

LAKELAND FINANCIAL CORP

Form 10-Q

August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	0-11487	35-1559596
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of Principal Executive Offices)(Zip Code)

(574) 267-6144
(Registrant's Telephone Number, Including Area Code)

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, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for 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):

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Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) 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

Number of shares of common stock outstanding at July 31, 2013: 16,449,756

LAKELAND FINANCIAL CORPORATION
Form 10-Q Quarterly Report
Table of Contents

PART I.

	Page Number
<u>Item 1.</u> <u>Financial Statements</u>	1
<u>Item 2.</u> <u>Management's Discussion and Analysis of</u>	-
<u> </u> <u>Financial Condition and Results of Operations</u>	51
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	68
<u>Item 4.</u> <u>Controls and Procedures</u>	68

PART II.

	Page Number
<u>Item 1.</u> <u>Legal Proceedings</u>	69
<u>Item 1A.</u> <u>Risk Factors</u>	69
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	69
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	69
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	70
<u>Item 5.</u> <u>Other Information</u>	70
<u>Item 6.</u> <u>Exhibits</u>	70
<u>Form 10-Q</u> <u>Signature Page</u>	71

PART I
LAKELAND FINANCIAL CORPORATION
ITEM 1 – FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of June 30, 2013 and December 31, 2012
(in thousands except for share data)

(Page 1 of 2)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$ 55,814	\$ 156,666
Short-term investments	7,741	75,571
Total cash and cash equivalents	63,555	232,237
Securities available for sale (carried at fair value)	472,976	467,021
Real estate mortgage loans held for sale	5,486	9,452
Loans, net of allowance for loan losses of \$50,635 and \$51,445	2,284,065	2,206,075
Land, premises and equipment, net	35,346	34,840
Bank owned life insurance	62,008	61,112
Accrued income receivable	9,214	8,491
Goodwill	4,970	4,970
Other intangible assets	24	47
Other assets	37,818	39,899
Total assets	\$ 2,975,462	\$ 3,064,144

(continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of June 30, 2013 and December 31, 2012
(in thousands except for share data)

(Page 2 of 2)

	June 30, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
LIABILITIES		
Noninterest bearing deposits	\$ 397,610	\$ 407,926
Interest bearing deposits	2,085,882	2,173,830
Total deposits	2,483,492	2,581,756
Short-term borrowings		
Federal funds purchased	37,000	0
Securities sold under agreements to repurchase	102,655	121,883
Total short-term borrowings	139,655	121,883
Accrued expenses payable	11,685	15,321
Other liabilities	2,057	1,390
Long-term borrowings	37	15,038
Subordinated debentures	30,928	30,928
Total liabilities	2,667,854	2,766,316
EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
16,431,881 shares issued and 16,340,697 outstanding as of June 30, 2013		
16,377,247 shares issued and 16,290,136 outstanding as of December 31, 2012	90,921	90,039
Retained earnings	219,002	203,654
Accumulated other comprehensive income (loss)	(625)	5,689
Treasury stock, at cost (2013 - 91,184 shares, 2012 - 87,111 shares)	(1,779)	(1,643)
Total stockholders' equity	307,519	297,739
Noncontrolling interest	89	89
Total equity	307,608	297,828
Total liabilities and equity	\$ 2,975,462	\$ 3,064,144

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 2013 and 2012
(in thousands except for share and per share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	\$ 24,388	\$ 25,795	\$ 48,874	\$ 51,986
Tax exempt	102	112	204	224
Interest and dividends on securities				
Taxable	1,152	2,627	2,097	5,391
Tax exempt	770	699	1,505	1,396
Interest on short-term investments	12	16	36	27
Total interest income	26,424	29,249	52,716	59,024
Interest on deposits	4,139	6,602	8,776	13,363
Interest on borrowings				
Short-term	112	104	203	217
Long-term	261	395	568	799
Total interest expense	4,512	7,101	9,547	14,379
NET INTEREST INCOME	21,912	22,148	43,169	44,645
Provision for loan losses	0	500	0	1,299
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES				
	21,912	21,648	43,169	43,346
NONINTEREST INCOME				
Wealth advisory fees	971	897	1,915	1,811
Investment brokerage fees	997	940	1,946	1,740
Service charges on deposit accounts	2,252	2,011	4,223	3,892
Loan, insurance and service fees	1,812	1,452	3,268	2,641
Merchant card fee income	293	289	569	605
Other income	706	280	2,081	945
Mortgage banking income	538	392	1,047	984
Net securities gains	0	0	1	3

Other than temporary impairment loss on available-for-sale securities:				
Total impairment losses recognized on securities	0	(475)	0	(985)
Loss recognized in other comprehensive income	0	26	0	26
Net impairment loss recognized in earnings	0	(449)	0	(959)
Total noninterest income	7,569	5,812	15,050	11,662

(continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 2013 and 2012
(in thousands except for share and per share data)

(Unaudited)

(Page 2 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
NONINTEREST EXPENSE				
Salaries and employee benefits	8,891	8,363	18,056	17,438
Net occupancy expense	873	831	1,719	1,716
Equipment costs	654	596	1,263	1,213
Data processing fees and supplies	1,379	1,060	2,672	1,901
Other expense	3,294	3,399	6,274	6,661
Total noninterest expense	15,091	14,249	29,984	28,929
INCOME BEFORE INCOME TAX EXPENSE				
	14,390	13,211	28,235	26,079
Income tax expense	5,154	4,392	9,753	8,634
NET INCOME	\$ 9,236	\$ 8,819	\$ 18,482	\$ 17,445
BASIC WEIGHTED AVERAGE COMMON SHARES				
	16,425,382	16,324,928	16,411,695	16,298,981
BASIC EARNINGS PER COMMON SHARE				
	\$ 0.56	\$ 0.54	\$ 1.13	\$ 1.07
DILUTED WEIGHTED AVERAGE COMMON SHARES				
	16,546,547	16,453,561	16,524,250	16,450,832
DILUTED EARNINGS PER COMMON SHARE				
	\$ 0.56	\$ 0.54	\$ 1.12	\$ 1.06

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three Months and Six Months Ended June 30, 2013 and 2012
(in thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	\$ 9,236	\$ 8,819	\$ 18,482	\$ 17,445
Other comprehensive income (loss)				
Change in securities available for sale:				
Unrealized holding gain (loss) on securities available for sale				
arising during the period	(9,358)	(181)	(10,399)	1,069
Reclassification adjustment for (gains) included in net income	0	0	(1)	(3)
Reclassification adjustment for other than temporary impairment	0	449	0	959
Net securities gain (loss) activity during the period	(9,358)	268	(10,400)	2,025
Tax effect	3,705	(58)	4,104	(804)
Net of tax amount	(5,653)	210	(6,296)	1,221
Defined benefit pension plans:				
Net gain (loss) on defined benefit pension plans	0	0	(151)	110
Amortization of net actuarial loss	66	66	121	110
Net gain (loss) activity during the period	66	66	(30)	220
Tax effect	(26)	(26)	12	(89)
Net of tax amount	40	40	(18)	131
Total other comprehensive income (loss), net of tax	(5,613)	250	(6,314)	1,352
Comprehensive income	\$ 3,623	\$ 9,069	\$ 12,168	\$ 18,797

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

5

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2013 and 2012
(in thousands except for share and per share data)
(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	\$ 87,380	\$ 181,903	\$ 5,139	\$ (1,222)	\$ 273,200
Net income		17,445			17,445
Other comprehensive income (loss), net of tax			1,352		1,352
Common stock cash dividends declared, \$0.325 per share		(5,302)			(5,302)
Treasury shares purchased under deferred directors' plan (7,204 shares)	186			(186)	0
Stock activity under stock compensation plans (114,928 shares)	185				185
Stock compensation expense	689				689
Balance at June 30, 2012	\$ 88,440	\$ 194,046	\$ 6,491	\$ (1,408)	\$ 287,569
Balance at January 1, 2013	\$ 90,039	\$ 203,654	\$ 5,689	\$ (1,643)	\$ 297,739
Net income		18,482			18,482
Other comprehensive income (loss), net of tax			(6,314)		(6,314)
Common stock cash dividends declared, \$0.19 per share		(3,134)			(3,134)
Treasury shares purchased under deferred directors' plan (7,091 shares)	190			(190)	0
Treasury stock sold and distributed under deferred directors' plan (3,018 shares)	(54)			54	0
Stock activity under stock compensation	18				18

plans, net of taxes (47,234 shares)							
Stock compensation expense		728					728
Balance at June 30, 2013	\$	90,921	\$	219,002	\$	(625)	\$ (1,779) \$ 307,519

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2013 and 2012
(in thousands)
(Unaudited)
(Page 1 of 2)

	2013	2012
Cash flows from operating activities:		
Net income	\$ 18,482	\$ 17,445
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,384	1,338
Provision for loan losses	0	1,299
Loss on sale and write down of other real estate owned	95	103
Amortization of intangible assets	23	26
Amortization of loan servicing rights	324	347
Net change in loan servicing rights valuation allowance	(39)	(22)
Loans originated for sale	(51,639)	(64,807)
Net gain on sales of loans	(1,676)	(1,140)
Proceeds from sale of loans	56,748	63,365
Net gain on sales of premises and equipment	(1)	0
Net (gain) loss on sales and calls of securities available for sale	(1)	(3)
Impairment on available for sale securities	0	959
Net securities amortization	5,139	3,143
Stock compensation expense	728	689
Earnings on life insurance	(797)	(459)
Tax benefit of stock option exercises	(39)	(432)
Net change:		
Accrued income receivable	(723)	166
Accrued expenses payable	(3,654)	1,383
Other assets	5,990	998
Other liabilities	857	(178)
Total adjustments	12,719	6,775
Net cash from operating activities	31,201	24,220
Cash flows from investing activities:		
Proceeds from maturities, calls and principal paydowns of securities available for sale	69,675	48,098
Purchases of securities available for sale	(91,167)	(61,221)
Purchase of life insurance	(99)	(14)
Net (increase) decrease in total loans	(77,990)	16,283
Proceeds from sales of land, premises and equipment	1	0
Purchases of land, premises and equipment	(1,890)	(1,564)
Proceeds from sales of other real estate	386	373
Net cash from investing activities	(101,084)	1,955

(Continued)

7

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2013 and 2012

(in thousands)

(Unaudited)

(Page 2 of 2)

	2013	2012
Cash flows from financing activities:		
Net increase (decrease) in total deposits	(98,264)	112,789
Net increase (decrease) in short-term borrowings	17,772	(43,294)
Payments on long-term borrowings	(15,001)	(2)
Common dividends paid	(3,121)	(5,289)
Preferred dividends paid	(13)	(13)
Proceeds from stock option exercise	18	185
Purchase of treasury stock	(190)	(186)
Net cash from financing activities	(98,799)	64,190
Net change in cash and cash equivalents	(168,682)	90,365
Cash and cash equivalents at beginning of the period	232,237	104,584
Cash and cash equivalents at end of the period	\$ 63,555	\$ 194,949
Cash paid during the period for:		
Interest	\$ 9,900	\$ 12,560
Income taxes	8,330	7,050
Supplemental non-cash disclosures:		
Loans transferred to other real estate	0	144

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

LAKELAND FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

(Table amounts in thousands except for share and per share data)

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the “Company”) and its wholly owned subsidiaries, Lake City Bank (the “Bank”), and LCB Risk Management, a captive insurance company. All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”). LCB Investments also owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ending June 30, 2013 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2013. The 2012 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, stock awards and warrants.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average shares outstanding for basic earnings per common share	16,425,382	16,324,928	16,411,695	16,298,981
Dilutive effect of stock options, awards and warrants	121,165	128,633	112,555	151,851
Weighted average shares outstanding for diluted earnings per common share	16,546,547	16,453,561	16,524,250	16,450,832
Basic earnings per common share	\$ 0.56	\$ 0.54	\$ 1.13	\$ 1.07
Diluted earnings per common share	\$ 0.56	\$ 0.54	\$ 1.12	\$ 1.06

NOTE 3. LOANS

	June 30, 2013			December 31, 2012		
Commercial and industrial loans:						
Working capital lines of credit loans	\$ 462,137	19.8	%	\$ 439,638	19.5	%
Non-working capital loans	425,958	18.2		407,184	18.0	
Total commercial and industrial loans	888,095	38.0		846,822	37.5	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	108,695	4.7		82,494	3.7	
Owner occupied loans	365,071	15.6		358,617	15.9	
Nonowner occupied loans	373,696	16.0		314,889	13.9	
Multifamily loans	37,422	1.6		45,011	2.0	
Total commercial real estate and multi-family residential loans	884,884	37.9		801,011	35.5	
Agri-business and agricultural loans:						
Loans secured by farmland	100,571	4.3		109,147	4.8	
Loans for agricultural production	97,729	4.2		115,572	5.1	
Total agri-business and agricultural loans	198,300	8.5		224,719	10.0	
Other commercial loans	46,501	2.0		56,807	2.5	
Total commercial loans	2,017,780	86.4		1,929,359	85.5	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	116,247	5.0		109,823	4.9	
Open end and junior lien loans	152,571	6.5		161,366	7.1	
Residential construction and land development loans	5,263	0.2		11,541	0.5	
Total consumer 1-4 family mortgage loans	274,081	11.7		282,730	12.5	
Other consumer loans	43,470	1.9		45,755	2.0	
Total consumer loans	317,551	13.6		328,485	14.5	
Subtotal	2,335,331	100.0	%	2,257,844	100.0	%
Less: Allowance for loan losses	(50,635)			(51,445)		
Net deferred loan fees	(631)			(324)		
Loans, net	\$2,284,065			\$2,206,075		

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following table presents the activity in the allowance for loan losses by portfolio segment for the three-month and six-month periods ended June 30, 2013, and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2013:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
Three Months Ended June 30, 2013						
Balance April 1,	\$ 22,113	\$ 20,420	\$ 1,263	\$ 223	\$ 2,866	\$ 5,000
Provision for loan losses	(348)	(336)	452	41	30	0
Loans charged-off	(10)	0	(200)	0	(81)	(7)
Recoveries	124	14	2	0	8	3
Net loans charged-off	114	14	(198)	0	(73)	(4)
Balance June 30,	\$ 21,879	\$ 20,098	\$ 1,517	\$ 264	\$ 2,823	\$ 5,000
Six Months Ended June 30, 2013						
Balance January 1,	\$ 22,342	\$ 20,812	\$ 1,403	\$ 240	\$ 2,682	\$ 6,000
Provision for loan losses	(707)	(83)	310	24	300	4
Loans charged-off	(143)	(906)	(200)	0	(189)	(13)
Recoveries	387	275	4	0	30	6
Net loans charged-off	244	(631)	(196)	0	(159)	(6)
Balance June 30,	\$ 21,879	\$ 20,098	\$ 1,517	\$ 264	\$ 2,823	\$ 5,000
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually \$ evaluated for	4,469	6,103	40	0	445	2

impairment

Collectively
evaluated for
impairment

17,410

13,995

1,477

264

2,378

55