

Lakeland bank

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BUSINESS PARTNERS QUARTERLY® • THIRD QUARTER, 2002

PRESIDENT'S MESSAGE



WE ARE PLEASED TO REPORT THAT THE SECOND QUARTER OF 2002 WAS another period of record earnings and significant growth for Lakeland Bancorp. Net income for the second quarter 2002 was \$3.5 million, up 32% from the same period last year. Diluted earnings per share improved to \$0.25 from \$0.19 per share. Return on Average Assets was 1.28%, and Return on Average Equity was 15.94%. For the first half of the year, net income increased 32% to \$6.8 million. On a year-to-year basis, Total Assets increased 17% to \$1.13 billion as of June 30, 2002.

Lakeland Bancorp also announced an increase of its regular quarterly cash dividend to \$0.095 per share, a 5.6% increase, payable August 15, 2002, to shareholders of record July 31, 2002. Lakeland's stock price continues to perform well, moving up 36% to \$22.12 on June 30, 2002, from \$16.30 at year-end 2001.

In the second quarter we introduced Lakeland Checking Advantage, which offers value-added benefits including increased buying power, security, and convenience to checking account customers. We also introduced our new Step-Up CD, which pays steadily increasing interest rates even in today's declining interest rate environment.

Also in the second quarter, we relocated our Sussex/Wantage office to a larger, more modern facility. With three drive-ups and two ATMs, this facility is tailored for the convenience of our customers. In August we opened our 34th office in Boonton.

We appreciate the loyal support of our customers, shareholders, directors, and employees.

Very Truly Yours,

Roger Bosma, President and Chief Executive Officer

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bank**

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Earning a Reputation for Ethical Business



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"I cannot think of a time when business over all has been held in less repute."

—Henry M. Paulson Jr., chairman and chief executive of Goldman Sachs, quoted in *The New York Times* (June 6, 2002)

How does one save or restore the reputation of one's business? There's no quick fix. But while waiting to see if various types of mandated reforms materialize, business leaders can address ethics within their organizations now.

Take Care with Codes of Conduct

Instituting a code of ethics is often the first move on the ethics front. In response to scandals about foreign sweatshops, a number of U.S. retailers have adopted codes of conduct that cover how they will source their goods and raw materials. Other businesses require employees to sign a code of ethics as a condition of employment. And certain professions have professional codes of ethics. However, as Arthur Andersen's tale teaches, codes alone do little to promote the desired behavior unless they have monitoring and enforcement teeth, so think about how you will manage your code before drafting a document that everyone blindly signs and then forgets.

Educate Everyone

Training is an essential component of any business ethics effort. Several business schools offer ethics courses, and enrollment in some of them increased this year. But although such courses may raise awareness of ethical policies and practices, they can't guarantee that graduates will behave appropriately once they're on Wall Street or Main Street.

One type of education may be more effective than others: This summer, executive students at the University of Maryland took a field trip to visit three inmates who

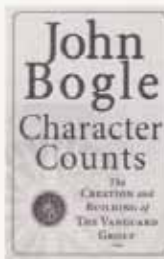
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IN REVIEW

Character Counts

"We have made a difference in the marketplace," John Bogle asserts in a speech celebrating the 25th anniversary of the Vanguard Group. "But, most important of all to me, we have built a name and reputation that is second to none in serving investors." This address comes at the end of *Character Counts: The Creation and Building of the Vanguard Group* (McGraw-Hill, 2002), a book in which Bogle presents a history of the company he founded by way of 42 speeches made to his "crew," as he calls Vanguard employees.




It's an unusual—and unusually honest—approach to a corporate history, because you read about the year-by-year problems as well as the successes. Although the format becomes tedious if one reads the book at just a couple sittings, one can't help but be impressed by the constancy with which Bogle steered his ship, the *Vanguard* (named after Lord Horatio Nelson's flagship), through bull and bear markets. Luckily, Bogle's addresses are more engaging than most of today's jargon-encrusted CEO speeches. Numerous quotations from poets, statesmen, the Bible, and contemporaries not only show how well-read he is, they also reveal a man who draws inspiration from other writers and thinkers.

Six section introductions provide a retrospective of each period in the company's growth. Most speeches announce Vanguard's latest numbers, but the underlying theme—the corporation's rallying cry—is Vanguard's commitment to serving investors. In 1989, Bogle says, "this reputation will be far more important in determining our success during the nineties than all of the dry statistics—however imposing—that have defined our success during the eighties." He even attributes Vanguard's business success to that focus on the client, explaining that he didn't want the company's growth to be "forced, driven by opportunism or excess or avarice, but organic, the natural result of serving investors effectively."

Vanguard is famous for several innovations in the mutual fund industry, most notably, offering the first index fund and a no-load distribution system.

In 1990, Bogle notes that Vanguard is "the only mutual fund management company that is owned by the shareholders of its mutual funds, rather than by an external corporation with its own set of shareholders." In 1993, with fatherly pride, he quotes Harvard Business School's Michael E. Porter, who depicts Vanguard as the only firm in its industry that has "differentiated itself from the pack." The book provides insight into how and why Bogle achieved that distinction.

Though he possesses uncommon savvy about financial markets, it's clear that Bogle also deployed integrity and candor as a business strategy. At the dedication of a new headquarters building, he says, "We believe that personal integrity and professional conduct are not only basic standards but, in the long run, they are the only sound basis on which to build a durable business." And when he introduces his successor in 1995, he emphasizes the man's character even above his business acumen: "I have a worthy successor in John J. Brennan, who personifies the qualities of leadership, intelligence, dedication, remarkable diligence, and, that most important of all qualities, integrity of character."

For leaders in any industry, *Character Counts* offers a message that is both strategic and inspirational: The best way to prepare for uncertainty is "to rely not so much upon the outer supports of plans, programs, and policies, but upon the inner strengths of character—resiliency and resourcefulness, discipline and cooperation, endurance and courage, and, perhaps above all, faith and hope." 

Earning a Reputation for Ethical Business

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are doing time in a minimum security federal prison for white-collar crime.

But most businesses can't afford to send all their managers to executive MBA programs that include a "scared straight" component. For them, in-house training can be an affordable alternative.

The first step is to have top executives, board members, and mid-level managers reach consensus on where ethical lines get drawn. Define what you mean by "aggressive accounting," "aggressive selling," or "aggressive therapy." Then communicate those definitions to all stakeholders, including shareholders, staff, vendors, and customers. To reinforce the message, develop case studies for internal discussion, and create a task force to serve as a sounding board for employees facing ethical dilemmas. Also be sure to make ethical business practices a component of everyone's performance review.


One caveat: Even with a code of ethics or ethics training, an organization can send conflicting messages if sales targets or other business goals are difficult to meet without straying across ethical lines.

Lead in the Right Direction

Owners and executives who abuse expense accounts, accept kickbacks, or lie about their organization's performance teach others how to break the rules. Executives who set a course of straight dealing influence those whom they supervise to follow in the same direction.

Hire Ethical People

If you want an ethical organization, employ ethical people. When hiring, ask situational questions: "Tell me about how you handled an ethical dilemma that you faced in a previous job." "What would you do if a salesperson offered you an all-expenses-paid golf vacation for two if you signed a contract with his company rather than a competitor's?" Watch body language as carefully as you listen to how a job candidate answers such questions.

Ultimately—and contrary to Dilbert's claim—businesses can't be ethical, but people can. 

MARKETING MESSAGES THAT HIT THEIR MARK

WHETHER YOU OUTSOURCE ADVERTISING AND MARKETING COPY OR WRITE IT YOURSELF, THESE RECOMMENDATIONS CAN HELP ENSURE THAT YOUR MESSAGE REACHES ITS TARGET.

KNOW YOUR AUDIENCE. This is the prime directive for business-to-business and consumer marketing. If you don't know who you're talking to, and how to talk to them, they won't hear you. All the standard demographic details come into play here, but beware of stereotyping or generalizing. Personalize your audience when possible. Steven, Dell's "Dude guy," is a great example. Consumers respond to Steven—and, most important, buy computers—because he conveys Dell's message in a manner that even those well beyond the target demographic identify with.

CHOOSE ONE TARGET FOR EACH MARKETING PIECE. To avoid diluting your message, limit yourself to one purpose, whether that's making a sale, building awareness, or repositioning a brand.

SING AIDA. This mnemonic stands for Attention, Interest, Desire, and Action, which are the four stages you'll want to lead your audience through. Typically, the headline and graphic (if any) do the work of attracting attention. A headline conveying an irresistible offer is one of the most effective ways to do this. Other effective headline strategies include making a promise, providing interesting new information, asking a question your target audience will want answered, quoting a testimonial, or telling readers what you want them to do. Use the body copy to develop interest and a desire to buy. Features and benefits are your raw material for this task (see the next paragraph). Wrap it all up with a call to action, whether that's telling readers to call a toll-free number and place an order, or to visit a Web site where they can learn more about your company.

SELL BENEFITS RATHER THAN JUST FEATURES. Features are static; benefits are dynamic. A feature is part of your product or service; a benefit is the result of using that product or service. You may be enamored with your product's features, but your audience cares more about its benefits, because they answer the question, "What's in it for me?" The best copy marries features and benefits so the emphasis is on benefits, while features support the benefit claims you make. Here's an

example: "You'll never have to replace parts (benefit), thanks to the gizmo's friction-free design (feature)."

DEVELOP A CLEAR CONCEPT. A creative concept can help you cut through the marketing noise by sending an "instant message." The best marketing pieces grab attention by creating synergy between the artwork and headline. That's what FedEx does in a print ad that consists of its logo (serving as headline) surrounded by passport stamps from 10 countries. The two lines of body copy below begin, "Yeah . . . we go there."

STAY POSITIVE. Don't disparage the competition. Don't bring up bad news unless you're selling something that turns it into good news. Don't use too many negative words—such as can't, won't, doesn't, no, not, and impossible—even if your message is a positive one. Why? Did you notice your reaction to all those don'ts? They stop action, have negative connotations, and sound like the voice of unwelcome authority.

BALANCE WORDS AND WHITE SPACE. Most people don't like to read marketing copy, whether it reaches their eyeballs as direct mail, ads in the newspaper, or banners in their Internet browser. So make your copy easy to read. Be brief.

Use simple words. Keep paragraphs short. Better yet, limit yourself to one powerful paragraph. An information-rich headline alone can suffice in some cases. Use white space to set off the most important parts of the piece—typically the headline and the call to action.

YOU MAY BE ENAMORED WITH YOUR PRODUCT'S FEATURES, BUT YOUR AUDIENCE CARES MORE ABOUT ITS BENEFITS, BECAUSE THEY ANSWER THE QUESTION, "WHAT'S IN IT FOR ME?"

KEEP IT CLEAN. Hire an editor who specializes in marketing copy to check grammar, spelling, and punctuation. The "rules" are slightly different for marketing communications than for other business writing. For example, contractions are OK for many markets; carefully crafted sentence fragments can be useful in varying the pace of your prose; and numerals, especially in headlines, can be easier to understand than spelled-out numbers.

READ IT ALOUD. Whether or not you hire an editor, read the copy out loud. Your ear will help you determine where copy is long-winded or awkwardly phrased. Reading aloud also slows you down, which means you're more likely to see typos, errors of fact, and other glitches that could give you a black eye. 