

LAKELAND BANCORP INC
Form 10-Q
May 10, 2013
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013

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 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting Company

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

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 April 26, 2013 there were 29,864,460 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](http://www.sec.gov).

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

	March 31, 2013 (unaudited)	December 31, 2012
	(dollars in thousands except share and per share amounts)	
ASSETS:		
Cash	\$ 88,744	\$ 100,926
Interest-bearing deposits due from banks	8,322	6,619
Total cash and cash equivalents	97,066	107,545
Investment securities available for sale, at fair value	370,234	393,710
Investment securities held to maturity; fair value of \$98,827 at March 31, 2013 and \$99,784 at December 31, 2012	96,864	96,925
Federal Home Loan Bank Stock, at cost	5,381	5,382
Loans, net of deferred costs (fees)	2,170,743	2,146,843
Less: allowance for loan and lease losses	29,623	28,931
Net loans	2,141,120	2,117,912
Premises and equipment, net	32,722	33,280
Accrued interest receivable	7,743	7,643
Goodwill	87,111	87,111
Bank owned life insurance	46,456	46,143
Other assets	23,272	23,052
TOTAL ASSETS	\$ 2,907,969	\$ 2,918,703
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 521,045	\$ 498,066
Savings and interest-bearing transaction accounts	1,566,421	1,569,139
Time deposits under \$100 thousand	184,356	188,278
Time deposits \$100 thousand and over	116,853	115,514
Total deposits	2,388,675	2,370,997
Federal funds purchased and securities sold under agreements to repurchase	94,315	117,289
Other borrowings	75,000	85,000
Subordinated debentures	51,548	51,548
Other liabilities	14,554	13,002
TOTAL LIABILITIES	2,624,092	2,637,836
STOCKHOLDERS EQUITY		
Common stock, no par value; authorized shares, 40,000,000; issued 29,941,967 shares at March 31, 2013 and December 31, 2012	302,660	303,794
Accumulated deficit	(21,117)	(24,145)
Treasury stock, at cost, 82,685 shares at March 31, 2013 and 216,077 at December 31, 2012	(1,029)	(2,718)
Accumulated other comprehensive income	3,363	3,936
TOTAL STOCKHOLDERS EQUITY	283,877	280,867

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,907,969	\$ 2,918,703
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries**

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share data)	
INTEREST INCOME		
Loans, leases and fees	\$ 24,407	\$ 25,458
Federal funds sold and interest-bearing deposits with banks	13	6
Taxable investment securities and other	1,719	2,340
Tax-exempt investment securities	430	490
TOTAL INTEREST INCOME	26,569	28,294
INTEREST EXPENSE		
Deposits	1,662	2,256
Federal funds purchased and securities sold under agreements to repurchase	9	28
Other borrowings	962	2,064
TOTAL INTEREST EXPENSE	2,633	4,348
NET INTEREST INCOME	23,936	23,946
Provision for loan and lease losses	3,183	4,556
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	20,753	19,390
NONINTEREST INCOME		
Service charges on deposit accounts	2,522	2,447
Commissions and fees	1,213	980
Gains on investment securities	505	32
Income on bank owned life insurance	313	339
Other income	498	259
TOTAL NONINTEREST INCOME	5,051	4,057
NONINTEREST EXPENSE		
Salaries and employee benefits	9,953	9,435
Net occupancy expense	1,974	1,688
Furniture and equipment	1,405	1,083
Stationery, supplies and postage	370	336
Marketing expense	288	470
FDIC insurance expense	513	555
Legal expense	242	399
Expenses on other real estate owned and other repossessed assets	19	38
Long term debt prepayment fee	526	
Merger related expenses	631	
Other expenses	2,306	2,271
TOTAL NONINTEREST EXPENSE	18,227	16,275
Income before provision for income taxes	7,577	7,172
Income tax expense	2,469	2,201

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NET INCOME	\$	5,108	\$	4,971
Dividends on Preferred Stock and Accretion				620
Net Income Available to Common Stockholders	\$	5,108	\$	4,351
PER SHARE OF COMMON STOCK				
Basic earnings	\$	0.17	\$	0.16
Diluted earnings	\$	0.17	\$	0.16
Dividends	\$	0.07	\$	0.06

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED**

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
NET INCOME	\$ 5,108	\$ 4,971
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized securities gains (losses) during period	(251)	131
Less: reclassification for gains included in net income	328	21
Change in pension liability, net	6	5
Other Comprehensive Income (Loss)	(573)	115
TOTAL COMPREHENSIVE INCOME	\$ 4,535	\$ 5,086

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED

Three Months Ended March 31, 2013

	Common stock		Accumulated deficit (dollars in thousands)	Treasury Stock	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount				
BALANCE January 1, 2013	29,941,967	\$ 303,794	(\$ 24,145)	(\$ 2,718)	\$ 3,936	\$ 280,867
Net Income			5,108			5,108
Other comprehensive loss, net of tax					(573)	(573)
Stock based compensation		185				185
Issuance of restricted stock awards		(1,240)		1,240		
Issuance of stock to dividend reinvestment and stock purchase plan		(106)	(299)	449		44
Exercise of stock options, net of excess tax benefits		27				27
Cash dividends, common stock			(1,781)			(1,781)
BALANCE March 31, 2013 (UNAUDITED)	29,941,967	\$ 302,660	(\$ 21,117)	(\$ 1,029)	\$ 3,363	\$ 283,877

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries**

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	For the Three Months Ended March 31,	
	2013	2012
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,108	\$ 4,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	1,501	1,803
Depreciation and amortization	860	715
Provision for loan and lease losses	3,183	4,556
Gains on securities	(505)	(32)
Gains on sales of other real estate and other repossessed assets	(29)	(27)
Gains on sales of premises and equipment	(68)	
Stock-based compensation	185	178
Increase in other assets	(109)	(144)
Increase in other liabilities	1,558	1,555
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,684	13,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments on and maturity of securities:		
Available for sale	20,608	36,189
Held to maturity	2,543	8,030
Proceeds from sales of securities		
Available for sale	53,670	16,540
Purchase of securities:		
Available for sale	(52,239)	(36,483)
Held to maturity	(2,609)	(5,607)
Net decrease in Federal Home Loan Bank Stock	1	916
Net increase in loans and leases	(27,428)	(36,731)
Proceeds from sales of other real estate and repossessed assets	531	154
Capital expenditures	(696)	(1,906)
Proceeds from sales of bank premises and equipment	462	
NET CASH USED IN INVESTING ACTIVITIES	(5,157)	(18,898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	17,678	38,475
(Decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(22,974)	24,322
Proceeds from other borrowings		130,000
Repayments of other borrowings	(10,000)	(150,000)
Redemption of preferred stock and common stock warrant		(21,800)
Excess tax benefits	27	18
Issuance of stock to dividend reinvestment and stock purchase plan	44	77
Dividends paid	(1,781)	(1,506)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(17,006)	19,586
Net increase (decrease) in cash and cash equivalents	(10,479)	14,263
Cash and cash equivalents, beginning of period	107,545	72,558

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 97,066	\$ 86,821
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The accompanying notes are an integral part of these 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 accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry.

The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the quarter presented do not necessarily indicate the results that the Company will achieve for all of 2013. You should read these interim financial statements in conjunction with the audited 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, 2012.

The financial information in this quarterly report has been prepared in accordance with the Company's customary accounting practices. Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

All weighted average, actual share and per share information set forth in this Quarterly Report on Form 10-Q have been adjusted retroactively for the effects of the stock dividends.

Certain reclassifications have been made to prior period financial statements to conform to the 2013 presentation.

Note 2. Stock-Based Compensation

Share-based compensation expense of \$185,000 and \$178,000 was recognized for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, there was unrecognized compensation cost of \$2.0 million related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of approximately 3.1 years. Unrecognized compensation expense related to unvested stock options was approximately \$20,000 as of March 31, 2013 and is expected to be recognized over a period of 1.2 years.

In the first three months of 2013, the Company granted 99,182 shares of restricted stock at a grant date fair value of \$9.82 per share under the Company's 2009 equity compensation program. These shares vest over a five year period. Compensation expense on these shares is expected to average approximately \$195,000 per year for the next five years. In the first three months of 2012, the Company granted 91,269 shares of restricted stock at a grant date fair value of \$9.50 per share under the 2009 program. Compensation expense on these shares is expected to average approximately \$173,000 per year over a five year period.

There were no grants of stock options in the first three months of 2013 and 2012.

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Option activity under the Company's stock option plans is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2013	475,697	\$ 12.31		\$ 53,853
Issued				
Exercised				
Forfeited	(3,757)	12.91		
Outstanding, March 31, 2013	471,940	\$ 12.31	2.28	\$ 44,753
Options exercisable at March 31, 2013	460,914	\$ 12.41	2.16	\$ 26,791

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 first three months of 2013 and the exercise price, multiplied by the number of in-the-money options).

There were no options exercised in the first three months of 2013 and 2012.

Information regarding the Company's restricted stock (all unvested) and changes during the three months ended March 31, 2013 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2013	222,556	\$ 9.15
Granted	99,182	9.82
Vested	(64,680)	8.59
Forfeited	(1,909)	9.18
Outstanding, March 31, 2013	255,149	\$ 9.55

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Note 3. Comprehensive Income

The components of other comprehensive income are as follows:

For the quarter ended:	March 31, 2013			March 31, 2012		
	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount
Net unrealized gains on available for sale securities						
Net unrealized holding gains (losses) arising during period	(\$ 414)	\$ 163	(\$ 251)	\$ 194	(\$ 63)	\$ 131
Less reclassification adjustment for net gains arising during the period	505	(177)	328	32	(11)	21
Net unrealized gains (losses)	(\$ 919)	\$ 340	(\$ 579)	\$ 162	(\$ 52)	\$ 110
Change in minimum pension liability	8	(2)	6	8	(3)	5
Other comprehensive income (loss), net	(\$ 911)	\$ 338	(\$ 573)	\$ 170	(\$ 55)	\$ 115

The following table shows the changes in the balances of each of the components of other comprehensive income for the periods presented:

Changes in Accumulated Other Comprehensive Income by Component (a)

	For the Three Months Ended			For the Three Months Ended		
	March 31, 2013			March 31, 2012		
	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total
Beginning Balance	\$ 4,553	(\$ 617)	\$ 3,936	\$ 3,506	(\$ 635)	\$ 2,871
Other comprehensive income (loss) before classifications	(251)	6	(245)	131	5	136
Amounts reclassified from accumulated other comprehensive income	328	0	328	21	0	21
Net current period other comprehensive income (loss)	(579)	6	(573)	110	5	115
Ending balance	\$ 3,974	(\$ 611)	\$ 3,363	\$ 3,616	(\$ 630)	\$ 2,986

(a) All amounts are net of tax.

Table of Contents**Note 4. Statement of Cash Flow Information, Supplemental Information**

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the period for income taxes	\$ 99	\$ 517
Cash paid during the period for interest	2,676	4,406
Transfer of loans and leases into other repossessed assets and other real estate owned	688	259

Note 5. Earnings Per Share

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 March 31,	
	2013	2012
Net income available to common shareholders	\$ 5,108	\$ 4,351
Less: earnings allocated to participating securities	29	36
Net income allocated to common shareholders	\$ 5,079	\$ 4,315
Weighted average number of common shares outstanding - basic	29,563	26,700
Share-based plans	62	47
Weighted average number of common shares - diluted	29,625	26,747
Basic earnings per share	\$ 0.17	\$ 0.16
Diluted earnings per share	\$ 0.17	\$ 0.16

Options to purchase 444,375 shares of common stock at a weighted average price of \$12.56 per share were outstanding and were not included in the computation of diluted earnings per share for the quarter ended March 31, 2013 because the exercise price was greater than the average market price. Options to purchase 570,914 shares of common stock at a weighted average price of \$12.79 were outstanding and were not included in the computation of diluted earnings per share for the quarter ended March 31, 2012 because the exercise price was greater than the average market price.

Table of Contents**Note 6. Investment Securities**

AVAILABLE FOR SALE	March 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value
U.S. treasury and U.S. government agencies	\$ 61,191	\$ 251	\$ (61)	\$ 61,381	\$ 86,002	\$ 577	\$ (8)	\$ 86,571
Mortgage-backed securities, residential	237,700	4,747	(1,124)	241,323	235,052	5,086	(579)	239,559
Obligations of states and political subdivisions	36,379	1,660	(123)	37,916	36,848	1,832	(60)	38,620
Other debt securities	13,570	255	(214)	13,611	13,576	189	(321)	13,444
Equity securities	15,065	1,021	(83)	16,003	14,984	608	(76)	15,516
	\$ 363,905	\$ 7,934	\$ (1,605)	\$ 370,234	\$ 386,462	\$ 8,292	\$ (1,044)	\$ 393,710

HELD TO MATURITY	March 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value
U.S. government agencies	\$ 16,056	\$ 343	\$	\$ 16,399	\$ 16,089	\$ 385	\$	\$ 16,474
Mortgage-backed securities, residential	37,996	949	(301)	38,644	39,065	1,313	(27)	40,351
Mortgage-backed securities, multifamily	1,406		(38)	1,368	1,421		(13)	1,408
Obligations of states and political subdivisions	39,859	952	(147)	40,664	38,801	1,068	(68)	39,801
Other debt securities	1,547	205		1,752	1,549	201		1,750
	\$ 96,864	\$ 2,449	\$ (486)	\$ 98,827	\$ 96,925	\$ 2,967	\$ (108)	\$ 99,784

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The following table shows investment securities by stated maturity. Securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay, and are, therefore, classified separately with no specific maturity date (in thousands):

	March 31, 2013			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,451	\$ 2,463	\$ 14,330	\$ 14,359
Due after one year through five years	37,156	37,850	13,449	14,079
Due after five years through ten years	68,370	69,622	26,444	27,218
Due after ten years	3,163	2,973	3,239	3,159
	111,140	112,908	57,462	58,815
Mortgage-backed securities	237,700	241,323	39,402	40,012
Equity securities	15,065	16,003		
Total securities	\$ 363,905	\$ 370,234	\$ 96,864	\$ 98,827

The following table shows proceeds from sales of securities, gross gains and gross losses on sales or calls of securities and other than temporary impairments for the periods indicated (in thousands):

	For the Three Months Ended	
	March 31,	
	2013	2012
Sale proceeds	\$ 53,670	\$ 16,540
Gross gains	508	99
Gross losses	(3)	(67)

Gains or losses on sales of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

Securities with a carrying value of approximately \$315.5 million and \$328.4 million at March 31, 2013 and December 31, 2012, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

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The following table indicates the length of time individual securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012:

March 31, 2013	Less than 12 months		12 months or longer		Number of securities	Total Fair value	Unrealized Losses
	Fair value	Unrealized Losses	Fair value	Unrealized Losses			
AVAILABLE FOR SALE							
			(dollars in thousands)				
U.S. government agencies	\$ 21,783	\$ 61	\$	\$	4	\$ 21,783	\$ 61
Mortgage-backed securities, residential	61,294	1,118	2,025	6	14	63,319	1,124
Obligations of states and political subdivisions	4,466	83	909	40	11	5,375	123
Other debt securities			5,766	214	2	5,766	214
Equity securities	4,656	83			2	4,656	83
	\$ 92,199	\$ 1,345	\$ 8,700	\$ 260	33	\$ 100,899	\$ 1,605
HELD TO MATURITY							
Mortgage-backed securities, residential	\$ 15,228	\$ 301	\$	\$	5	\$ 15,228	\$ 301
Mortgage-backed securities, multifamily	1,406	38			1	1,406	38
Obligations of states and political subdivisions	5,203	142	371	5	13	5,574	147
	\$ 21,837	\$ 481	\$ 371	\$ 5	19	\$ 22,208	\$ 486
December 31, 2012							
AVAILABLE FOR SALE							
			(dollars in thousands)				
U.S. government agencies	\$ 3,992	\$ 8	\$	\$	1	\$ 3,992	\$ 8
Mortgage-backed securities, residential	30,359	572	3,239	7	10	33,598	579
Obligations of states and political subdivisions	2,825	60			7	2,825	60
Other debt securities			5,661	321	2	5,661	321
Equity securities	4,621	76			2	4,621	76
	\$ 41,797	\$ 716	\$ 8,900	\$ 328	22	\$ 50,697	\$ 1,044
HELD TO MATURITY							
Mortgage-backed securities, residential	\$ 1,239	\$ 27	\$	\$	1	\$ 1,239	\$ 27
Mortgage-backed securities, multifamily	1,408	13			1	1,408	13
Obligations of states and political subdivisions	3,705	63	371	5	10	4,076	68
	\$ 6,352	\$ 103	\$ 371	\$ 5	12	\$ 6,723	\$ 108

Management has evaluated the securities in the above table and has concluded that none of the securities with unrealized losses have impairments that are other-than-temporary. All investment securities are evaluated on a periodic basis to determine if factors are identified that would require further analysis. In evaluating the Company's securities, management considers the following items:

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

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

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

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

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If the above factors indicate that additional analysis is required, management will consider the results of discounted cash flow analysis.

As of March 31, 2013, the equity securities include investments in other financial institutions for market appreciation purposes. Those equities had a net amortized cost of \$2.1 million and a market value of \$2.8 million as of March 31, 2012.

As of March 31, 2013, equity securities also included \$13.1 million in investment funds that do not have a quoted market price but use net asset value per share or its equivalent to measure fair value.

The funds include \$2.9 million in funds that are primarily invested in community development loans that are guaranteed by the Small Business Administration (SBA). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed within 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of March 31, 2013, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to this investment.

The funds also include \$10.3 million in funds that are invested in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. As of March 31, 2013, the amortized cost of these securities was \$10.1 million and the fair value was \$10.3 million. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to this investment.

Note 7. Loans and Leases.

The following sets forth the composition of Lakeland's loan and lease portfolio as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
	(in thousands)	
Commercial, secured by real estate	\$ 1,168,873	\$ 1,125,137
Commercial, industrial and other	211,078	216,129
Leases	28,190	26,781
Real estate-residential mortgage	412,006	423,262
Real estate-construction	45,594	46,272
Home equity and consumer	305,715	309,626
Total loans	2,171,456	2,147,207
Plus: deferred fees	(713)	(364)
Loans, net of deferred fees	\$ 2,170,743	\$ 2,146,843

At March 31, 2013 and December 31, 2012, home equity and consumer loans included overdraft deposit balances of \$336,000 and \$532,000, respectively. At March 31, 2013 and December 31, 2012, the Company had \$296.8 million and \$203.1 million in residential loans pledged for potential borrowings at the Federal Home Loan Bank of New York (FHLB).

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Non-Performing Assets and Past Due Loans

The following schedule sets forth certain information regarding the Company's non-performing assets and its accruing troubled debt restructurings:

(in thousands)	March 31, 2013	December 31, 2012
Commercial, secured by real estate	\$ 8,962	\$ 10,511
Commercial, industrial and other	1,203	1,476
Leases		32
Real estate residential mortgage	8,481	8,733
Real estate construction	3,560	4,031
Home equity and consumer	2,838	3,197
Total non-accrual loans and leases	\$ 25,044	\$ 27,980
Other real estate and other repossessed assets	715	529
TOTAL NON-PERFORMING ASSETS	\$ 25,759	\$ 28,509
Troubled debt restructurings, still accruing	\$ 9,012	\$ 7,336

Non-accrual loans included \$3.2 million and \$3.4 million of troubled debt restructurings as of March 31, 2013 and December 31, 2012, respectively.

An age analysis of past due loans, segregated by class of loans as of March 31, 2013 and December 31, 2012, is as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due (in thousands)	Current	Total Loans and Leases	Recorded Investment greater than 89 Days and still accruing
March 31, 2013							
Commercial, secured by real estate	\$ 4,527	\$ 214	\$ 9,257	\$ 13,998	\$ 1,154,875	\$ 1,168,873	\$ 295
Commercial, industrial and other	420	20	1,222	1,662	209,416	211,078	19
Leases	78	14		92	28,098	28,190	
Real estate residential mortgage	3,694	165	9,856	13,715	398,291	412,006	1,375
Real estate construction	48		3,560	3,608	41,986	45,594	
Home equity and consumer	1,955	381	2,901	5,237	300,478	305,715	63
	\$ 10,722	\$ 794	\$ 26,796	\$ 38,312	\$ 2,133,144	\$ 2,171,456	\$ 1,752
December 31, 2012							
Commercial, secured by real estate	\$ 3,831	\$ 2,308	\$ 10,511	\$ 16,650	\$ 1,108,487	\$ 1,125,137	\$
Commercial, industrial and other	400	171	1,476	2,047	214,082	216,129	
Leases	367	36	32	435	26,346	26,781	
Real estate residential mortgage	2,370	821	10,012	13,203	410,059	423,262	1,279
Real estate construction	1,100		4,031	5,131	41,141	46,272	
Home equity and consumer	2,479	363	3,355	6,197	303,429	309,626	158
	\$ 10,547	\$ 3,699	\$ 29,417	\$ 43,663	\$ 2,103,544	\$ 2,147,207	\$ 1,437

Table of Contents*Impaired Loans*

Impaired loans as of March 31, 2013, March 31, 2012 and December 31, 2012 are as follows:

	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
March 31, 2013					
Loans without specific allowance:					
Commercial, secured by real estate	\$ 17,275	\$ 29,572	\$	\$ 125	\$ 16,995
Commercial, industrial and other	4,860	4,937		48	4,858
Real estate-residential mortgage	355	355			357
Real estate-construction	3,413	4,826			3,672
Home equity and consumer	369	369			369
Loans with specific allowance:					
Commercial, secured by real estate	2,632	3,175	279	14	2,694
Commercial, industrial and other	535	594	148	1	736
Real estate-residential mortgage	288	288	43		288
Real estate-construction	146	534	15		146
Home equity and consumer	970	970	146	14	970
Total:					
Commercial, secured by real estate	\$ 19,907	\$ 32,747	\$ 279	\$ 139	\$ 19,689
Commercial, industrial and other	5,395	5,531	148	49	5,594
Real estate residential mortgage	643	643	43		645
Real estate-construction	3,559	5,360	15		3,818
Home equity and consumer	1,339	1,339	146	14	1,339
	\$ 30,843	\$ 45,620	\$ 631	\$ 202	\$ 31,085

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	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
March 31, 2012					
Loans without specific allowance:					
Commercial, secured by real estate	\$ 16,795	\$ 22,849	\$	\$ 103	\$ 17,684
Commercial, industrial and other	4,887	9,056			4,180
Real estate-residential mortgage	377	377		6	378
Real estate-construction	10,013	14,488			11,051
Home equity and consumer	350	350			312
Loans with specific allowance:					
Commercial, secured by real estate	3,556	5,874	355	10	4,040
Commercial, industrial and other	776	889	221		516
Real estate-residential mortgage	329	337	49	4	482
Real estate-construction	489	1,429	49		522
Home equity and consumer	958	958	144	12	958
Total:					
Commercial, secured by real estate	\$ 20,351	\$ 28,723	\$ 355	\$ 113	\$ 21,724
Commercial, industrial and other	5,663	9,945	221		4,696
Real estate residential mortgage	706	714	49	10	860
Real estate-construction	10,502	15,917	49		11,573
Home equity and consumer	1,308	1,308	144	12	1,270
	\$ 38,530	\$ 56,607	\$ 818	\$ 135	\$ 40,123

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	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
December 31, 2012					
Loans without specific allowance:					
Commercial, secured by real estate	\$ 16,458	\$ 21,665	\$	\$ 495	\$ 18,301
Commercial, industrial and other	4,896	4,932		116	3,838
Real estate-residential mortgage	360	360		6	385
Real estate-construction	3,332	4,433			5,533
Home equity and consumer	369	369		1	360
Loans with specific allowance:					
Commercial, secured by real estate	3,346	4,088	368	46	3,825
Commercial, industrial and other	808	871	219	1	769
Real estate-residential mortgage	288	288	43	4	374
Real estate-construction	698	1,085	97		1,445
Home equity and consumer	976	976	146	55	934
Total:					
Commercial, secured by real estate	\$ 19,804	\$ 25,753	\$ 368	\$ 541	\$ 22,126
Commercial, industrial and other	5,704	5,803	219	117	4,607
Real estate residential mortgage	648	648	43	10	759
Real estate-construction	4,030	5,518	97		6,978
Home equity and consumer	1,345	1,345	146	56	1,294
	\$ 31,531	\$ 39,067	\$ 873	\$ 724	\$ 35,764

Interest that would have been accrued on impaired loans during the first three months of 2013 and 2012 had the loans been performing under original terms would have been \$621,000 and \$812,000, respectively. Interest that would have accrued for the year ended December 31, 2012 was \$2.8 million.

Credit Quality Indicators

The classes of loans are determined by internal risk rating. Management closely and continually monitors the quality of its loans and leases and assesses the quantitative and qualitative risks arising from the credit quality of its loans and leases. It is the policy of Lakeland to require that a Credit Risk Rating be assigned to all commercial loans and loan commitments. The Credit Risk Rating System has been developed by management to provide a methodology to be used by Loan Officers, department heads and Senior Management in identifying various levels of credit risk that exist within Lakeland's loan portfolios. The risk rating system assists Senior Management in evaluating Lakeland's commercial loan portfolio, analyzing trends, and determining the proper level of required reserves to be recommended to the Board. In assigning risk ratings, management considers, among other things, a borrower's debt service coverage, earnings strength, loan to value ratios, industry conditions and economic conditions. Management categorizes loans and commitments into a one (1) to nine (9) numerical structure with rating 1 being the strongest rating and rating 9 being the weakest. Ratings 1 through 5W are considered Pass ratings.

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The following table shows the Company's commercial loan portfolio as of March 31, 2013 and December 31, 2012, by the risk ratings discussed above (in thousands):

March 31, 2013

Risk Rating	Commercial, secured by real estate	Commercial, industrial and other	Real estate- construction
1	\$	\$ 955	\$
2		12,909	
3	44,222	15,272	
4	380,135	58,487	875
5	634,304	84,622	34,344
5W Watch	28,378	8,099	
6 Other Assets Especially Mentioned	36,294	9,351	3,097
7 Substandard	45,458	21,383	7,278
8 Doubtful	82		
9 Loss			
Total	\$ 1,168,873	\$ 211,078	\$ 45,594

December 31, 2012

Risk Rating	Commercial, secured by real estate	Commercial, industrial and other	Real estate- construction
1	\$	\$ 996	\$
2		12,899	
3	44,448	15,676	
4	350,145	62,676	795
5	623,912	88,033	34,682
5W - Watch	43,515	13,261	
6 - Other Assets Especially Mentioned	21,132	2,845	6,535
7 - Substandard	41,817	19,743	4,260
8 - Doubtful	168		
9 - Loss			
Total	\$ 1,125,137	\$ 216,129	\$ 46,272

The risk rating tables above do not include consumer or residential loans or leases because they are evaluated on their payment performance status.

Table of Contents*Allowance for Loan and Lease Losses*

The following table details activity in the allowance for loan and lease losses by portfolio segment and the related recorded investment in loans and leases for the three months ended March 31, 2013 and the year ended December 31, 2012:

Three Months Ended March 31, 2013	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate- residential mortgage (in thousands)	Real estate- construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	\$ 16,258	\$ 5,103	\$ 578	\$ 3,568	\$ 587	\$ 2,837	\$ 28,931
Charge-offs	(749)	(177)	(112)	(565)	(652)	(455)	(\$ 2,710)
Recoveries	44	30	88	1	7	49	\$ 219
Provision	868	288	(72)	824	1,304	(29)	\$ 3,183
Ending Balance	\$ 16,421	\$ 5,244	\$ 482	\$ 3,828	\$ 1,246	\$ 2,402	\$ 29,623
Ending Balance: Individually evaluated for impairment	\$ 279	\$ 148	\$ 0	\$ 43	\$ 15	\$ 146	\$ 631
Ending Balance: Collectively evaluated for impairment	16,142	5,096	482	3,785	1,231	2,256	28,992
Ending Balance	\$ 16,421	\$ 5,244	\$ 482	\$ 3,828	\$ 1,246	\$ 2,402	\$ 29,623
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	\$ 19,907	\$ 5,395	\$ 0	\$ 643	\$ 3,559	\$ 1,339	\$ 30,843
Ending Balance: Collectively evaluated for impairment	1,148,966	205,683	28,190	411,363	42,035	304,376	2,140,613
Ending Balance (1)	\$ 1,168,873	\$ 211,078	\$ 28,190	\$ 412,006	\$ 45,594	\$ 305,715	\$ 2,171,456

(1) Excludes deferred fees

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Year Ended December 31, 2012	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate- residential mortgage (in thousands)	Real estate- construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	\$ 16,618	\$ 3,477	\$ 688	\$ 3,077	\$ 1,424	\$ 3,132	\$ 28,416
Charge-offs	(7,287)	(949)	(999)	(1,822)	(2,888)	(2,074)	(\$ 16,019)
Recoveries	280	428	504	66	43	306	\$ 1,627
Provision	6,647	2,147	385	2,247	2,008	1,473	\$ 14,907
Ending Balance	\$ 16,258	\$ 5,103	\$ 578	\$ 3,568	\$ 587	\$ 2,837	\$ 28,931
Ending Balance: Individually evaluated for impairment	\$ 368	\$ 219	\$	\$ 43	\$ 97	\$ 146	\$ 873
Ending Balance: Collectively evaluated for impairment	15,890	4,884	578	3,525	490	2,691	\$ 28,058
Ending Balance	\$ 16,258	\$ 5,103	\$ 578	\$ 3,568	\$ 587	\$ 2,837	\$ 28,931
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	\$ 19,804	\$ 5,704	\$	\$ 648	\$ 4,030	\$ 1,345	\$ 31,531
Ending Balance: Collectively evaluated for impairment	1,105,333	210,425	26,781	422,614	42,242	308,281	\$ 2,115,676
Ending Balance(1)	\$ 1,125,137	\$ 216,129	\$ 26,781	\$ 423,262	\$ 46,272	\$ 309,626	\$ 2,147,207

(1) Excludes deferred fees

Lakeland also maintains a reserve for unfunded lending commitments which are included in other liabilities. This reserve was \$973,000 and \$1,108,000 at March 31, 2013 and December 31, 2012, respectively. The Company analyzes the adequacy of the reserve for unfunded lending commitments in conjunction with its analysis of the adequacy of the allowance for loan and lease losses. For more information on this analysis, see Risk Elements in Management's Discussion and Analysis.

Troubled Debt Restructurings

Troubled debt restructurings are those loans where concessions have been made due to borrowers' financial difficulties. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate, a moratorium of principal payments and/or an extension of the maturity date at a stated interest rate lower than the current market rate of a new loan with similar risk. The Company considers the potential losses on these loans as well as the remainder of its impaired loans while considering the adequacy of the allowance for loan and lease losses.

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The following table summarizes loans that have been restructured during the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013			For the Three Months Ended March 31, 2012		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment (Dollars in thousands)	Post- Modification Outstanding Recorded Investment (Dollars in thousands)	Number of Contracts	Pre- Modification Outstanding Recorded Investment (Dollars in thousands)	Post- Modification Outstanding Recorded Investment (Dollars in thousands)
Troubled Debt Restructurings:						
Commercial, secured by real estate	4	\$ 2,000	\$ 2,000	3	\$ 529	\$ 528
Commercial, industrial and other						
Leases						
Real estate residential mortgage						
Real estate construction						
Home equity and consumer						
	4	\$ 2,000	\$ 2,000	3	\$ 529	\$ 528

The following table summarizes as of March 31, 2013 and 2012, loans that were restructured within the last 12 months that have subsequently defaulted:

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
	Number of Contracts (Dollars in thousands)	Recorded Investment (Dollars in thousands)	Number of Contracts (Dollars in thousands)	Recorded Investment (Dollars in thousands)
Defaulted Troubled Debt Restructurings:				
Commercial, secured by real estate	4	\$ 731	4	\$ 1,484
Commercial, industrial and other				