LAKELAND BANCORP INC
Form 10-Q
November 08, 2007
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ______ to ______

Commission file number 33-27312

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(973) 697-2000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of October 31, 2007 there were 23,253,671 outstanding shares of Common Stock, no par value.

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The Securities and Exchange Commission maintains a web site which contains reports, proxy and information statements and other information relating to registrants that file electronically at the address: http://www.sec.gov.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	December 31, 2006
	(dollars in thousands)	
ASSETS		
Cash	$ 40,313	$ 47,888
Federal funds sold and Interest-bearing deposits due from banks	56,654	32,076
Total cash and cash equivalents	96,967	79,964
Investment securities available for sale	265,050	280,509
Investment securities held to maturity; fair value of $128,212 in 2007 and $140,564 in 2006	129,650	142,838
Loans, net of deferred costs	1,787,244	1,591,644
Less: allowance for loan and lease losses	14,696	13,454
Net loans	1,772,548	1,578,190
Premises and equipment net	30,803	32,072
Accrued interest receivable	8,532	8,509
Goodwill	87,111	87,111
Other identifiable intangible assets	4,050	4,942
Bank owned life insurance	37,763	36,774
Other assets	13,242	12,664
TOTAL ASSETS	$ 2,445,716	$ 2,263,573
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 306,671	$ 303,558
Savings and interest-bearing transaction accounts	1,084,398	1,054,190
Time deposits under $100 thousand	358,086	293,308
Time deposits $100 thousand and over	222,156	209,571
Total deposits	1,971,311	1,860,627
Federal funds purchased and securities sold under agreements to repurchase	54,151	41,061
Long-term debt	120,855	91,710
Subordinated debentures	77,322	56,703
Other liabilities	13,631	13,972
TOTAL LIABILITIES	2,237,270	2,064,073
Commitments and contingencies		
Stockholders equity:		
Common stock, no par value; authorized shares, 40,000,000; issued shares, 24,741,636 at September 30, 2007 and December 31, 2006; outstanding shares, 23,251,053 at September 30, 2007 and 23,160,188 at December 31, 2006	258,260	242,661
Accumulated deficit	(25,532)	(17,526)
Treasury stock, at cost, 1,490,583 shares in 2007 and 1,581,448 shares in 2006	(20,546)	(22,565)
Accumulated other comprehensive loss	(3,736)	(3,070)
TOTAL STOCKHOLDERS EQUITY	208,446	199,500

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,445,716	$ 2,263,573

See accompanying notes to consolidated financial statements

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Lakeland Bancorp, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED INCOME STATEMENTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)		(In thousands, except per share data)	
INTEREST INCOME				
Loans and fees	$ 30,219	$ 24,629	$ 85,896	$ 68,477
Federal funds sold and interest-bearing deposits with banks	571	304	1,251	538
Taxable investment securities	3,756	4,928	10,924	15,723
Tax-exempt investment securities	742	928	2,284	2,936
TOTAL INTEREST INCOME	35,288	30,789	100,355	87,674
INTEREST EXPENSE				
Deposits	13,589	10,837	38,649	28,967
Federal funds purchased and securities sold under agreements to repurchase	664	1,407	1,834	3,691
Long-term debt	2,842	1,915	7,045	5,117
TOTAL INTEREST EXPENSE	17,095	14,159	47,528	37,775
NET INTEREST INCOME	18,193	16,630	52,827	49,899
Provision for loan and lease losses	789	337	2,062	988
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	17,404	16,293	50,765	48,911
NONINTEREST INCOME				
Service charges on deposit accounts	2,696	2,732	7,846	7,996
Commissions and fees	771	1,048	2,335	2,862
Gains on investment securities	0	271	1,769	349
Income on bank owned life insurance	331	311	973	918
Other income	248	210	1,205	1,248
TOTAL NONINTEREST INCOME	4,046	4,572	14,128	13,373
NONINTEREST EXPENSE				
Salaries and employee benefits	8,123	7,617	24,378	22,922
Net occupancy expense	1,493	1,323	4,369	4,047
Furniture and equipment	1,222	1,222	3,580	3,507
Stationery, supplies and postage	383	416	1,232	1,231
Marketing expense	456	363	1,411	1,197
Core deposit intangible amortization	298	297	893	898
Other expenses	2,357	2,141	7,231	6,787
TOTAL NONINTEREST EXPENSE	14,332	13,379	43,094	40,589
Income before provision for income taxes	7,118	7,486	21,799	21,695
Provision for income taxes	2,319	2,379	7,106	6,841
NET INCOME	$ 4,799	$ 5,107	$ 14,693	$ 14,854

PER SHARE OF COMMON STOCK				
Basic earnings	$ 0.21	$ 0.22	$ 0.63	$ 0.64
Diluted earnings	$ 0.21	$ 0.22	$ 0.63	$ 0.64
Dividends	$ 0.10	$ 0.09	$ 0.29	$ 0.27

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
	(in thousands)		(in thousands)	
NET INCOME	$ 4,799	$ 5,107	$ 14,693	$ 14,854
OTHER COMPREHENSIVE INCOME NET OF TAX:				
Unrealized securities gains (losses) arising during period	1,414	4,246	504	(510)
Less: reclassification for gains included in net income	0	184	1,203	237
Change in pension liability, net	11	0	33	(198)
Other Comprehensive Income (Loss)	1,425	4,062	(666)	(945)
TOTAL COMPREHENSIVE INCOME	$ 6,224	$ 9,169	$ 14,027	$ 13,909

See accompanying notes to consolidated financial statements

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Lakeland Bancorp, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Nine Months ended September 30, 2007

	Common stock Number of Shares	Common stock Amount	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
			(dollars in thousands)			
BALANCE DECEMBER 31, 2006	23,563,463	$ 242,661	$ (17,526)	$ (22,565)	$ (3,070)	$ 199,500
Cumulative adjustment for adoption of 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, first nine months 2007			14,693			14,693
Other comprehensive loss net of tax					(666)	(666)
Stock based compensation		111				111
Issuance of stock for restricted stock awards		(597)		597		
Exercise of stock options, net of excess tax benefits		(398)		875		477
Issuance of stock to dividend reinvestment plan		(94)	(464)	558		
Repurchase of stock in resission offer				(11)		(11)
Stock dividend	1,178,173	16,577	(16,577)			
Cash dividends			(6,167)			(6,167)
BALANCE September 30, 2007 (UNAUDITED)	24,741,636	$ 258,260	$ (25,532)	$ (20,546)	$ (3,736)	$ 208,446

Nine Months ended September 30, 2006

	Common stock Number of Shares	Common stock Amount	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
			(dollars in thousands)			
BALANCE DECEMBER 31, 2005	22,442,337	$ 226,322	$ (9,514)	$ (20,176)	$ (4,851)	$ 191,781
Net Income, first nine months of 2006			14,854			14,854
Other comprehensive loss net of tax					(945)	(945)
Exercise of stock options		(175)		635		460
Stock dividend	1,122,117	16,472	(16,472)			
Cash dividends			(6,315)			(6,315)
Purchase of treasury stock				(3,144)		(3,144)
BALANCE September 30, 2006 (UNAUDITED)	23,564,454	$ 242,619	$ (17,447)	$ (22,685)	$ (5,796)	$ 196,691

See accompanying notes to consolidated financial statements

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS-(UNAUDITED)

	For the nine months ended September 30, 2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,693	$ 14,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	250	504
Depreciation and amortization	3,602	3,542
Provision for loan and lease losses	2,062	988
Gain on securities	(1,769)	(349)
Gain on sale of branch	(319)	(361)
Share-based compensation	111	
(Increase) decrease in other assets	(1,241)	642
Increase in other liabilities	217	360
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,606	20,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments on and maturity of securities:		
Available for sale	47,955	65,444
Held to maturity	25,220	27,456
Proceeds from sales of securities:		
Available for sale	2,438	84,170
Held to maturity		
Purchase of securities:		
Available for sale	(34,425)	(23,977)
Held to maturity	(12,209)	(12,095)
Net increase in loans	(196,297)	(191,052)
Disbursement from sale of branch, net		(7,326)
Proceeds from the sale of branch premises and equipment	948	34
Capital expenditures	(2,070)	(2,867)
NET CASH USED IN INVESTING ACTIVITIES	(168,440)	(60,213)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	110,684	60,052
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	13,090	(52,736)
Repayments of long-term debt	(40,855)	(3,350)
Issuance of long-term debt	70,000	50,140
Issuance of subordinated debentures	20,619	
Purchase of treasury stock	(11)	(3,144)
Exercise of stock options	389	406
Excess tax benefits	88	54
Dividends paid	(6,167)	(6,315)
NET CASH PROVIDED BY FINANCING ACTIVITIES	167,837	45,107
Net increase in cash and cash equivalents	17,003	5,074
Cash and cash equivalents, beginning of year	79,964	52,815

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 96,967	$ 57,889

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Significant Accounting Policies

Basis of Presentation.

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. (the Company) and its subsidiary, Lakeland Bank (Lakeland).

The Company s financial statements reflect all adjustments and disclosures which management believes are necessary for a fair presentation of interim results. The results of operations for the quarter presented do not necessarily indicate the results that the Company will achieve for all of 2007. You should read these interim financial statements in conjunction with the consolidated financial statements and accompanying notes that are presented in the Lakeland Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2006 (the 10-K).

The financial information in this quarterly report has been prepared in accordance with the Company s customary accounting practices; these financial statements have not been audited. Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

All weighted average, actual shares and per share information set forth in this quarterly report on Form 10-Q have been adjusted retroactively for the effects of stock dividends including the stock dividend declared on October 16, 2007, payable on November 16, 2007 to shareholders of record on October 31, 2007.

Note 2. Stock-Based Compensation

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options and supplemental stock options to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorized options to purchase up to 2,257,368 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 awards with market or performance conditions attached to them. The Company s stock option program allows for the grant of restricted shares, as well as stock option grants. The Company generally issues shares for option exercises from its treasury stock.

On December 13, 2006, the Company granted 37,829 shares of restricted stock at a market value of $13.95 per share. These shares vest over a four year period. The Company has assumed an estimated forfeiture rate of 6% on the restricted stock based on historical experience. None of the restricted shares are vested at this time. As of September 30, 2007, there was unrecognized compensation cost of $401,000 related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of less than four years.

In August 2007, the Company granted options to purchase 26,250 shares to a new non-employee director of the Company at an exercise price of $11.43 per share. The director s options vest in five equal installments beginning on the date of grant and continuing on the next four anniversaries of the date of grant. The Company estimated the fair value of the option grant using a Black-Sholes option pricing model using the following assumptions: The risk-free interest rate was 4.63%; the expected dividend yield 2.50%; the expected volatility was 25.32% and the expected life was six years. The fair value of the option granted was estimated to be $2.88. The expected compensation expense to be recorded over the vesting period will be $76,000. No stock options were granted during the first nine months of 2006.

Compensation expense in the first nine months of 2007 for share based compensation was $111,000 compared to no share based compensation expense for the same period in 2006. Pre-tax income for the first nine months of 2007 was reduced by $111,000 and net income was reduced by $77,000 for the compensation expense related to share based compensation.

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Option activity under the Company s stock option plans as of September 30, 2007 is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2007	1,197,630	$ 12.45		
Granted	26,250	11.43		
Exercised	(58,728)	6.62		
Forfeited	(6,174)	14.45		
Outstanding, September 30, 2007	1,158,978	$ 12.71	5.71	$ 1,338,364
Options exercisable at September 30, 2007	1,137,978	$ 12.72	5.71	$ 1,306,764

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the third quarter of 2007 and the exercise price, multiplied by the number of in the money options).

Stock options outstanding were 1,158,978 and 1,207,262 at September 30, 2007 and 2006, respectively. The aggregate intrinsic value of options exercised during the first nine months ended September 30, 2007 and 2006 was $331,000 and $319,000, respectively. Exercise of stock options during the first nine months of 2007 and 2006 resulted in cash receipts of $389,000 and $460,000, respectively.

Information regarding the Company s restricted stock (all unvested) and changes during the nine months ended September 30, 2007 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2007	37,829	$ 13.95
Forfeited	(565)	13.95
Outstanding, September 30, 2007	37,264	$ 13.95

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Note 3. Comprehensive Income

The components of other comprehensive income (loss) are as follows:

For the quarter ended:	September 30, 2007 Before tax amount	September 30, 2007 Tax Benefit (Expense)	September 30, 2007 Net of tax amount	September 30, 2006 Before tax amount	September 30, 2006 Tax Benefit (Expense)	September 30, 2006 Net of tax amount
	(dollars in thousands)			(dollars in thousands)		
Net unrealized losses on available for sale securities						
Net unrealized holding gains arising during period	$ 2,223	$ (809)	$ 1,414	$ 6,651	$ (2,405)	$ 4,246
Less reclassification adjustment for net gains arising during the period	0	0	0	271	(87)	184
Net unrealized gains	$ 2,223	$ (809)	$ 1,414	$ 6,380	$ (2,318)	$ 4,062
Change in minimum pension liability	17	(6)	11			
Other comprehensive income, net	$ 2,240	$ (815)	$ 1,425	$ 6,380	$ (2,318)	$ 4,062

For the nine months ended:	Before tax amount	Tax Benefit (Expense)	Net of tax amount	Before tax amount	Tax Benefit (Expense)	Net of tax amount
	(dollars in thousands)			(dollars in thousands)		
Net unrealized losses on available for sale securities						
Net unrealized holding gains (losses) arising during period	$ 704	$ (200)	$ 504	$ (865)	$ 355	$ (510)
Less reclassification adjustment for net gains arising during the period	1,769	(566)	1,203	349	(112)	237
Net unrealized losses	$ (1,065)	$ 366	$ (699)	$ (1,214)	$ 467	$ (747)
Change in minimum pension liability	50	(17)	33	(304)	106	(198)
Other comprehensive loss, net	$ (1,015)	$ 349	$ (666)	$ (1,518)	$ 573	$ (945)

Note 4. Statement of Cash Flow Information.

	For the nine months ended September 30, 2007	2006
	(in thousands)	
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the period for income taxes	$ 6,033	$ 6,369
Cash paid during the period for interest	47,080	37,200

Note 5. Earnings Per Share.

Basic earnings per share for a particular period of time is calculated by dividing net income by the weighted average number of common shares outstanding during that period.

Diluted earnings per share is calculated by dividing net income by the weighted average number of outstanding common shares and common share equivalents. The Company s only outstanding common share equivalents are options to purchase its common stock.

All weighted average, actual shares and per share information set forth in this quarterly report on Form 10-Q have

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been adjusted retroactively for the effects of stock dividends including the stock dividend declared on October 16, 2007, payable on November 16, 2007 to shareholders of record on October 31, 2007. The following schedule shows the Company s earnings per share for the periods presented:

(In thousands except per share data)	**For the three months ended September 30, 2007**	**2006**	**For the nine months ended September 30, 2007**	**2006**
Income applicable to common stock	$ 4,799	$ 5,107	$ 14,693	$ 14,854
Weighted average number of common shares outstanding basic	23,205	23,113	23,177	23,147
Share-based plans	90	155	98	156
Weighted average number of common shares and common share equivalents diluted	23,295	23,268	23,275	23,303
Basic earnings per share	$ 0.21	$ 0.22	$ 0.63	$ 0.64
Diluted earnings per share	$ 0.21	$ 0.22	$ 0.63	$ 0.64

Options to purchase 902,205 shares of common stock at a weighted average price of $14.11 per share were outstanding and were not included in the computation of diluted earnings per share for the three months or for the nine months ended September 30, 2007 because the option price was greater than the average market price. Options to purchase 563,207 shares of common stock at a weighted average price of $14.66 per share were outstanding and were not included in the computations of diluted earnings per share for the three months or for the nine months ended September 30, 2006.

Note 6. Investment Securities

AVAILABLE FOR SALE *(in thousands)*	**September 30, 2007** Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	**December 31, 2006** Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 42,310	$ 66	$ (495)	$ 41,881	$ 43,346	$ 0	$ (967)	$ 42,379
Mortgage-backed securities	169,203	144	(3,880)	165,467	179,734	7	(5,365)	174,376
Obligations of states and political subdivisions	25,366	118	(114)	25,370	29,183	166	(139)	29,210
Other debt securities	12,557		(1,253)	11,304	13,128	35	(644)	12,519
Other equity securities	20,714	707	(393)	21,028	19,153	3,007	(135)	22,025
	$ 270,150	$ 1,035	$ (6,135)	$ 265,050	$ 284,544	$ 3,215	$ (7,250)	$ 280,509

HELD TO MATURITY *(in thousands)*	**September 30, 2007** Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	**December 31, 2006** Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 31,485	$ 1	$ (255)	$ 31,231	$ 39,256	$ 0	$ (808)	$ 38,448
Mortgage-backed securities	41,416	24	(787)	40,653	44,993	7	(1,008)	43,992
Obligations of states and political subdivisions	55,150	98	(458)	54,790	56,983	125	(550)	56,558
Other	1,599		(61)	1,538	1,606		(40)	1,566
	$ 129,650	$ 123	$ (1,561)	$ 128,212	$ 142,838	$ 132	$ (2,406)	$ 140,564

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	September 30, 2007			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 8,897	$ 8,909	$ 18,712	$ 18,638
Due after one year through five years	39,927	39,615	37,647	37,250
Due after five years through ten years	24,728	23,568	24,957	24,778
Due after ten years	6,681	6,463	6,918	6,893
	80,233	78,555	88,234	87,559
Mortgage-backed securities	169,203	165,467	41,416	40,653
Other investments	20,714	21,028		
Total securities	$ 270,150	$ 265,050	$ 129,650	$ 128,212

Note 7. Loans.

	September 30, 2007	December 31, 2006
	(in thousands)	
Commercial	$ 773,080	$ 714,496
Leases	309,159	196,518
Real estate-construction	88,769	87,562
Real estate-mortgage	294,370	272,102
Installment	315,816	315,038
Total loans	1,781,194	1,585,716
Plus: deferred costs	6,050	5,928
Loans net of deferred costs	$ 1,787,244	$ 1,591,644

The Company follows Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (known as SFAS No. 114), and Statement of Financial Accounting Standards 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 following table shows the Company s recorded investment in impaired loans and the related valuation allowance calculated under SFAS No. 114 as of September 30, 2007 and 2006, and the average recorded investment in impaired loans during the nine months preceding those dates:

Date	Investment	Valuation Allowance	Average Recorded Investment (over preceding nine months)
September 30, 2007	$ 8.4 million	$ 2.6 million	$ 5.8 million
September 30, 2006	$ 4.0 million	$ 1.0 million	$ 3.6 million

Interest received on impaired loans may be recorded as interest income. However, if management is not reasonably certain that an impaired loan will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal. The Company recognized interest on impaired loans of $154,000 in the first nine months of 2007. Interest that would have accrued had the loans performed under original terms would have been $541,000 for the first nine months of 2007.

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Note 8. Employee Benefit Plans

The components of net periodic pension cost for the Newton defined pension plan are as follows:

	For the three months ended September 30, 2007	2006	For the nine months ended September 30, 2007	2006
	(in thousands)		(in thousands)	
Interest cost	$ 24	$ 24	$ 75	$ 72
Expected return on plan assets	(21)	(22)	(64)	(66)
Amortization of prior service cost				
Amortization of unrecognized net actuarial loss	8	7	23	21
Net periodic benefit expense	$ 11	$ 9	$ 34	$ 27

Note 9. Directors Retirement Plan

The components of net periodic plan costs for the directors retirement plan are as follows:

	For the three months ended September 30, 2007	2006	For the nine months ended September 30, 2007	2006
	(in thousands)		(in thousands)	
Service cost	$ 5	$ 6	$ 14	$ 18
Interest cost	13	12	40	35
Amortization of prior service cost	9	11	27	35
Net periodic benefit expense	$ 27	$ 29	$ 81	$ 88

The Company made contributions of $47,000 to the plan in the nine months ended September 30, 2007 and does not expect to make any more contributions in 2007.

On December 31, 2006, the Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans. At that time, the Company recorded an other comprehensive loss of $194,000 for the Directors Retirement Plan and included it in the other comprehensive income for 2006 rather than as an adjustment to the ending balance of accumulated other comprehensive income as SFAS No. 158 requires. The Company believes that this adjustment is not material and intends to correct this error when filing its 2007 Form 10-K.

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Note 10. Income Taxes

The Company adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS No. 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. 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.

The amount of unrecognized tax benefits as of January 1, 2007, was $367,000, all of which, if ultimately recognized, would reduce the Company s annual effective tax rate. There have been no material changes in unrecognized tax benefits since January 1, 2007.

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 2002.

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 $138,000 for the payment of interest and penalties at January 1, 2007. Subsequent changes to accrued interest and penalties have not been significant.

Note 11. 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.

Note 12. Stockholders Equity

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 12 months. The Company has not purchased any shares of it common stock under this program.

Note 13. 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.

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The consensus in EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company intends to adopt EITF 06-4 effective January 1, 2008. The Company is currently evaluating the impact this guidance will have on the Company s financial position and results of operations.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force in Issue 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5). EITF 06-5 is effective for the fiscal years beginning after December 15, 2006. EITF 06-5 pertains to companies with life insurance policies, including Bank-Owned Life Insurance, and further defines the amount that could be realized under an insurance contract that should be booked as an asset on a company s balance sheet. The Company adopted this EITF effective January 1, 2007 and it did not have a material impact on the Company s financial position and results of operations.

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. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

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 but earlier adoption is permitted provided the entity also elects to apply the provisions of SFAS No. 157 during the same time period. The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on its consolidated financial statements. The Company did not elect early adoption of SFAS No. 159.

PART I ITEM 2

Management s Discussion and Analysis of

Financial Condition and Results of Operations

You should read this section in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. All weighted average, actual shares and per share information set forth in this Quarterly Report on Form 10-Q has been adjusted retroactively for the effects of stock dividends, including the stock dividend declared on October 16, 2007, payable on November 16, 2007 to shareholders of record on October 31, 2007.

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 factors disclosed by the Company 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: pricing pressures on loan and deposit products; competition; changes in economic conditions nationally, regionally and in the Company s markets; the extent and timing of actions of the Federal Reserve Board; changes in levels of market interest rates;

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clients   acceptance of the Company   s products and services; credit risks of lending activities; changes in the conditions of the capital markets in general and in the capital markets for financial institutions in particular and the impact of the war in Iraq or elsewhere on such markets; and the extent and timing of legislative and regulatory actions and reforms.

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 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 analysis of goodwill impairment and the Company   s deferred tax asset. 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 totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the evaluation, may vary from estimated loss percentages.

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 that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem loans, 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 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.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan 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 is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income. Commercial loans 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.

The Company accounts for impaired loans 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.

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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 the allowance for loan and lease losses, 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 10 in this Report.

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 has tested its goodwill as of December 31, 2006 and determined that it is not impaired.

Results of Operations

(Third Quarter 2007 Compared to Third Quarter 2006)

Net Income

Net income for the third quarter of 2007 was $4.8 million, compared to $5.1 million for the same period in 2006, a decrease of $310,000 or 6%. Diluted earnings per share were $0.21 for the third quarter of 2007, a $0.01 or 5% decrease over what was reported for the same period last year. Return on Average Assets was 0.79% and Return on Average Equity was 9.30% for the third quarter of 2007.

The factors that influenced third quarter net income in 2007 compared to the same period in 2006 included a $1.6 million increase in net interest income resulting from strong loan growth offset by decreases in gains on investment securities and an increase in the provision for loan and lease losses. These factors will be discussed in further detail below.

Net Interest Income

Net interest income on a tax equivalent basis for the third quarter of 2007 was $18.6 million, representing a $1.5 million or 9% increase from the $17.1 million earned in the third quarter of 2006. The increase in net interest income primarily resulted from a more favorable mix of earning assets. The components of net interest income will be discussed in greater detail below.

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The following table reflects the components of the Company s net interest income, setting forth for the periods 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 using a tax rate of 35%.

	For the three months ended, September 30, 2007			For the three months ended, September 30, 2006		
	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 (A)	$ 1,741,187	$ 30,219	6.89%	$ 1,445,461	$ 24,629	6.76%
Taxable investment securities	327,050	3,756	4.59%			