
2011	63
2012	70
2013	70
2014 2018	352

The Company expects its contribution to the director s retirement plan to be $80,000 in 2009.

On December 31, 2006, the Company adopted SFAS No. 158 and recorded a liability of $299,000 to recognize the underfunded status of the Director s Retirement Plan. It also recorded a deferred tax asset of $105,000 and an other comprehensive loss of $194,000.

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost in 2009 is $43,000.

NOTE 13 STOCK-BASED COMPENSATION

Employee Stock Option Plans

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company which includes those employees serving as officers and directors of the Company. The plan authorized 2,257,369 shares of common stock of the Company.

During 2008 and 2007 the Company granted options to purchase 25,000 and 26,250 shares, respectively, to new non-employee directors of the Company at exercise prices of $13.16 and $11.43 per share, respectively. The director s options are exercisable in five equal installments beginning on the date of grant and continuing on the next four anniversaries of the date of grant. As of December 31, 2008 and 2007, 283,592 and 261,829 options granted to directors were outstanding, respectively.

As of December 31, 2008 and 2007, outstanding options to purchase common stock granted to key employees were 569,070 and 846,331, respectively.

In addition to the 2000 Equity Compensation program, the Company has assumed the outstanding options granted under Newton Financial Corp. s 1999 Stock Option Plan (the Newton Plan). As of December 31, 2008 and 2007, 42,858 and 48,080 options, respectively, were outstanding under the Newton Plan.

On December 13, 2006, the Company granted 37,829 shares of restricted stock at a market value of $13.95. On December 12, 2007, the Company granted 28,520 shares of restricted stock at a market value of $11.91. During 2008, the Company granted 81,000 shares of restricted stock at an average price of $12.46. These shares typically vest over a four year period beginning one year after the grant date.

Excess tax benefits of $105,000, $103,000 and $66,000 for the years 2008, 2007 and 2006, respectively, classified as a financing cash inflow would have been classified as an operating cash inflow had the Company not adopted SFAS No. 123(R).

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For the years ended December 31, 2008 and 2007, the Company estimated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007
Risk-free interest rates	**3.09%**	4.63%
Expected dividend yield	**3.25%**	2.50%
Expected volatility	**32.00%**	25.00%
Expected lives (years)	**7.00**	6.00
Weighted average fair value of options granted	**$ 3.42**	$ 2.87

There were no options granted in 2006.

A summary of the status of the Company s option plans as of December 31, 2008 and the changes during the year ending on that date is represented below.

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding, beginning of year	**1,156,240**	**$ 12.71**		**$ 978,000**
Issued	**25,000**	**13.16**		
Exercised	**(214,303)**	**13.05**		
Forfeited	**(71,416)**	**15.10**		
Outstanding, end of year	**895,521**	**$ 12.45**	**4.54**	**$ 793,473**
Options exercisable at year-end	**859,771**		**4.36**	**$ 793,473**

A summary of the Company s non-vested options under the Company s option plans as of December 31, 2008 and changes for the year then ended is presented below.

Non-vested Options	Shares	Weighted-Average Grant-date Fair Value
Non-vested, January 1, 2008	**21,000**	
Granted	**25,000**	
Vested	**(10,250)**	
Nonvested, December 31, 2008	**35,750**	**$ 3.18**

As of December 31, 2008, there was $95,000 of unrecognized compensation expense related to non-vested stock options under the 2000 Equity Compensation Program.

The aggregate intrinsic values of options exercised in 2008, 2007 and 2006 were $376,000, $348,000 and $363,000, respectively. Exercise of stock options during 2008, 2007 and 2006 resulted in cash receipts of $2.8 million, $408,000 and $519,000, respectively. The total fair value of options that vested in 2008 and 2007 were $32,000 and $15,000, respectively. No options vested in 2006.

Information regarding the Company s restricted stock for the year ended December 31, 2008 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2008	**48,423**	**$ 12.75**
Granted	**81,000**	**12.46**
Vested	**(13,108)**	**12.89**
Forfeited	**(2,307)**	**12.76**
Outstanding, December 31, 2008	**114,008**	**$ 12.53**

The total fair value of the restricted stock vested during the 12 months ended December 31, 2008 was approximately $169,000. Compensation expense recognized for restricted stock was $306,000 in 2008. There was approximately $1.3 million in unrecognized compensation expense related to restricted stock grants as of December 31, 2008.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Lease Obligations

Rentals under long-term operating leases amounted to approximately $1,583,000, $1,343,000 and $1,197,000 for the years ended December 31, 2008, 2007 and 2006, respectively, including rent expense to related parties of $197,000 in 2008, $205,000, in 2007, and $197,000 in 2006. At December 31, 2008, the minimum commitments, which include rental, real estate tax and other related amounts, under all noncancellable leases with remaining terms of more than one year and expiring through 2028 are as follows (in thousands):

Year	
2009	$ 1,680
2010	1,478
2011	1,295
2012	1,066
2013	910
Thereafter	6,689
	$ 13,118

Litigation

From time to time, the Company and its subsidiaries are defendants in legal proceedings relating to their respective businesses. While the ultimate outcome of any pending legal proceeding cannot be determined at this time, management does not believe that the outcome of any pending legal proceeding will materially affect the consolidated financial position of the Company, but could possibly be material to the results of operations of any one period.

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

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

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

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

	December 31,	
	2008	**2007**
	(in thousands)	
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	**$ 402,404**	$ 375,807
Standby letters of credit and financial guarantees written	**8,969**	8,647

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

Standby letters of credit are conditional commitments issued by Lakeland to guarantee the payment by or performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Lakeland holds deposit accounts, residential or commercial real estate, accounts receivable, inventory and equipment as collateral to support those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2008 and 2007 varies based on management s credit evaluation.

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

The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2008 is $9.0 million and they expire through 2010. Lakeland s exposure under these letters of credit would be reduced by actual performance, subsequent termination by the beneficiaries and by any proceeds that the Company obtained in liquidating the collateral for the loans, which varies depending on the customer.

As of December 31, 2008, the Company had $402.4 million in loan and lease commitments, with $338.8 million maturing within one year, $26.1 million maturing after one year but within three years, $6.2 million maturing after three years but within five years, and $31.3 million maturing after five years. As of December 31, 2008, the Company had $9.0 million in standby letters of credit, with $7.3 million maturing within one year and $1.7 million maturing after one year but within three years.

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

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

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level priority to unobservable inputs (level 3 measurements).

In October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active. FSP 157-3 clarifies the application of FASB Statement No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

The following describes the three levels of fair value hierarchy:

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

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

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

The following table sets forth the Company s financial assets that were accounted for at fair values as of December 31, 2008 by level within the fair value hierarchy. The Company had no liabilities accounted for at fair value as of December 31, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
Assets:				
Investment securities, available for sale	$ 1,906	$ 280,268	$	$ 282,174
Investment securities, held to maturity		111,881		111,881
Impaired Loans*			14,135	14,135

* Impaired loans are measured on a nonrecurring basis because they are valued at the lower of cost or market value.

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

client and client s business. Impaired loans and leases are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Impaired loans and leases were $14.1 million and $9.8 million at December 31, 2008 and December 31, 2007, respectively. During 2008, there were new impaired loans and leases of $14.5 million, payments of $6.2 million, charge-offs of $3.2 million and repossessions of $707,000.

SFAS No. 107 requires disclosure of the estimated fair value of an entity s assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company s general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

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

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2008 and 2007 are outlined below.

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

The net loan portfolio at December 31, 2008 and 2007 has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

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

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

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

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

	December 31,			
	2008		2007	
	Carrying Value	**Estimated fair value**	**Carrying Value**	**Estimated fair value**
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	**$ 49,776**	**$ 49,776**	$ 57,188	$ 57,188
Investment securities available for sale	**282,174**	**282,174**	273,247	273,247
Investment securities held to maturity	**110,114**	**111,881**	129,360	129,207
Loans	**2,034,831**	**2,085,336**	1,886,535	1,875,839
Financial Liabilities:				
Deposits	**2,056,133**	**2,065,332**	$ 1,987,405	1,988,508
Federal funds purchased and securities sold under agreements to repurchase	**62,363**	**62,363**	49,294	49,294
Long-term debt	**210,900**	**225,760**	171,755	175,422
Subordinated debentures	**77,322**	**83,858**	77,322	77,322
Commitments:				
Standby letters of credit		**11**		7

NOTE 17 REGULATORY MATTERS

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

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of Lakeland will be unimpaired, and: (1) Lakeland will have a surplus, as defined, of not less than 50% of its capital stock, or, if not, (2) the payment of such dividend will not reduce the surplus, as defined, of Lakeland. Under these limitations, approximately $185.2 million was available for payment of dividends from Lakeland to the Company as of December 31, 2008.

The Company and Lakeland are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s and Lakeland s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s and Lakeland s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s and Lakeland s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Company and Lakeland to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2008, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Reserve Bank of New York and the FDIC categorized the Company and Lakeland as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Lakeland must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions category.

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As of December 31, 2008 and 2007, the Company and Lakeland have the following capital ratios:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2008						
Total capital (to risk-weighted assets)						
Company	**$ 233,215**	**11.52%**	**≥ 161,899**	**≥ 8.00%**	**N/A**	**N/A**
Lakeland	**216,610**	**10.85**	**161,215**	**8.00**	**≥ 201,518**	**≥ 10.00%**
Tier 1 capital (to risk-weighted assets)						
Company	**$ 207,156**	**10.24%**	**≥ $80,949**	**≥ 4.00%**	**N/A**	**N/A**
Lakeland	**193,416**	**9.60**	**80,607**	**4.00**	**≥ $121,524**	**≥ 6.00%**
Tier 1 capital (to average assets)						
Company	**$ 207,156**	**8.08%**	**≥ $102,597**	**≥ 4.00%**	**N/A**	**N/A**
Lakeland	**193,416**	**7.57**	**102,244**	**4.00**	**≥ $127,805**	**≥ 5.00%**

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2007						
Total capital (to risk-weighted assets)						
Company	$ 212,741	11.08%	≥ $153,601	≥ 8.00%	N/A	N/A
Lakeland	196,766	10.28	153,073	8.00	≥ $191,341	≥ 10.00%
Tier 1 capital (to risk-weighted assets)						
Company	$ 193,588	10.08%	≥ $76,801	≥ 4.00%	N/A	N/A
Lakeland	181,497	9.49	76,536	4.00	≥ $114,804	≥ 6.00%
Tier 1 capital (to average assets)						
Company	$ 193,588	8.11%	≥ $95,494	≥ 4.00%	N/A	N/A
Lakeland	181,497	7.62	95,227	4.00	≥ $119,034	≥ 5.00%

NOTE 18 SUBSEQUENT EVENTS

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

Lakeland had received preliminary approval of the Treasury s investment in December, 2008. In order to close on the investment, Lakeland needed to obtain shareholder approval to amend its certificate of incorporation to authorize the issuance of up to 1 million shares of preferred stock. At its special meeting on January 28, 2009, Lakeland received shareholder approval to issue preferred stock, from which 59,000 shares of preferred stock were issued to the Treasury. As part of the investment, Lakeland issued the Treasury a warrant to purchase 949,571 shares of its common stock at an exercise price of $9.32 per share. The warrant is exercisable for a period of 10 years. Dividends on the preferred stock issued to the Treasury will be 5% per year for the first five years. If any of the preferred shares remain outstanding after 5 years, dividends will be paid at a rate of 9% per year.

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The Securities Purchase Agreement contains limitations on the payment of dividends on the common stock. Specifically, the Company is unable to declare dividend payments on the common stock (and certain preferred stock if the Company issues additional series of preferred stock) if the Company is in arrears in the payment of dividends on the shares issued to the Treasury. Further, until the third anniversary of the investment or when all of the shares issued to the Treasury have been redeemed or transferred, the Company is not permitted to increase the amount of the quarterly cash dividend above $0.10 per share without the Treasury s approval. The amount of the last regular dividend declared by the Company prior to October 14, 2008 was $0.10 per share.

NOTE 19 QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Quarter ended			
	March 31, 2008	**June 30, 2008**	**September 30, 2008**	**December 31, 2008**
	(in thousands, except per share amounts)			
Total interest income	**$ 36,113**	**$ 35,876**	**$ 36,262**	**$ 35,686**
Total interest expense	**15,663**	**13,340**	**13,122**	**13,233**
Net interest income	**20,450**	**22,536**	**23,140**	**22,453**
Provision for loan and lease losses	**1,267**	**8,158**	**3,273**	**11,032**
Noninterest income	**4,634**	**4,347**	**4,217**	**4,360**
Gains on sales of investment securities	**9**	**43**	**1**	
Noninterest expense	**15,331**	**14,424**	**14,920**	**15,396**
Income before taxes (benefit)	**8,495**	**4,344**	**9,165**	**385**
Income taxes (benefit)	**2,955**	**1,464**	**3,309**	**(504)**
Net income	**$ 5,540**	**$ 2,880**	**$ 5,856**	**$ 889**
Earnings per share				
Basic	**$ 0.24**	**$ 0.12**	**$ 0.25**	**$ 0.04**
Diluted	**$ 0.23**	**$ 0.12**	**$ 0.25**	**$ 0.04**

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

	Quarter ended			
	March 31, 2007	**June 30, 2007**	**September 30, 2007**	**December 31, 2007**
	(in thousands, except per share amounts)			
Total interest income	$ 32,107	$ 32,960	$ 35,288	$ 36,023
Total interest expense	15,018	15,415	17,095	17,122
Net interest income	17,089	17,545	18,193	18,901
Provision for loan and lease losses	602	671	789	3,914
Noninterest income	4,221	4,092	4,046	4,499
Gains (losses) on sales of investment securities		1,769		
Noninterest expense	14,327	14,435	14,332	15,096
Income before taxes	6,381	8,300	7,118	4,390
Income taxes	2,011	2,776	2,319	1,095
Net income	$ 4,370	$ 5,524	$ 4,799	$ 3,295

Earnings per share				
Basic	$ 0.19	$ 0.24	$ 0.21	$ 0.14
Diluted	$ 0.19	$ 0.24	$ 0.20	$ 0.14

In the fourth quarter of 2007, the Company increased its provision for loan and lease losses related to a $3.1 million charge-off of a commercial and industrial loan.

NOTE 20 CONDENSED FINANCIAL INFORMATION PARENT COMPANY ONLY:

BALANCE SHEETS

CONDENSED BALANCE SHEETS

	December 31,	
	2008	**2007**
	(in thousands)	
ASSETS		
Cash and due from banks	**$ 8,179**	$ 8,943
Investment securities available for sale	**2,323**	3,581
Investment in bank subsidiaries	**283,290**	272,051
Land held for sale	**1,077**	1,227
Other assets	**4,043**	4,242
TOTAL ASSETS	**$ 298,912**	$ 290,044
LIABILITIES AND STOCKHOLDERS EQUITY		
Other liabilities	**$ 649**	$ 1,123
Subordinated debentures	**77,322**	77,322
Stockholders equity	**220,941**	211,599
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 298,912**	$ 290,044

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
INCOME			
Dividends from subsidiaries	**$ 10,739**	$ 10,600	$ 20,325
Other income	**218**	1,971	420
TOTAL INCOME	**10,957**	12,571	20,745
EXPENSE			
Interest on subordinated debentures	**5,256**	4,714	3,842
Noninterest expenses	**1,227**	1,230	1,034
TOTAL EXPENSE	**6,483**	5,944	4,876
Income before benefit for income taxes	**4,474**	6,627	15,869
Benefit for income taxes	**(2,204)**	(994)	(1,554)
Income before equity in undistributed income of subsidiaries	**6,678**	7,621	17,423
Equity in undistributed income (loss) of subsidiaries	**8,487**	10,367	(446)
NET INCOME	**$ 15,165**	$ 17,988	$ 16,977

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 15,165**	$ 17,988	$ 16,977
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share based compensation	**351**	260	
Gain on sale of securities		(1,762)	(243)
(Increase) decrease in other assets	**349**	(1,431)	2,668
Increase (decrease) in other liabilities	**(25)**	119	(49)
Equity in undistributed (income) loss of subsidiaries	**(8,487)**	(10,367)	446
NET CASH PROVIDED BY OPERATING ACTIVITIES	**7,353**	4,807	19,799
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities	**(24)**	(788)	(17)
Proceeds from sale of securities available for sale		2,432	671
Contribution to subsidiary	**(3,000)**	(19,000)	(5,000)
NET CASH USED IN INVESTING ACTIVITIES	**(3,024)**	(17,356)	(4,346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid on common stock	**(8,061)**	(8,395)	(8,517)
Proceeds from issuance of long term debt		20,619	
Purchase of treasury stock		(11)	(3,144)
Issuance of stock to the dividend reinvestment and stock purchase plan	**75**		
Excess tax benefits	**105**	103	66
Exercise of stock options	**2,788**	511	519
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(5,093)**	12,827	(11,076)
Net increase (decrease) in cash and cash equivalents	**(764)**	278	4,377
Cash and cash equivalents, beginning of year	**8,943**	8,665	4,288
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 8,179**	$ 8,943	$ 8,665

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Lakeland Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lakeland Bancorp, Inc. (a New Jersey corporation) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Bancorp, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has adopted Statement of Financial Standard Board (FASB) No. 157, *Fair Value Measurements* and Emerging Issues Task Force 06-4 *Accounting for Deferred Compensation and Post Retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* in 2008 and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* for 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lakeland Bancorp, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2009 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 16, 2009

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

Not Applicable

ITEM 9A Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization, and reporting of information in the Company s periodic reports that the Company files with the SEC.

Based on their evaluation as of December 31, 2008, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Controls Over Financial Reporting

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

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

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

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. In making this assessment, the Company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

As of December 31, 2008, based on management s assessment, the Company s internal control over financial reporting was effective.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Lakeland Bancorp, Inc.

We have audited Lakeland Bancorp, Inc. and subsidiaries (a New Jersey corporation) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland Bancorp Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on Lakeland Bancorp, Inc. s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Lakeland Bancorp, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lakeland Bancorp, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 16, 2009 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 16, 2009

ITEM 9B Other Information

None.

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PART III

ITEM 10 Directors, Executive Officers and Corporate Governance

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2009 Annual Meeting of Shareholders.

ITEM 11 Executive Compensation

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2009 Annual Meeting of Shareholders.

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2009 Annual Meeting of Shareholders.

ITEM 13 Certain Relationships and Related Transactions, and Director Independence

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2009 Annual Meeting of Shareholders.

ITEM 14 Principal Accountant Fees and Services

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2009 Annual Meeting of Shareholders.

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PART IV

ITEM 15 Exhibits and Financial Statement Schedules

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

(i)	Consolidated Balance Sheets as of December 31, 2008 and 2007.
(ii)	Consolidated Statements of Income for each of the three years in the period ended December 31, 2008.
(iii)	Consolidated Statements of Changes in Stockholders Equity for each of the three years in the period ended December 31, 2008.
(iv)	Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2008.
(v)	Notes to Consolidated Financial Statements.
(vi)	Report of Independent Registered Public Accounting Firm.

(a) 2. Financial Statement Schedules

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

(a) 3. Exhibits

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

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKELAND BANCORP, INC.

Dated: March 16, 2009

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

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

Signature	Capacity	Date
/s/ ROGER BOSMA* **Roger Bosma**	Director	March 16, 2009
/s/ BRUCE D. BOHUNY* **Bruce D. Bohuny**	Director	March 16, 2009
/s/ MARY ANN DEACON* **Mary Ann Deacon**	Director	March 16, 2009
/s/ JOHN W. FREDERICKS* **John W. Fredericks**	Director	March 16, 2009
/s/ MARK J. FREDERICKS* **Mark J. Fredericks**	Director	March 16, 2009
/s/ GEORGE H. GUPTILL, JR.* **George H. Guptill, Jr.**	Director	March 16, 2009
/s/ JANETH C. HENDERSHOT* **Janeth C. Hendershot**	Director	March 16, 2009
/s/ ROBERT E. MCCRACKEN* **Robert E. McCracken**	Director	March 16, 2009
/s/ ROBERT B. NICHOLSON, III* **Robert B. Nicholson, III**	Director	March 16, 2009

/s/ Joseph P. O Dowd*	Director	March 16, 2009
Joseph P. O Dowd		
/s/ Thomas J. Shara	Director, President and Chief Executive Officer	March 16, 2009
Thomas J. Shara		
/s/ Stephen R. Tilton, Sr.*	Director	March 16, 2009
Stephen R. Tilton, Sr.		

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Signature	Capacity	Date
/s/ PAUL G. VIALL, JR.*	Director	March 16, 2009
Paul. G. Viall, Jr.		
/s/ ARTHUR L. ZANDE*	Director	March 16, 2009
Arthur L. Zande		
/s/ JOSEPH F. HURLEY	Executive Vice President and	March 16, 2009
Joseph F. Hurley	Chief Financial Officer	

*By: /s/ THOMAS J. SHARA

Thomas J. Shara

Attorney-in-Fact

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