

LAKELAND FINANCIAL CORP

Form 10-Q

August 09, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 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, 2011: 16,206,919

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LAKELAND FINANCIAL CORPORATION  
Form 10-Q Quarterly Report  
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PART 1  
LAKELAND FINANCIAL CORPORATION  
ITEM 1 – FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of June 30, 2011 and December 31, 2010  
(in thousands except for share data)

(Page 1 of 2)

	June 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 53,933	\$ 42,513
Short-term investments	6,392	17,628
Total cash and cash equivalents	60,325	60,141
Securities available for sale (carried at fair value)	446,955	442,620
Real estate mortgage loans held for sale	3,103	5,606
Loans, net of allowance for loan losses of \$51,260 and \$45,007	2,097,172	2,044,952
Land, premises and equipment, net	30,707	30,405
Bank owned life insurance	39,560	38,826
Accrued income receivable	8,812	9,074
Goodwill	4,970	4,970
Other intangible assets	126	153
Other assets	43,288	45,179
Total assets	\$ 2,735,018	\$ 2,681,926

(continued)

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of June 30, 2011 and December 31, 2010  
(in thousands except for share data)

(Page 2 of 2)

	June 30, 2011 (Unaudited)	December 31, 2010
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Noninterest bearing deposits	\$ 309,508	\$ 305,107
Interest bearing deposits	1,966,991	1,895,918
<b>Total deposits</b>	<b>2,276,499</b>	<b>2,201,025</b>
<b>Short-term borrowings</b>		
Federal funds purchased	9,000	0
Securities sold under agreements to repurchase	127,026	142,015
U.S. Treasury demand notes	2,408	2,037
Other short-term borrowings	0	30,000
<b>Total short-term borrowings</b>	<b>138,434</b>	<b>174,052</b>
Accrued expenses payable	12,578	11,476
Other liabilities	2,139	2,318
Long-term borrowings	15,040	15,041
Subordinated debentures	30,928	30,928
<b>Total liabilities</b>	<b>2,475,618</b>	<b>2,434,840</b>
<b>EQUITY</b>		
Common stock: 90,000,000 shares authorized, no par value		
16,203,119 shares issued and 16,137,462 outstanding as of June 30, 2011		
16,169,119 shares issued and 16,078,420 outstanding as of December 31, 2010	86,422	85,766
Retained earnings	170,218	161,299
Accumulated other comprehensive income	3,762	1,350
Treasury stock, at cost (2011 - 65,657 shares, 2010 - 90,699 shares)	(1,091)	(1,418)
<b>Total stockholders' equity</b>	<b>259,311</b>	<b>246,997</b>

Noncontrolling interest	89	89
Total equity	259,400	247,086
Total liabilities and equity	\$ 2,735,018	\$ 2,681,926

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, 2011 and 2010  
(in thousands except for share and per share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>NET INTEREST INCOME</b>				
Interest and fees on loans				
Taxable	\$ 26,300	\$ 25,945	\$ 52,165	\$ 51,295
Tax exempt	122	19	243	38
Interest and dividends on securities				
Taxable	3,361	4,113	7,418	8,341
Tax exempt	687	708	1,376	1,353
Interest on short-term investments	78	27	96	41
Total interest income	30,548	30,812	61,298	61,068
Interest on deposits	7,093	6,933	13,778	13,448
Interest on borrowings				
Short-term	147	188	318	437
Long-term	363	539	723	1,070
Total interest expense	7,603	7,660	14,819	14,955
<b>NET INTEREST INCOME</b>	<b>22,945</b>	<b>23,152</b>	<b>46,479</b>	<b>46,113</b>
Provision for loan losses	2,900	5,750	8,500	11,276
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>				
	<b>20,045</b>	<b>17,402</b>	<b>37,979</b>	<b>34,837</b>
<b>NONINTEREST INCOME</b>				
Wealth advisory fees	929	833	1,747	1,625
Investment brokerage fees	621	471	1,352	1,016
Service charges on deposit accounts	1,939	2,202	3,902	4,060
Loan, insurance and service fees	1,260	1,074	2,336	1,994
Merchant card fee income	288	303	522	583
Other income	646	483	1,018	1,015
Mortgage banking income	203	74	154	165
Net securities gains (losses)	32	0	(166)	0
Other than temporary impairment loss on available-for-sale securities:	0	(81)	(121)	(252)



Total impairment losses recognized on securities

Loss recognized in other comprehensive income	0	0	0	0
Net impairment loss recognized in earnings	0	(81)	(121)	(252)
Total noninterest income	5,918	5,359	10,744	10,206

(continued)

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three Months and Six Months Ended June 30, 2011 and 2010  
(in thousands except for share and per share data)

(Unaudited)

(Page 2 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	8,018	7,559	16,191	15,070
Occupancy expense	752	699	1,627	1,488
Equipment costs	510	522	1,064	1,051
Data processing fees and supplies	979	960	2,091	1,926
Credit card interchange	0	49	2	113
Other expense	3,714	3,636	7,166	6,825
Total noninterest expense	13,973	13,425	28,141	26,473
<b>INCOME BEFORE INCOME TAX EXPENSE</b>				
	11,990	9,336	20,582	18,570
Income tax expense	4,001	3,117	6,628	6,330
<b>NET INCOME</b>	\$ 7,989	\$ 6,219	\$ 13,954	\$ 12,240
Dividends and accretion of discount on preferred stock	0	2,382	0	3,187
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	\$ 7,989	\$ 3,837	\$ 13,954	\$ 9,053
<b>BASIC WEIGHTED AVERAGE COMMON SHARES</b>				
	16,201,311	16,114,408	16,198,348	16,103,080
<b>BASIC EARNINGS PER COMMON SHARE</b>				
	\$ 0.49	\$ 0.24	\$ 0.86	\$ 0.56
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES</b>				
	16,300,229	16,212,460	16,296,684	16,195,254
<b>DILUTED EARNINGS PER COMMON SHARE</b>				
	\$ 0.49	\$ 0.24	\$ 0.86	\$ 0.56

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

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LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the Six Months Ended June 30, 2011 and 2010  
(in thousands except for share and per share data)  
(Unaudited)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2010	\$ 54,095	\$ 83,487	\$ 149,945	\$ (5,993)	\$ (1,540)	\$ 279,994
Comprehensive income:						
Net income			12,240			12,240
Other comprehensive income (loss), net of tax				6,513		6,513
Comprehensive income						18,753
Common stock cash dividends declared, \$.31 per share			(4,989)			(4,989)
Treasury shares purchased under deferred directors' plan (6,190 shares)		112			(112)	0
Treasury shares sold under deferred directors' plan (4,477 shares)		(90)			90	0
Stock activity under stock compensation plans (48,158 shares)		530				530
Stock compensation expense		970				970
Redemption of 56,044 shares preferred stock	(56,044)					(56,044)
	1,949		(1,949)			0

Accretion of preferred stock discount										
Preferred stock dividend paid and/or accrued				(1,251)					(1,251)	
Balance at June 30, 2010	\$	0	\$	85,009	\$	153,996	\$	520	\$ (1,562)	\$ 237,963
Balance at January 1, 2011	\$	0	\$	85,766	\$	161,299	\$	1,350	\$ (1,418)	\$ 246,997
Comprehensive income:										
Net income						13,954				13,954
Other comprehensive income (loss), net of tax								2,412		2,412
Comprehensive income										16,366
Common stock cash dividends declared, \$.31 per share						(5,035)				(5,035)
Treasury shares purchased under deferred directors' plan										
(5,058 shares)				113				(113)		0
Treasury shares sold under deferred directors' plan										
(30,100 shares)				(440)				440		0
Stock activity under stock compensation plans (34,000 shares)						336				336
Stock compensation expense						647				647
Balance at June 30, 2011	\$	0	\$	86,422	\$	170,218	\$	3,762	\$ (1,091)	\$ 259,311

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, 2011 and 2010  
(in thousands)  
(Unaudited)  
(Page 1 of 2)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 13,954	\$ 12,240
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,100	1,110
Provision for loan losses	8,500	11,276
Loss on sale and write down of other real estate owned	263	17
Amortization of intangible assets	27	27
Amortization of loan servicing rights	266	291
Net change in loan servicing rights valuation allowance	(7)	130
Loans originated for sale	(30,642)	(25,735)
Net gain on sales of loans	(659)	(600)
Proceeds from sale of loans	33,482	26,154
Net gain on sales of premises and equipment	(1)	0
Net loss on sales of securities available for sale	166	0
Impairment on available for sale securities	121	252
Net securities amortization	1,202	707
Stock compensation expense	647	970
Earnings on life insurance	(586)	(522)
Tax benefit of stock option exercises	(91)	(160)
Net change:		
Accrued income receivable	262	(578)
Accrued expenses payable	1,006	(377)
Other assets	(469)	(2,909)
Other liabilities	(66)	260
Total adjustments	14,521	10,313
Net cash from operating activities	28,475	22,553
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	73,318	0
Proceeds from maturities, calls and principal paydowns of securities available for sale	38,446	48,311
Purchases of securities available for sale	(113,507)	(60,374)
Purchase of life insurance	(148)	(14)
Net increase in total loans	(60,990)	(51,900)
Proceeds from sales of land, premises and equipment	44	0
Purchases of land, premises and equipment	(1,445)	(783)
Proceeds from sales of other real estate	948	670
Net cash from investing activities	(63,334)	(64,090)

(Continued)

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Six Months Ended June 30, 2011 and 2010

(in thousands)

(Unaudited)

(Page 2 of 2)

	2011	2010
Cash flows from financing activities:		
Net increase in total deposits	75,474	280,006
Net decrease in short-term borrowings	(35,618)	(175,366)
Payments on long-term borrowings	(1)	(1)
Common dividends paid	(5,022)	(4,989)
Preferred dividends paid	(13)	(1,601)
Redemption of preferred stock	0	(56,044)
Proceeds from stock option exercise	336	530
Purchase of treasury stock	(113)	(112)
Net cash from financing activities	35,043	42,423
Net change in cash and cash equivalents	184	886
Cash and cash equivalents at beginning of the period	60,141	55,983
Cash and cash equivalents at end of the period	\$ 60,325	\$ 56,869
Cash paid during the period for:		
Interest	\$ 13,300	\$ 14,415
Income taxes	8,822	10,740
Supplemental non-cash disclosures:		
Loans transferred to other real estate	270	198

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





LAKELAND FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011

(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 subsidiary, Lake City Bank (the “Bank”). 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 for interim financial information and with instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The 2010 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,	
	2011	2010	2011	2010
Net income	\$ 7,989	\$ 6,219	\$ 13,954	\$ 12,240
Dividends and accretion of discount on preferred stock	0	2,382	0	3,187
Net income available to common shareholders	\$ 7,989	\$ 3,837	\$ 13,954	\$ 9,053
Weighted average shares outstanding for basic earnings per common share	16,201,311	16,114,408	16,198,348	16,103,080
Dilutive effect of stock options, awards and warrants	98,918	98,052	98,336	92,174
Weighted average shares outstanding for diluted earnings per common share	16,300,229	16,212,460	16,296,684	16,195,254

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Basic earnings per common share	\$	0.49	\$	0.24	\$	0.86	\$	0.56
Diluted earnings per common share	\$	0.49	\$	0.24	\$	0.86	\$	0.56

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Stock options for 70,000 and 89,918 shares for the three-month periods ended June 30, 2011 and June 30, 2010, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. Stock options for 70,000 and 109,000 shares for the six-month periods ended June 30, 2011 and June 30, 2010, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. In addition, warrants for 198,269 shares for the three-month and six-month periods ended June 30, 2010, were not considered in computing diluted earnings per share because they were antidilutive.

## NOTE 3. LOANS

	June 30, 2011		December 31, 2010	
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 360,813	16.8 %	\$ 281,546	13.5 %
Non-working capital loans	371,001	17.3	384,138	18.4
Total commercial and industrial loans	731,814	34.1	665,684	31.8
Commercial real estate and multi-family residential loans:				
Construction and land development loans	133,194	6.2	106,980	5.1
Owner occupied loans	333,236	15.5	329,760	15.8
Nonowner occupied loans	336,496	15.7	355,393	17.0
Multifamily loans	22,557	1.0	24,158	1.2
Total commercial real estate and multi-family residential loans	825,483	38.4	816,291	39.0
Agri-business and agricultural loans:				
Loans secured by farmland	95,526	4.4	111,961	5.4
Loans for agricultural production	103,052	4.8	117,518	5.6
Total agri-business and agricultural loans	198,578	9.2	229,479	11.0
Other commercial loans	53,702	2.5	38,778	1.9
Total commercial loans	1,809,577	84.2	1,750,232	83.7
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	107,471	5.0	103,118	4.9
Open end and junior lien loans	178,274	8.3	182,325	8.7
Residential construction and land development loans	3,273	0.2	4,140	0.2
Total consumer 1-4 family mortgage loans	289,018	13.5	289,583	13.8
Other consumer loans	50,176	2.3	51,123	2.4
Total consumer loans	339,194	15.8	340,706	16.3
Subtotal	2,148,771	100.0 %	2,090,938	100.0 %
Less: Allowance for loan losses	(51,260)		(45,007)	
Net deferred loan fees	(339)		(979)	
Loans, net	\$2,097,172		\$2,044,952	



## NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following table presents 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, 2011:

	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, 2011						
Balance April 1,	\$ 22,549	\$ 17,884	\$ 1,194	\$ 270	\$ 2,480	\$ 5,400
Provision for loan losses	506	1,855	(246)	290	499	1,000
Loans charged-off	(189)	(25)	0	0	(337)	(900)
Recoveries	133	318	0	0	16	400
Net loans charged-off	(56)	293	0	0	(321)	(500)
Balance June 30,	\$ 22,999	\$ 20,032	\$ 948	\$ 560	\$ 2,658	\$ 6,000
Six Months Ended June 30, 2011						
Balance January 1,	\$ 21,479	\$ 15,893	\$ 1,318	\$ 270	\$ 1,694	\$ 6,000
Provision for loan losses	1,877	5,228	(370)	290	1,662	2,000
Loans charged-off	(587)	(1,416)	0	0	(717)	(2,200)
Recoveries	230	327	0	0	19	1,200
Net loans charged-off	(357)	(1,089)	0	0	(698)	(1,000)
Balance June 30,	\$ 22,999	\$ 20,032	\$ 948	\$ 560	\$ 2,658	\$ 6,000
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually \$ evaluated for	9,534	5,663	101	190	100	

impairment							
Collectively evaluated for impairment	13,465	14,369	847	370	2,558	60	
Total ending allowance balance	\$ 22,999	\$ 20,032	\$ 948	\$ 560	\$ 2,658	\$ 60	
<b>Loans:</b>							
Loans individually evaluated for impairment	\$ 22,244	\$ 26,024	\$ 1,007	\$ 192	\$ 1,962	\$	
Loans collectively evaluated for impairment	709,523	799,239	197,535	53,510	287,020	50,1	
Total ending loans balance	\$ 731,767	\$ 825,263	\$ 198,542	\$ 53,702	\$ 288,982	\$ 50,1	

The recorded investment in loans does not include accrued interest.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 6,911	\$ 4,663	\$ 301	\$ 190	\$ 76	
Collectively evaluated for impairment	14,568	11,230	1,017	80	1,618	68
Total ending allowance balance	\$ 21,479	\$ 15,893	\$ 1,318	\$ 270	\$ 1,694	\$ 68
Loans:						
Loans individually evaluated for impairment	\$ 20,988	\$ 23,358	\$ 1,259	\$ 197	\$ 2,204	
Loans collectively evaluated for impairment	644,551	791,715	228,305	38,542	287,729	51,1
Total ending loans balance	\$ 665,539	\$ 815,073	\$ 229,564	\$ 38,739	\$ 289,933	\$ 51,1

The recorded investment in loans does not include accrued interest.





The following is an analysis of the allowance for loan losses for the three months and six months ended June 30, 2010:

	Three Months ended June 30, 2010	Six Months ended June 30, 2010
Balance at beginning of period	\$ 36,332	\$ 32,073
Provision for loan losses	5,750	11,276
Loans charged-off	(4,845)	(6,377)
Recoveries	127	392
Net loans charged-off	(4,718)	(5,985)
Balance at end of period	\$ 37,364	\$ 37,364
	Six Months ended	
	June 30,	
	2011	2010
Allowance for loan losses to total loans	2.39%	1.82%

The following table presents loans individually evaluated for impairment as of and for the three-month and six-month periods ended June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Three Months Ended June 30, 2011			Six Months Ended June 30,		
				Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	In In
With no related allowance recorded:									
Commercial real estate and multi-family residential loans:									
Nonowner occupied loans	\$ 841	\$ 841	\$ 0	\$ 844	\$ 0	\$ 0	\$ 850	\$ 0	\$
With an allowance recorded:									
Commercial and industrial loans:									
Working capital lines of credit loans	5,208	5,208	3,159	5,311	3	3	5,463	6	
Non-working capital loans	17,037	17,036	6,375	16,565	163	180	15,864	290	
Commercial real estate and multi-family residential loans:									
Construction and land development loans	1,237	1,239	245	1,332	0	0	1,364	0	
Owner occupied loans	3,061	2,927	929	2,987	6	6	3,096	12	
Nonowner occupied loans	20,877	21,017	4,489	20,858	18	18	20,404	35	
	0	0	0	0	0	0	0	0	0

Multifamily  
loansAgri-business  
and agricultural  
loans:Loans  
secured by  
farmland

761	760	83	691	0	0	546	0
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Loans for  
agricultural  
production

247	247	18	363	0	0	591	0
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Other  
commercial  
loans

192	192	190	193	0	0	194	0
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Consumer 1-4  
family  
mortgage  
loans:Closed end  
first mortgage  
loans

1,962	1,962	100	1,812	19	8	1,828	31
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Open end  
and junior lien  
loans

0	0	0	0	0	0	28	0
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Residential  
construction  
loans

0	0	0	0	0	0	0	0
---	---	---	---	---	---	---	---

Other  
consumer loans

0	0	0	0	0	0	0	0
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Total	\$ 51,423	\$ 51,429	\$ 15,588	\$ 50,956	\$ 209	\$ 215	\$ 50,228	\$ 374
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The recorded investment in loans does not include accrued interest.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial real estate and multi-family residential loans:			
Nonowner occupied loans	\$ 870	\$ 869	\$ 0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	5,651	5,652	2,944
Non-working capital loans	15,335	15,336	3,967
Commercial real estate and multi-family residential loans:			
Construction and land development loans	1,402	1,401	195
Owner occupied loans	2,908	2,909	948
Nonowner occupied loans	18,186	18,179	3,520
Multifamily loans	0	0	0
Agri-business and agricultural loans:			
Loans secured by farmland	405	406	83
Loans for agricultural production	853	853	218
Other commercial loans	197	197	190
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	2,067	2,063	75
Open end and junior lien loans	141	141	1
Residential construction loans	0	0	0
Other consumer loans	0	0	0
<b>Total</b>	<b>\$ 48,015</b>	<b>\$ 48,006</b>	<b>\$ 12,141</b>

The recorded investment in loans does not include accrued interest.

The following table presents information on impaired loans for the three and six months ended June, 30 2010.

	Three Months ended June 30, 2010	Six Months ended June 30, 2010
Average of impaired loans during the period	\$ 40,944	\$ 37,443

Interest income recognized during impairment	200	225
Cash-basis interest income recognized	212	233

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The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial and industrial loans:				
Non-impaired watch list loans	\$ 362	\$ 0	\$ 372	\$ 0
Working capital lines of credit loans	4,959	0	5,405	0
Non-working capital loans	6,697	0	4,786	0
Commercial real estate and multi-family residential loans:				
Non-impaired watch list loans	0	0	26	0
Construction and land development loans	1,239	0	1,400	0
Owner occupied loans	2,591	0	2,935	0
Nonowner occupied loans	18,779	0	19,049	0
Multifamily loans	0	0	0	0
Agri-business and agricultural loans:				
Non-impaired watch list loans	84	0	0	0
Loans secured by farmland	761	0	406	0
Loans for agricultural production	247	0	878	0
Other commercial loans	0	0	197	0
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	1,147	134	842	318
Open end and junior lien loans	174	0	267	0
Residential construction loans	0	0	0	0
Other consumer loans	200	0	20	12
Total	\$ 37,240	\$ 134	\$ 36,583	\$ 330

The recorded investment in loans does not include accrued interest.

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The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 by class of loans:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and industrial loans:					
Non-impaired watch list loans	\$ 0	\$ 362	\$ 362	\$ 38,555	\$ 38,917
Working capital lines of credit loans	0	4,959	4,959	343,688	348,647
Non-working capital loans	220	6,697	6,917	337,286	344,203
Commercial real estate and multi-family residential loans:					
Non-impaired watch list loans	0	0	0	65,348	65,348
Construction and land development loans	64	1,239	1,303	115,560	116,863
Owner occupied loans	95	2,591	2,686	307,575	310,261
Nonowner occupied loans	0	18,779	18,779	292,430	311,209
Multifamily loans	0	0	0	21,582	21,582
Agri-business and agricultural loans:					
Non-impaired watch list loans	0	84	84	2,830	2,914
Loans secured by farmland	0	761	761	93,873	94,634
Loans for agricultural production	0	247	247	100,747	100,994
Other commercial loans	0	0	0	53,702	53,702
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	1,689	1,281	2,970	104,491	107,461
Open end and junior lien loans	100	174	274	177,974	178,248
Residential construction loans	121	0	121	3,152	3,273
Other consumer loans	90	200	290	49,886	50,176

Total	\$	2,379	\$	37,374	\$	39,753	\$	2,108,679	\$	2,148,432
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The recorded investment in loans does not include accrued interest.

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The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and industrial loans:					
Non-impaired watch list loans	\$ 0	\$ 372	\$ 372	\$ 54,977	\$ 55,349
Working capital lines of credit loans	0	5,405	5,405	261,556	266,961
Non-working capital loans	462	4,786	5,248	337,981	343,229
Commercial real estate and multi-family residential loans:					
Non-impaired watch list loans	0	26	26	60,473	60,499
Construction and land development loans	0	1,400	1,400	88,089	89,489
Owner occupied loans	27	2,935	2,962	304,702	307,664
Nonowner occupied loans	0	19,049	19,049	314,245	333,294
Multifamily loans	0	0	0	24,127	24,127
Agri-business and agricultural loans:					
Non-impaired watch list loans	0	0	0	4,131	4,131
Loans secured by farmland	0	406	406	109,465	109,871
Loans for agricultural production	0	878	878	114,684	115,562
Other commercial loans	0	197	197	38,542	38,739
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	2,333	1,160	3,493	99,405	102,898
Open end and junior lien loans	237	267	504	182,395	182,899
Residential construction loans	0	0	0	4,136	4,136
Other consumer loans	145	32	177	50,934	51,111

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Total	\$	3,204	\$	36,913	\$	40,117	\$	2,049,842	\$	2,089,959
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The recorded investment in loans does not include accrued interest.

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### Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated \$6.4 million and \$4.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and December 31, 2010. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

	June 30, 2011	December 31, 2010
Accruing troubled debt restructured loans	\$ 11,526	\$ 8,547
Nonaccrual troubled debt restructured loans	8,550	6,091
Total troubled debt restructured loans	\$ 20,076	\$ 14,638

### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for Special Mention, Substandard and Doubtful grade loans and annually on Pass grade loans over \$250,000.

The Company uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans with the exception of consumer troubled debt restructurings which are evaluated and listed with Substandard commercial grade loans. Loans listed as not rated are consumer loans included in groups of homogenous loans. As of June 30, 2011 and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
<b>Commercial and industrial loans:</b>					
Non-impaired watch list loans	\$ 0	\$ 12,284	\$ 26,633	\$ 0	\$ 0
Working capital lines of credit loans	343,431	0	5,208	0	8
Non-working capital loans	325,427	7,468	9,568	0	1,740
<b>Commercial real estate and multi-family residential loans:</b>					
Non-impaired watch list loans	0	28,005	37,343	0	0
Construction and land development loans	115,624	0	1,239	0	0
Owner occupied loans	307,242	0	2,927	0	92
Nonowner occupied loans	291,135	0	20,074	0	0
Multifamily loans	21,582	0	0	0	0
<b>Agri-business and agricultural loans:</b>					
Non-impaired watch list loans	0	1,955	959	0	0
Loans secured by farmland	93,852	0	761	0	21
Loans for agricultural production	100,565	0	247	0	182
Other commercial loans	53,406	104	192	0	0
<b>Consumer 1-4 family mortgage loans:</b>					
Closed end first mortgage loans	17,287	416	3,207	0	86,551
Open end and junior lien loans	13,479	0	415	0	164,354
Residential construction loans	0	0	0	0	3,273

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Other consumer loans	8,913	0	776	0	40,487
Total	\$ 1,691,943	\$ 50,232	\$ 109,549	\$ 0	\$ 296,708

The recorded investment in loans does not include accrued interest.

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As of December 31, 2010 the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
<b>Commercial and industrial loans:</b>					
Non-impaired watch list loans	\$ 0	\$ 22,282	\$ 33,067	\$ 0	\$ 0
Working capital lines of credit loans	261,210	0	5,751	0	0
Non-working capital loans	325,976	0	15,327	0	1,926
<b>Commercial real estate and multi-family residential loans:</b>					
Non-impaired watch list loans	0	23,722	36,777	0	0
Construction and land development loans	88,088	0	1,401	0	0
Owner occupied loans	304,661	0	2,911	0	92
Nonowner occupied loans	314,247	0	19,047	0	0
Multifamily loans	24,127	0	0	0	0
<b>Agri-business and agricultural loans:</b>					
Non-impaired watch list loans	0	2,008	2,123	0	0
Loans secured by farmland	109,444	0	405	0	22
Loans for agricultural production	114,495	0	853	0	214