

LAKELAND BANCORP INC  
Form DEF 14A  
May 13, 2014

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. \_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**LAKELAND BANCORP, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Consent Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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- (3) Filing Party:
  
- (4) Date Filed:



**LAKELAND BANCORP, INC.**

**250 OAK RIDGE ROAD**

**OAK RIDGE, NEW JERSEY 07438**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To Be Held June 18, 2014

Notice is hereby given that the Annual Meeting of Shareholders of Lakeland Bancorp, Inc. will be held at The Knoll Country Club West, 990 Greenbank Road, Boonton, New Jersey 07005 on Wednesday, June 18, 2014, at 5:00 p.m. for the following purposes:

1. To elect six directors for the terms described in the attached proxy statement.
2. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2014.
3. To approve the material terms of the Section 162(m) performance goals for awards under the Amended and Restated 2009 Equity Compensation Program.
4. To approve, on an advisory basis, the executive compensation of Lakeland's named executive officers as described in this proxy statement.
5. To transact such other business as may properly come before the meeting and/or any adjournment or adjournments thereof.

In accordance with the Bylaws of Lakeland Bancorp, Inc., the close of business on April 28, 2014, has been fixed as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Annual Meeting of Shareholders or any adjournment or adjournments thereof.

Enclosed are the proxy statement and a form of proxy. You will also be receiving an annual report. You are cordially invited to attend this meeting. It is important that your shares be represented, regardless of the number you own. Whether or not you plan to attend the meeting, please return the proxy, duly signed, as promptly as possible, in the envelope provided to you, or vote by telephone or via the Internet, as described in the proxy statement.

By Order of the Board of Directors

**TIMOTHY J. MATTESON**

**EXECUTIVE VICE PRESIDENT,**

**GENERAL COUNSEL AND CORPORATE**

**SECRETARY**

Oak Ridge, New Jersey

May 13, 2014

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**LAKELAND BANCORP, INC.**

**PROXY STATEMENT**

Annual Meeting of Shareholders: June 18, 2014

Approximate Mailing Date May 16, 2014

**SOLICITATION OF PROXY**

**General**

THE ENCLOSED PROXY IS SOLICITED BY AND ON BEHALF OF THE BOARD OF DIRECTORS OF LAKELAND BANCORP, INC. (hereinafter called "Lakeland" or the "Company") for use in connection with the Annual Meeting of Shareholders to be held at The Knoll Country Club West, 990 Greenbank Road, Boonton, New Jersey 07005 on Wednesday, June 18, 2014, at 5:00 p.m., and at any adjournments thereof. The matters to be considered and acted upon at such meeting are referred to in the enclosed notice of such meeting and are more fully discussed below.

Only shareholders of record at the close of business on April 28, 2014, the record date fixed by the Board of Directors, will be entitled to notice of, and to vote at, the Annual Meeting. If the enclosed proxy is properly executed and returned to Lakeland and not revoked before its exercise, all shares represented thereby will be voted as specified in the form of proxy. If the proxy is signed but no specification is given, the shares will be voted in favor of the Board's nominees for election to the Board and in favor of Proposal 2 (ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2014), Proposal 3 (approval of the material terms of the Section 162(m) performance goals for awards under the Amended and Restated 2009 Equity Compensation Program) and Proposal 4 (the non-binding approval of the compensation of Lakeland's executives as described in this proxy statement). The proxy will enable you to assure that your shares are voted and to aid in securing a quorum at the annual meeting.

In order to reduce the number of annual reports being sent to one address, only one annual report is being delivered to multiple security holders sharing an address unless Lakeland has received contrary instructions from one or more of the security holders. This is called "householding". Lakeland will deliver a separate copy of the annual report to any security holder who requests a copy in writing or by telephone. If you wish to receive a separate copy of the 2013 annual report, or if you wish to receive a separate copy of future annual reports, please contact Mr. Harry Cooper at Lakeland Bancorp, Inc., 250 Oak Ridge Road, Oak Ridge, New Jersey 07438 (toll-free telephone 866-284-1291). If you are currently receiving multiple copies of the annual report at the same address, and wish to have one annual report sent to multiple security holders sharing that address in the future, please contact Mr. Cooper at the above address and telephone number.

The entire cost of this solicitation will be borne by Lakeland. Officers and regular employees of Lakeland may also, but without additional compensation, solicit proxies by further mailings, personal conversations, telephone, facsimile or e-mail. Lakeland will make arrangements with brokerage houses, custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to beneficial owners of shares held of record by these brokerage houses, custodians, nominees and fiduciaries and Lakeland will reimburse these brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in connection with the solicitation.

**Important notice regarding the availability of proxy materials for the annual meeting of shareholders to be held on June 18, 2014: This proxy statement and our 2013 annual report are available at [www.lakelandbank.com](http://www.lakelandbank.com).**



## **Voting your Shares**

Lakeland shareholders will have four alternative ways to vote:

by traditional paper proxy card;

by telephone;

via the Internet; or

in person at the Annual Meeting.

Please take a moment to read the instructions, choose the way to vote that you find most convenient and cast your vote as soon as possible.

*Voting by Proxy Card.* If proxy cards in the accompanying form are properly executed and returned, the shares represented thereby will be voted in the manner specified therein. If you vote by proxy card but make no specification on your proxy card that you have otherwise properly executed, your shares will be voted FOR the election of the Board's nominees for director and FOR Proposals 2, 3 and 4.

*Voting by Telephone.* If you wish to vote by telephone and you are a shareholder of record of Lakeland, use a touch-tone telephone to call toll-free 1-800-PROXIES and follow the instructions. If you vote by telephone, you must have your control number and the proxy card available when you call.

*Voting by the Internet.* If you wish to vote through the Internet and you are a shareholder of record of Lakeland, you can access the web page at [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. If you vote through the Internet, you must have your control number and the proxy card available when you access the web page.

If your shares are registered in the name of a broker or other nominee, the voting form your broker or other nominee sent you will provide telephone and Internet voting instructions.

The deadline for voting by telephone or through the Internet as a shareholder of record of Lakeland is 11:59 p.m., local time, on June 17, 2014. For shareholders whose shares are registered in the name of a broker or other nominee, please consult the voting instructions provided by your broker or other nominee for information about the deadline for voting by telephone or through the Internet.

*Voting in Person.* If you attend the Annual Meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

## **Changing your Vote**

You will be able to change your vote as many times as you wish and the last vote received chronologically by any means will supersede your prior vote(s). Please note, however, that if you vote by the Internet, the maximum number of times that you can access the website using any one control number is limited to five times per day.



Any Lakeland shareholder may revoke a proxy at any time before or at the Annual Meeting in one or more of the following ways:

Delivering a written notice of revocation, bearing a later date than the proxy, at any time prior to the vote at the Annual Meeting to Timothy J. Matteson, Corporate Secretary of Lakeland; or

Submitting a later-dated proxy card; or

Submitting a new proxy via telephone or the Internet.

A Lakeland shareholder should send any written notice of revocation or subsequent proxy card to Lakeland Bancorp, Inc., Attention: Timothy J. Matteson, Executive Vice President, General Counsel and Corporate Secretary, 250 Oak Ridge Road, Oak Ridge, New Jersey 07438, or hand deliver the notice of revocation or subsequent proxy card to Mr. Matteson before the taking of the vote at the Annual Meeting. Attendance at the Annual Meeting will not by itself constitute a revocation of a proxy.

### Required Vote

The presence, in person or by proxy, of a majority of the shares of Common Stock outstanding on the record date will constitute a quorum for purposes of the Annual Meeting. Provided that a quorum is present, directors will be elected by a plurality vote (there is no right to vote stock cumulatively) and approval of Proposals 2, 3 and 4 will require the affirmative vote of a majority of the votes cast with respect to each such proposal. For purposes of determining the votes cast with respect to any matter presented for consideration at the Annual Meeting, only those votes cast for or against are included. Abstentions and broker non-votes are counted only for the purpose of determining whether a quorum is present at the Annual Meeting.

### CAPITAL STOCK OUTSTANDING

At the close of business on April 28, 2014, there were 36,107,273 shares of Lakeland's common stock, no par value (the Common Stock), outstanding and entitled to vote at the Annual Meeting. Each share will be entitled to one vote on all matters properly coming before the meeting.

Set forth below is the name and address of each shareholder of Lakeland known by Lakeland to have beneficially owned more than five percent of Lakeland's Common Stock as of the April 28, 2014 record date, along with the number of shares of Common Stock believed to be owned by such shareholder on such date and such shareholder's percentage ownership, based on filings made with the Securities and Exchange Commission.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Wellington Management Company, LLP  280 Congress Street  Boston, MA 02210	3,417,939 <sup>(1)</sup>	9.54%
BlackRock, Inc.  40 East 52nd Street  New York, NY 10022	2,168,802 <sup>(2)</sup>	6.10%

- (1) Pursuant to a filing made by Wellington Management Company, LLP ( Wellington Management ) with the Securities and Exchange Commission on February 14, 2014, Wellington Management, in its capacity as

investment adviser, may be deemed to beneficially own 3,417,939 shares of Lakeland's Common Stock which are held of record by clients of Wellington Management. The filing indicates that Wellington Management has shared power to vote or direct the vote with respect to 2,915,606 shares and shared dispositive power with respect to 3,417,939 shares. The filing further indicates that the clients who own the shares of record have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such shares, and that no client is known to Wellington Management to have such right or power with respect to more than 5% of Lakeland's Common Stock.

- (2) Pursuant to a filing made by BlackRock, Inc. with the Securities and Exchange Commission on January 29, 2014, BlackRock, Inc., a parent holding company or control person, beneficially

owned 2,168,802 shares, or 6.10%, of Lakeland's Common Stock. The filing indicates that BlackRock has sole power to vote or to direct the vote with respect to 2,086,016 shares and sole power to dispose or to direct the disposition of 2,168,802 shares. The filing identifies the following subsidiaries of BlackRock, Inc. as having acquired the shares being reported: BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Investment Management, LLC, BlackRock Advisors, LLC and BlackRock Asset Management Canada Limited. The filing states that various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of Lakeland's Common Stock, and that no one person's interest is more than 5% of the total outstanding shares of Lakeland's Common Stock.

### **PROPOSAL 1**

#### **ELECTION OF DIRECTORS**

Unless a shareholder either indicates "withhold authority" on his proxy or indicates on his proxy that his shares should not be voted for certain nominees, it is intended that the persons named in the proxy will vote for the election as directors of the six persons named in Table I below, four of them to serve for three year terms and thereafter until their successors shall have been duly elected and shall have qualified, one of them to serve for a two year term and thereafter until his successor shall have been duly elected and shall have qualified and one of them to serve for a one year term until his retirement. Each of the Board's nominees has consented to be named in this proxy statement and to serve as a director of the Company if elected. Discretionary authority is also solicited to vote for the election of a substitute for any of said nominees who, for any reason presently unknown, cannot be a candidate for election.

Table I sets forth the names and ages of the nominees for election to the Board of Directors, the positions and offices presently held by each such person within Lakeland, the period during which each such person has served on Lakeland's Board of Directors, the expiration of their respective terms, the principal occupations and employment of each such person during the past five years, and the number of shares of Lakeland Common Stock which they beneficially owned as of February 1, 2014. Except as otherwise indicated, Table II sets forth comparable information with respect to those directors whose terms of office will continue beyond the date of the Annual Meeting. Unless otherwise indicated, positions have been held for more than five years. Unless otherwise stated in the footnotes following the tables, the nominees and other directors listed in the tables have sole power to vote and dispose of the shares which they beneficially owned as of February 1, 2014. Shares covered by stock options are included in the tables below only to the extent that such options may be exercised by April 2, 2014.

All of the persons named in both tables have been directors of Lakeland and Lakeland Bank for at least five years, except that Mr. Flynn was appointed to the Boards of Lakeland and Lakeland Bank on June 9, 2010, and Messrs. Deutsch and Marino were appointed to the Boards of Lakeland and Lakeland Bank on May 31, 2013, upon the closing of the mergers of Somerset Hills Bancorp into Lakeland and of Somerset Hills Bank into Lakeland Bank.

For a description of the attributes of each director that the Board considered in determining that such director should serve on the Company's Board, see "Board Qualifications" below.

**TABLE I**  
**NOMINEES FOR ELECTION AS DIRECTORS**

NAME AND AGE	DIRECTOR SINCE	EXPIRATION OF TERM IF ELECTED	BUSINESS EXPERIENCE	SHARES BENEFICIALLY OWNED AS OF	
				February 1, 2014	
				NUMBER OF SHARES	PERCENT OF CLASS
Roger Bosma Age 71	1999	2015  (upon retirement)	President and CEO, Lakeland Bancorp, Inc. (6/1/99 to 4/2/08); President and CEO, Lakeland Bank (1/1/02 to 4/2/08)	136,597 (a)	0.4%
Mark J. Fredericks Age 53	1994	2017	President of Fredericks Fuel & Heating Service, Oak Ridge, NJ (1/1/02 to present); President of Keil Oil Company, Riverdale, NJ (1986 to present)	464,463 (b)	1.3%
Janeth C. Hendershot Age 59	2004	2017	Global Project Team Lead, Munich Re Group (prior to 2/1/10); Insurance Company Operations General Manager, Senior Vice P r e s i d e n t , Munich-American Risk Partners at Munich Reinsurance America, Inc. (prior to 12/1/06); President, Exchange Insurance Company and Regional Vice President at Selective Insurance Group (prior to 10/1/97)	89,253 (c)	0.2%
Robert B. Nicholson, III Age 49	2003	2017	President and Chief Executive Officer, Eastern Propane Corporation (1988 to present); President and Chief Executive Officer, Eastern	103,791	0.3%

Propane Energy Corporation (1993 to present); General Partner, Eastern Properties, L.P. (1999 to present); Managing Member, East Coast Development Associates, LLC (2004 to present); President and CEO, Landmark America Corporation (1988 to present)

Edward B. Deutsch Age 67	2013	2017	Managing Partner, McElroy, Deutsch, Mulvaney & Carpenter, LLP (law firm); Director of Somerset Hills Bancorp and Somerset Hills Bank (2003 to May 31, 2013)	162,423 (d)	0.4%
Thomas J. Marino Age 66	2013	2016	Co - CEO, CohnReznick LLP (accounting and consulting firm); Director of Somerset Hills Bancorp and Somerset Hills Bank (2003 to May 31, 2013)	24,511 (e)	0.1%

**TABLE II**  
**CONTINUING DIRECTORS**

NAME AND AGE	DIRECTOR SINCE	EXPIRATION OF TERM	BUSINESS EXPERIENCE	SHARES BENEFICIALLY OWNED AS OF February 1, 2014	
				NUMBER OF SHARES	PERCENT OF CLASS
Bruce D. Bohuny Age 45	2007	2015	President, Brooks Ltd. Builders, Franklin Lakes, NJ (10/1993 to present) (construction company)	65,952 (f)	0.2%
Mary Ann Deacon Age 62	1995	2015	Chairman, Lakeland Bancorp, Inc. and Lakeland Bank (5/24/11 to present); Vice Chairman, Lakeland Bancorp, Inc. and Lakeland Bank (1/14/10 to 5/23/2011); Secretary/Treasurer of Deacon Homes, Inc. (1980 to present) (real estate development), Sparta, NJ	370,068 (g)	1.0%
Joseph P. O Dowd Age 67	1998	2015	President and Owner of O Dowd Advertising of Montville, NJ (4/14/82 to present); partner of O Dowd Associates (real estate holding company) (7/1/86 to present) and O Dowd Realty (7/1/86 to present)	60,615 (h)	0.2%
Brian Flynn Age 54	2010	2015	Partner, O Connor Davies, LLP in Paramus, NJ (1981 to present); Director, TD Bank, N.A. (formerly TD Banknorth, N.A.) and TD Banknorth, Inc. and Member of Audit	41,911 (i)	0.1%

Committee (February 2006 to February 2007); Director and Member of Audit Committee, Hudson United Bancorp and Hudson United Bank (January 2004 to January 2006)

Robert E. McCracken	2004	2016	Sole managing member and owner (11/98 to present), REM, LLC (a real estate and investment company), Newton, NJ; owner/manager (1/00 to present), Wood Funeral Home, Branchville, NJ; owner/ manager (10/90 to present) , Smith - McCracken Funeral Home, Newton, NJ	162,070 (j)	0.4%
Age 56					



NAME AND AGE	DIRECTOR SINCE	EXPIRATION OF TERM	BUSINESS EXPERIENCE	SHARES BENEFICIALLY OWNED AS OF February 1, 2014	
				NUMBER OF SHARES	PERCENT OF CLASS
				Thomas J. Shara Age 56	2008
Stephen R. Tilton, Sr. Age 67	2001	2016	Chairman, Tilton Automotive LLC (5/08 to present); Chairman and Chief Executive Officer, Tilton Securities LLC, Upper Montclair, NJ (investment trader) (10/98 to present); Chairman and Chief Executive Officer, Chaumont Holdings, Inc. (real estate holding company) (9/92 to present); Chairman and Chief Executive Officer, Fletcher Holdings, LLC (commercial real estate company) (10/98 to present); Chairman, Lottery Hill Holdings,	749,108 (l)	2.1%

LLC (commercial real estate company) (3/04 to present)

Included in the amounts beneficially owned listed in the tables, the directors of Lakeland held the following interests:

- (a) Includes 85,437 shares held by Holly Bosma Living Trust of which Mr. and Mrs. Bosma are trustees; and 27,563 shares issuable upon the exercise of stock options.
- (b) Includes 50,504 shares owned jointly by Mr. Fredericks' wife; 132,831 shares held by Mark J. Fredericks as custodian for his children; 39,286 shares held by Mark J. Fredericks as Trustee of the Keil Oil Employee Profit Sharing Plan; 32,396 shares held by Mark J. Fredericks as Trustee for the Fredericks Fuel & Heating Service Profit Sharing Plan; and 22,396 shares held by Fredericks Fuel & Heating Service of which Mark Fredericks is President. Includes 206,777 shares pledged as security for loan obligations.
- (c) Includes 31,907 shares issuable upon the exercise of stock options.
- (d) Includes 29,157 shares held by the Edward B. Deutsch Holding Trust; 45,290 shares held in the name of Mr. Deutsch's wife; 26,860 shares held by the Edward B. Deutsch Short Term Trust UAD 3/30/2012; and 28,724 shares issuable upon the exercise of stock options.

- (e) Includes 8,926 shares owned jointly by Mr. Marino and his wife; 2,392 shares held in the name of Mr. Marino's wife; and 13,074 shares issuable upon the exercise of stock options.
- (f) Includes 5,745 shares held by the Bohuny Family LLC of which Mr. Bohuny is a passive member; 469 shares held by Mr. Bohuny's wife; 1,522 shares held by Mr. Bohuny as custodian for his children; and 28,940 shares issuable upon the exercise of stock options. Includes 7,499 shares pledged as security for loan obligations.
- (g) Includes 18,035 shares held in the name of Mary Ann Deacon's husband; 241,061 shares held in the name of the Philip Deacon Limited Partnership; and 91,598 shares held by the Deacon Home Inc. Profit Sharing Plan of which Ms. Deacon is a trustee.
- (h) Includes 58,346 shares owned jointly by Mr. O'Dowd and his wife.
- (i) Includes 22,050 shares issuable upon the exercise of stock options.
- (j) Includes 33 shares owned jointly by Mr. McCracken and his wife; 3,846 shares held as custodian for his children; 71,358 shares held by REM, LLC of which Mr. McCracken is sole managing member; 4,079 shares held by Smith McCracken Funeral Home Profit Sharing Plan of which Mr. McCracken is a trustee; 13,833 shares held by the McCracken Family Trust, of which Mr. McCracken is a co-trustee; 20,575 shares held in the Shirley McCracken Irrevocable Trust, of which Mr. McCracken is a Trustee; and 31,907 shares issuable upon the exercise of stock options.
- (k) Includes 118,702 shares owned jointly by Mr. Shara and his wife; 1,801 shares held as custodian for his son; 711 shares held by a family partnership of which Mr. Shara and his wife are general partners or trustees; and 41,718 shares subject to restricted stock awards that have not yet vested. These 41,718 shares vest as follows: 8,825 shares on January 30, 2015, 12,920 shares on February 1, 2015, 2,222 shares on January 25, 2016, 12,920 shares on February 1, 2016, 1,960 shares on January 30, 2017, and 2,871 shares on February 1, 2018. All of these restricted shares may be voted, unless forfeited.
- (l) Includes 30,165 shares held by Mr. Tilton's wife; 3,347 shares held by Chaumont Holdings, Inc. of which Mr. Tilton is Chairman and Chief Executive Officer; and 47,571 shares held by the Tilton Securities LLC Profit Sharing Plan of which Mr. Tilton is the beneficiary.

#### **Stock Ownership Guidelines for Directors; Adoption of Prospective Anti-Pledging Policy**

Although Lakeland's by-laws provide that the minimum value of Lakeland common stock to be held by directors is \$1,000, during 2010, the Board adopted Corporate Guidelines which established a goal that directors own or otherwise control, at a minimum, the number of shares or share equivalents of Lakeland Common Stock equal to approximately five times (5x) the director annual retainer fee, with new directors attaining that goal within five years. The Compensation Committee periodically reviews this stock ownership goal, and has determined that all directors have attained the prescribed goal.

In March 2013, Lakeland's Board adopted an anti-pledging policy that prohibits future pledging of Lakeland Common Stock by Lakeland's executive officers and directors. The policy does not require existing pledges to be unwound.

#### **Board Qualifications**

The Company's Board does not have a formal policy of considering diversity in identifying potential director candidates. However, since the Board believes that its membership should broadly reflect the banking community served by Lakeland, it has an informal practice of considering a nominee's age, race, ethnicity, national origin, gender, and geographic location in addition to such nominee's qualifications for Board service. See Nominating and Corporate Governance Committee Matters-Qualifications and the charter of such committee for a description of the qualifications the Company's directors must possess.

The Board considered the following attributes of its nominees and other directors in determining that each is qualified to serve as a director of the Company:

Mr. Bosma's 50 years of banking experience and the breadth of his knowledge in all areas of banking, including asset/liability management, loans and asset quality, retail banking and bank marketing, the audit function and overall bank operations, and his stature in the banking industry, led the Board to conclude that this individual should serve as a director of Lakeland. Mr. Bosma has an intimate knowledge of Lakeland and Lakeland Bank after serving as President and Chief Executive Officer from 1999 to April 2008. He has served in many prominent positions in the banking industry, including as chairman of the New Jersey Bankers Association and a member of the Community Bankers Committee of the American Bankers Association. Mr. Bosma has held leadership positions in numerous charitable organizations, including the Chilton Hospital Foundation, the Juvenile Diabetes Research Foundation, the Ramapo College Foundation and Paterson Habitat for Humanity.

Mr. Mark Fredericks' experience in managing three businesses in Lakeland's market area, his long service as a director of Lakeland and Lakeland Bank and his charitable work led the Board to conclude that this individual should serve as a director of Lakeland. His business experience includes serving as president of Fredericks Fuel and Heating Service, Keil Oil Inc. and F&B Trucking Inc. He is knowledgeable about the real estate industry as a result of his management of a number of real estate partnerships. He has served as a trustee (1998-2008) of Chilton Memorial Hospital (and served as a member of the finance committee during that time) and as president of the West Milford Education Foundation (1996 to present).

Ms. Hendershot has had significant experience in the leadership and management of various corporate entities and operations. She also has experience in managing and controlling risk-taking operations within the insurance industry, and in IT strategy and developments. This experience, as well as her educational background (including a degree in economics from Cornell University) led the Board to conclude that this individual should serve as a director of Lakeland.

Mr. Nicholson's business experience with Eastern Propane Corporation (including his serving as president and CEO of that entity since 1988), his educational background in finance and business management, his experience in buying and selling companies and commercial real estate properties and his reputation in the business and local community led the Board to conclude that this individual should serve as a director of Lakeland. In 2009, Mr. Nicholson was honored with the Outstanding Citizen of the Year award from Sparta Township and as a Distinguished Citizen by the Boy Scouts of America, Patriots Path Council. In March 2010, Mr. Nicholson received the Distinguished Alumni Award from Florida Southern College for outstanding service to his professions and community. Mr. Nicholson currently serves as the Immediate Past Chairman of the board of trustees for the Sussex County New Jersey Chamber of Commerce.

Mr. Deutsch joined the Lakeland and Lakeland Bank Boards of Directors upon the closing of the mergers with Somerset Hills Bancorp and Somerset Hills Bank on May 31, 2013. He is the founding and Managing Partner of McElroy, Deutsch, Mulvaney & Carpenter, LLP, New Jersey's largest law firm with more than 300 attorneys. Mr. Deutsch is a civil trial attorney, certified by the Supreme Court of New Jersey and has been a fellow of the American College of Trial Lawyers since 1992. He was the founder and Chairman of the Board of Directors of Somerset Hills Bancorp and Somerset Hills Bank. He was recently ranked number 10 on the NJBIZ Power 50 Banking List of the 50 most powerful people in N.J. banking and number 47 on the NJBIZ Power 100 list. He is consistently ranked by PolitickerNJ and NJBIZ as one of the top 100 most influential people doing business in N.J. He is also consistently listed as a top lawyer by Best Lawyers, the oldest and most highly respected peer review guide to the legal profession worldwide. Mr. Deutsch has served on a number of other boards of directors and trustees, and is active in numerous charitable endeavors.



Mr. Marino joined the Lakeland and Lakeland Bank Boards of Directors upon the closing of the mergers with Somerset Hills Bancorp and Somerset Hills Bank on May 31, 2013. He had previously served as a director of Somerset Hills Bancorp and Somerset Hills Bank. He is a Partner and Co-CEO of CohnReznick LLP, which is headquartered in New York and among the 10<sup>th</sup> largest accounting and consulting firms in the United States. Mr. Marino brings his more than 40 years of experience as a CPA to the Lakeland board. Mr. Marino has expertise in the areas of real estate, construction, private companies and publicly traded companies. His membership in professional associations and his advisory roles in local community service organizations and foundations further enable him to make valuable contributions to the board

Mr. Bohuny's over 20 years of experience in the real estate business, particularly land development and building, and his background in the equity and fixed income markets, led the Board to conclude that this individual should serve as a director of Lakeland.

Ms. Deacon's over 30 years of extensive experience in the real estate development process, building contracting, property management and sales, her service to a number of community associations, her reputation in the broader business community as well as in the local real estate markets and her dedication to Lakeland and Lakeland Bank led the Board to conclude that this individual should serve as a director of Lakeland. Ms. Deacon is responsible for the planning and administration of numerous operating companies, three condominium associations and an equipment leasing entity. Her past participation in the state and local real estate associations includes leadership positions and committee experience in ethics, professional standards, strategic planning and governance. Ms. Deacon is committed to enhancing her professional participation as a director of Lakeland and frequently attends continuing education seminars and institutes applicable to directors of banks and bank holding companies. During her 18 year tenure at Lakeland, she has served on every committee of the Board. In January 2010, she was elected Vice Chairman of the Board of Lakeland and Lakeland Bank and in May 2011, she was elected Chairman of the Board of Lakeland and Lakeland Bank.

Mr. O'Dowd's knowledge of the banking industry, gained through his service as a director of Lakeland for 16 years and for the 12 years prior to his joining Lakeland, as a director of Metropolitan State Bank, his experience and reputation in the business community and his civic service led the Board to conclude that this individual should serve as a director of Lakeland. He is president of his own advertising company, a partner in two real estate holding companies and the former owner and operator of a food manufacturing business. He is the director of the Montville Chamber of Commerce, a past president of the Montville Kiwanis Club and has served as Deputy Mayor and on the Planning Board of Montville Township.

Mr. Flynn is a Partner at O'Connor Davies, LLP, one of the largest regional accounting firms in the tri-state area. He received his Bachelor of Science Degree, cum laude, from Monmouth College. With over 30 years of experience as a practicing CPA, Mr. Flynn brings in depth knowledge of generally accepted accounting principles and auditing standards to our Board. He has worked with audit committees and boards of directors in the past, including previously serving on the Boards of TD Banknorth, Inc. and Hudson United Bancorp, and provides Lakeland's Board of Directors and its Audit Committee with extensive experience in auditing and preparation of financial statements. For these reasons, the Board has concluded that this individual should serve as a director of Lakeland.

Mr. McCracken's knowledge of the banking industry, his over 15 years of service on the boards of various banks (including serving on Lakeland's Board since 2004 and Lakeland Bank's Board since 2008), his business experience as an owner and operator of various businesses and real estate within Lakeland's footprint, his reputation in the community as a lifelong resident within Lakeland's footprint, his many long standing relationships with Lakeland's non-institutional shareholder base and his involvement in many non-profit and local charities (including serving as former Board Chairman of Newton Memorial Hospital, now known as the Newton Medical Center, and on the Atlantic Health



System Board, as well as on the boards of other local organizations) led the Board to conclude that this individual should serve as a director of Lakeland.

Mr. Shara's over 30 years of experience in the banking industry, his stature and reputation in the banking and local community, and his service as President and CEO of Lakeland and Lakeland Bank since April 2008 led the Board to conclude that this individual should serve as a director of Lakeland. His knowledge and understanding of all facets of the business of banking, the leadership he has demonstrated at Lakeland and at prior institutions and his involvement in charitable and trade organizations make him extremely valuable as a Board member. Mr. Shara serves as a member of the Federal Reserve Bank of New York's Community Institutions Advisory Counsel, on the Board of Directors of the Commerce and Industry Association of New Jersey, the Board of Trustees of the Boys and Girls Club of Paterson and Passaic, New Jersey and the Board of Trustees of the Chilton Hospital Foundation. He also serves on the Board of Governors of the Ramapo College Foundation. Mr. Shara earned a Master's Degree in Business Administration as well as a Bachelor of Science Degree from Fairleigh Dickinson University.

Mr. Tilton's extensive and diverse experience in the financial markets and knowledge of financial instruments, including his current positions as Chairman and Chief Executive Officer of Tilton Securities, LLC, led the Board to conclude that this individual should serve as a director of Lakeland. This experience also includes serving as Chairman of GovPx, a company organized by dealers and brokers in 1990, which provides financial prices on all U.S. Treasury securities, including MBS securities, playing a significant role in establishing a clearing house for all government securities trading globally, his expertise on interest rates and derivative products and his involvement in establishing various federal funds markets between 1967 and 1985. Additionally, Mr. Tilton serves as president of Tilton Automotive Group, which consists of two automotive dealerships in northern New Jersey.

### Security Ownership of Management

The following table sets forth information regarding the beneficial ownership of Lakeland's Common Stock as of February 1, 2014 by (i) the four Named Executive Officers (as defined below under "Executive Compensation") who are not directors of Lakeland and (ii) all current executive officers and directors of Lakeland as a group. Unless otherwise indicated, each of the named shareholders possesses sole voting and investment power with respect to the shares beneficially owned. For information concerning the beneficial ownership of Lakeland's Common Stock by directors and nominees for director, see the tables above under "Election of Directors". Shares covered by stock options are included in the table below only to the extent that such options may be exercised by April 2, 2014.

<u>Shareholder</u>	Shares	
	Number	Beneficially Owned as of February 1, 2014 Percent
Joseph F. Hurley	58,147 (A)	.2%
Robert A. Vandenberg	136,952 (B)	.4%
Ronald E. Schwarz	37,806 (C)	.1%
Louis E. Luddecke	87,890 (D)	.2%
All current executive officers and directors as a group (22 persons)	3,256,813 (E)	8.9%



(A) Includes 24,918 shares issuable upon the exercise of stock options. Also includes 12,943 shares subject to restricted stock awards that have not yet vested. The 12,943 shares underlying Mr. Hurley's restricted stock awards vest as follows: 672 shares vest on January 26, 2015, 3,741 shares vest on January 30, 2015, 3,019 shares vest on February 1, 2015, 991 shares vest on January 25, 2016, 3,019 shares vest on February 1, 2016, 831 shares vest on January 30, 2017 and 670 shares vest on February 1, 2018.

(B) Includes 3,595 shares held jointly with his wife; 19,122 shares which have been allocated to Mr. Vandenberg in the ESOP; and 24,918 shares issuable upon the exercise of stock options. Also includes 23,084 shares subject to restricted stock awards that have not yet vested. The 23,084 shares underlying Mr. Vandenberg's restricted stock awards vest as follows: 446 shares vest on January 26, 2015, 4,946 shares vest on January 30, 2015, 6,856 shares vest on February 1, 2015, 1,359 shares vest on January 25, 2016, 6,856 shares vest on February 1, 2016, 1,098 shares vest on January 30, 2017 and 1,523 shares vest on February 1, 2018. Includes 36,947 shares pledged as security for loan obligations.

(C) Includes 9,586 shares subject to restricted stock awards that have not yet vested. The 9,586 shares underlying Mr. Schwarz's restricted stock awards vest as follows: 382 shares vest on January 26, 2015, 2,775 shares vest on January 30, 2015, 2,282 shares vest on February 1, 2015, 740 shares vest on January 25, 2016, 2,282 shares vest on February 1, 2016, 617 shares vest on January 30, 2017 and 508 shares vest on February 1, 2018.

(D) Includes eight shares held by Mr. Luddecke's wife and 24,918 shares issuable upon the exercise of stock options. Also includes 9,471 shares subject to restricted stock awards that have not yet vested. The 9,471 shares underlying Mr. Luddecke's restricted stock awards vest as follows: 572 shares vest on January 26, 2015, 2,721 shares vest on January 30, 2015, 2,178 shares vest on February 1, 2015, 734 shares vest on January 25, 2016, 2,178 shares vest on February 1, 2016, 605 shares vest on January 30, 2017 and 483 shares vest on February 1, 2018.

(E) Includes an aggregate of 347,463 shares issuable upon the exercise of stock options, 126,671 shares subject to restricted stock awards that have not yet vested; and 19,122 shares which have been allocated under the ESOP.

#### **Stock Ownership Guidelines for Executive Officers**

During 2010, the Board, through the Compensation Committee, adopted executive officer stock ownership guidelines which established certain goals that current executive officers own or otherwise control, at a minimum, the following number of shares or share equivalents of Company stock within the next three years: for the President and Chief Executive Officer, 100,000 shares; for Senior Executive Vice Presidents, 50,000 shares; and for Executive Vice Presidents, 25,000 shares. New executive officers would be expected to attain the prescribed goals within three years from the date of promotion or joining Lakeland. The Compensation Committee periodically reviews these stock ownership goals, and has determined that all executive officers are in compliance with the prescribed guidelines.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder require Lakeland's directors, executive officers and 10% shareholders to file with the SEC certain reports regarding such persons' ownership of Lakeland's securities. Lakeland is required to disclose any failures to file such reports on a timely basis. Based solely upon a review of the copies of the forms or information furnished to Lakeland, Lakeland believes that during 2013, all filing requirements applicable to its directors and officers were satisfied on a timely basis except that Mr. Deutsch failed to report on a timely basis a sale by his wife on December 3, 2013. The failure to file on a timely basis was inadvertent, and the filing was made promptly after the failure to file was noted.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Overview

The following discussion provides an overview and analysis of the Compensation Committee's philosophy and objectives in designing the Company's compensation programs as well as the compensation determinations relating to our named executive officers, or NEOs. For 2013, our NEOs were:

Name	Title
Thomas J. Shara	President and Chief Executive Officer of Lakeland Bancorp and Lakeland Bank
Joseph F. Hurley	Executive Vice President and Chief Financial Officer of Lakeland Bancorp and Lakeland Bank
Robert A. Vandenberg	Senior Executive Vice President and Chief Operating Officer of Lakeland Bancorp and Regional President of Lakeland Bank
Ronald E. Schwarz	Executive Vice President and Chief Retail Officer of Lakeland Bancorp and Lakeland Bank
Louis E. Luddecke	Executive Vice President and Chief Operations Officer of Lakeland Bancorp and Lakeland Bank

This discussion should be read together with the compensation tables for our NEOs, which can be found following this discussion.

#### Executive Summary

##### *Financial and Strategic Highlights*

Lakeland completed another successful year in 2013 from both a financial performance and growth perspective. We expanded through the completed acquisition of Somerset Hills Bancorp in May 2013, which increased our total assets to \$3.3 billion. Our earnings and capital ended the year at record levels, asset quality continued to improve, and net interest margin was stable. As a result of one-time merger-related expenses, 2013 reported results were down slightly from 2012. However, excluding the acquisition and integration costs, our financial performance was at or above 2012 levels.

Financial highlights include:

Net income available to common shareholders increased \$3.8 million or 18% to \$25.0 million in 2013. Included in 2013 earnings was \$2.8 million in expenses related to the merger with Somerset Hills Bancorp. Exclusive of these expenses, net income was \$27.1 million and fully diluted earnings per share for 2013 was

\$0.81 per common share, a 7% increase over the \$0.76 reported in 2012.

The Somerset Hills acquisition, which was consummated on May 31, 2013, added six full service branches, \$356.1 million in total assets, \$10.4 million in investment securities, \$246.5 million in loans (including \$2.5 million in residential mortgages held for sale), and \$311.8 million in deposits (\$80.8 million in non-interest bearing demand deposits and \$231.0 million in interest-bearing deposits) at fair value.

Excluding the loans acquired in the Somerset Hills acquisition, total loans increased \$79.2 million, or 4%, from 2012 to 2013. Commercial Real Estate Loans increased \$120.1 million, or 11%, from December 31, 2012 to December 31, 2013 excluding the impact of the Somerset Hills loans.

Non-performing assets declined \$11.1 million, or 39%, to \$17.5 million at December 31, 2013 compared to December 31, 2012. The Allowance for Loan and Lease Losses at December 31, 2013 was 176% of non-accruing loans compared to 103% at December 31, 2012.

As a result of improving loan quality, the provision for loan and lease losses was reduced from \$14.9 million in 2012 to \$9.3 million in 2013.

The Company's net interest margin at 3.69% for 2013 remained stable throughout the year and compared to 3.70% in 2012.

During 2013, the Company acquired and extinguished \$9.0 million of Lakeland Bancorp Capital Trust I debentures and recorded a \$1.2 million pre-tax gain on extinguishment of debt.

#### *Key NEO Compensation Decisions*

Our compensation decisions for 2013 reflected our strong performance during the year as well as the successful completion of the Somerset Hills acquisition and integration. In addition, the Compensation Committee significantly redesigned our existing annual and long-term incentive plans to bring award opportunities more in line with market practice while enhancing the link between compensation and corporate, as well as individual, performance.

*Salaries:* For each of our NEOs other than Mr. Shara, base salaries increased three to four percent in recognition of our solid performance in 2012 and general market movement in executive compensation. Mr. Shara's base salary increased nine percent as a reflection of his leadership and Lakeland's continuing growth and success.

*Cash Incentives:* The Company generally performed above targeted performance levels in 2013 and achieved its performance triggers relating to asset quality and capital levels. In addition, our NEOs achieved a majority of their individual goals at or above target performance level. As a result, cash incentive payouts under our 2013 Annual Incentive Plan were above target for each of our NEOs, ranging from 103% to 107% of target.

*Long-Term Incentives for 2012 performance:* We granted restricted stock to our NEOs in early 2013 based on Company and individual performance in 2012. Award values were determined based on formalized corporate performance goals and the Compensation Committee's assessment of individual performance. Based on these factors, executives received equity ranging from 112% to 114% of targeted payout levels.

*Long-Term Incentives for 2013 performance:* We granted restricted stock units to our NEOs in early 2014 based on Company and individual performance in 2013. Fifty percent of the total award opportunity was determined based on a formulaic assessment of corporate performance, while the remaining 50% of the award opportunity was determined based on the Committee's subjective assessment of corporate and individual performance. As a result of these considerations, restricted stock unit awards ranged from 99% to 104% of target.

#### *Say on Pay Vote*

The Compensation Committee evaluates the Company's executive compensation programs in light of market conditions, shareholder views, and governance considerations, and makes changes as appropriate. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Company is required to permit a separate non-binding shareholder vote to approve the compensation

of its executives. The Company held this advisory say-on-pay vote at the 2013 annual shareholders meeting. Shareholders overwhelmingly approved the compensation of the executives, with 96% of shareholder votes cast in favor of the say-on-pay proposal.

The Company considered the number of votes cast in favor of the 2013 say-on-pay proposal to be a positive endorsement of its current pay practices and believes the vote result is evidence that its compensation policies and decisions have been in the best interests of shareholders. The Company will continue to monitor the level of support for each say-on-pay proposal in the future and will consider this alongside other factors as it makes future executive compensation decisions.

### **Executive Compensation Philosophy**

Our compensation program is designed to attract highly qualified individuals, retain those individuals in a competitive marketplace for executive talent and reward performance in a manner that maximizes our corporate performance while ensuring that these programs do not encourage unnecessary or excessive risks that threaten the value of our Company. We seek to align individual executives' performance and their long-term interests with our long-term strategic business objectives and shareholder value. We believe that the executive compensation program that we provide fulfills these objectives and motivates key executives to remain with Lakeland for productive careers.

Our compensation philosophy is determined by our Board of Directors based upon the recommendations of the Compensation Committee, which is comprised solely of independent directors. The Compensation Committee annually reviews our mix of short-term versus long-term incentives and seeks a reasonable balance of those incentives. The guiding principle of our compensation philosophy is that the compensation of our executive officers should be based primarily on the financial and strategic performance of Lakeland, and partially on individual performance. While this pay-for-performance philosophy requires the Compensation Committee to first consider Lakeland's profitability, the Committee does not intend to reward unnecessary or excessive risk taking. These principles are reflected in the specific elements of our compensation program, particularly our annual and long-term incentive programs, as described below.

### **Role of the Compensation Committee**

The Compensation Committee is responsible for the design, implementation and administration of the compensation programs for our executive officers and directors. The Compensation Committee completed the following actions relative to 2013 executive compensation:

Reviewed and approved base salary increases