

LAKELAND FINANCIAL CORP

Form 10-Q

May 11, 2015

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 March 31, 2015

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 April 30, 2015: 16,610,688

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$99,939	\$75,381
Short-term investments	13,107	15,257
Total cash and cash equivalents	113,046	90,638
Securities available for sale (carried at fair value)	477,197	475,911
Real estate mortgage loans held for sale	2,248	1,585
Loans, net of allowance for loan losses of \$45,677 and \$46,262	2,726,536	2,716,058
Land, premises and equipment, net	42,438	41,983
Bank owned life insurance	67,021	66,612
Federal Reserve and Federal Home Loan Bank stock	9,413	9,413
Accrued interest receivable	9,091	8,662
Goodwill	4,970	4,970
Other assets	25,694	27,452
Total assets	\$3,477,654	\$3,443,284

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Noninterest bearing deposits	\$589,773	\$579,495
Interest bearing deposits	2,404,466	2,293,625
Total deposits	2,994,239	2,873,120
Short-term borrowings		
Federal funds purchased	0	500
Securities sold under agreements to repurchase	60,517	54,907
Other short-term borrowings	0	105,000
Total short-term borrowings	60,517	160,407
Long-term borrowings	34	35
Subordinated debentures	30,928	30,928
Accrued interest payable	3,592	2,946
Other liabilities	17,505	14,463
Total liabilities	3,106,815	3,081,899

STOCKHOLDERS' EQUITY

Common stock: 90,000,000 shares authorized, no par value

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16,610,688 shares issued and 16,521,255 outstanding as of March 31, 2015		
16,550,324 shares issued and 16,465,621 outstanding as of December 31, 2014	96,068	96,121
Retained earnings	271,004	263,345
Accumulated other comprehensive income	5,869	3,830
Treasury stock, at cost (2015 - 89,433 shares, 2014 - 84,703 shares)	(2,191)	(2,000)
Total stockholders' equity	370,750	361,296
Noncontrolling interest	89	89
Total equity	370,839	361,385
Total liabilities and equity	\$3,477,654	\$3,443,284

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

CONSOLIDATED STATEMENTS OF INCOME (unaudited - in thousands except share and per share data)

Three Months Ended

March 31,

2015

2014

NET INTEREST INCOME

Interest and fees on loans

Taxable	\$26,257	\$25,334
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Tax exempt	117	98
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Interest and dividends on securities

Taxable	2,448	2,011
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Tax exempt	829	819
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Interest on short-term investments	13	8
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Total interest income	29,664	28,270
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Interest on deposits	3,648	3,187
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Interest on borrowings

Short-term	60	151
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Long-term	256	252
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Total interest expense	3,964	3,590
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NET INTEREST INCOME	25,700	24,680
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Provision for loan losses	0	0
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NET INTEREST INCOME AFTER PROVISION FOR

LOAN LOSSES	25,700	24,680
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NONINTEREST INCOME

Wealth advisory fees	1,184	1,039
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Investment brokerage fees	492	1,117
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Service charges on deposit accounts	2,374	2,151
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Loan, insurance and service fees	1,569	1,458
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Merchant card fee income	416	350
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Bank owned life insurance income	375	372
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Other income	954	875
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Mortgage banking income	389	65
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Net securities gains	42	0
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Total noninterest income	7,795	7,427
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NONINTEREST EXPENSE

Salaries and employee benefits	9,723	9,987
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Net occupancy expense	1,084	1,110
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Equipment costs	916	773
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Data processing fees and supplies	1,767	1,491
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Corporate and business development	790	653
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FDIC insurance and other regulatory fees	486	477
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Professional fees	689	800
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Other expense	1,446	1,499
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Total noninterest expense	16,901	16,790
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INCOME BEFORE INCOME TAX EXPENSE	16,594	15,317
Income tax expense	5,458	5,405
NET INCOME	\$11,136	\$9,912
BASIC WEIGHTED AVERAGE COMMON SHARES	16,590,285	16,513,645
BASIC EARNINGS PER COMMON SHARE	\$0.67	\$0.60
DILUTED WEIGHTED AVERAGE COMMON SHARES	16,789,497	16,713,853
DILUTED EARNINGS PER COMMON SHARE	\$0.66	\$0.59

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited - in thousands)		
	Three months ended March 31,	
	2015	2014
Net income	\$11,136	\$9,912
Other comprehensive income (loss)		
Change in securities available for sale:		
Unrealized holding gain (loss) on securities available for sale arising during the period	3,662	4,791
Reclassification adjustment for (gains) losses included in net income	(42)	0
Net securities gain (loss) activity during the period	3,620	4,791
Tax effect	(1,443)	(1,904)
Net of tax amount	2,177	2,887
Defined benefit pension plans:		
Net gain (loss) on defined benefit pension plans	(276)	64
Amortization of net actuarial loss	61	49
Net gain (loss) activity during the period	(215)	113
Tax effect	77	(52)
Net of tax amount	(138)	61
Total other comprehensive income (loss), net of tax	2,039	2,948
Comprehensive income	\$13,175	\$12,860

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited - in thousands except share and per share data)

	Common Stock		Retained	Accumulated Other Comprehensive	Treasury	Total
	Shares	Stock	Earnings	Income (Loss)	Stock	Stockholders Equity
Balance at January 1, 2014	16,377,449	\$93,249	\$233,108	\$(2,494)	\$(1,988)	\$321,875
Comprehensive income:						
Net income			9,912			9,912
Other comprehensive income (loss), net of tax				2,948		2,948
Cash dividends declared, \$0.19 per share			(3,131)			(3,131)
Treasury shares purchased under deferred						
directors' plan	(5,446)	209			(209)	0
Treasury stock sold and distributed under deferred						
directors' plan	3,437	(67)			67	
Stock activity under equity compensation plans	57,901	(199)				(199)
Stock based compensation expense		597				597
Balance at March 31, 2014	16,433,341	\$93,789	\$239,889	\$454	\$(2,130)	\$332,002
Balance at January 1, 2015	16,465,621	\$96,121	\$263,345	\$3,830	\$(2,000)	\$361,296

Comprehensive income:						
Net income			11,136			11,136
Other comprehensive income						
(loss), net of tax				2,039		2,039
Cash dividends declared, \$0.21						
per share			(3,477)			(3,477)
Treasury shares purchased						
under deferred						
directors' plan	(4,730)	191			(191)	0
Stock activity under equity						
compensation plans	60,364	(597)				(597)
Stock based compensation						
expense		353				353
Balance at March 31, 2015	16,521,255	\$96,068	\$271,004	\$5,869	\$(2,191)	\$370,750

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Three Months Ended March 31	2015	2014
Cash flows from operating activities:		
Net income	\$11,136	\$9,912
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	956	830
Net (gain) loss on sale and write down of other real estate owned	(12)	1
Amortization of loan servicing rights	142	130
Loans originated for sale	(16,679)	(7,035)
Net gain on sales of loans	(361)	(192)
Proceeds from sale of loans	16,249	6,892
Net gain on sales of premises and equipment	(3)	0
Net gain on sales and calls of securities available for sale	(42)	0
Net securities amortization	1,193	1,490
Stock based compensation expense	353	597
Earnings on life insurance	(375)	(372)
Tax benefit of stock option exercises	(12)	(13)
Net change:		
Interest receivable and other assets	83	(299)
Interest payable and other liabilities	3,848	2,953
Total adjustments	5,340	4,982
Net cash from operating activities	16,476	14,894
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	7,787	0
Proceeds from maturities, calls and principal paydowns of securities available for sale		
Purchases of securities available for sale	(26,069)	(13,457)
Purchase of life insurance	(149)	(86)
Proceeds from loans sold to others	0	4,836
Net increase in total loans	(10,672)	(47,325)
Proceeds from sales of land, premises and equipment	6	0
Purchases of land, premises and equipment	(1,414)	(1,070)
Proceeds from sales of other real estate	16	13
Distribution from life insurance	0	302

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Net cash from investing activities	(11,031)	(42,510)
Cash flows from financing activities:		
Net increase in total deposits	121,119	192,706
Net decrease in short-term borrowings	(99,890)	(147,515)
Payments on long-term borrowings	(1)	(2)
Common dividends paid	(3,477)	(3,131)
Payments related to equity incentive plans	(597)	(199)
Purchase of treasury stock	(191)	(209)
Net cash from financing activities	16,963	41,650
Net change in cash and cash equivalents	22,408	14,034
Cash and cash equivalents at beginning of the period	90,638	63,105
Cash and cash equivalents at end of the period	\$113,046	\$77,139
Cash paid during the period for:		
Interest	\$3,318	\$3,570
Income taxes	104	465
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	194	737

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

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 in this report is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”), which manages a portion of the Bank’s investment portfolio. 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 period ending March 31, 2015 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2015. The 2014 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. SECURITIES

Information related to the fair value and amortized cost of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) is provided in the tables below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
March 31, 2015				
U.S. Treasury securities	\$986	\$37	\$0	\$1,023
Agency residential mortgage-backed securities	363,641	9,358	(796)	372,203
State and municipal securities	100,020	4,237	(286)	103,971
Total	\$464,647	\$13,632	\$(1,082)	\$477,197
December 31, 2014				
U.S. Treasury securities	\$986	\$18	\$0	\$1,004
Agency residential mortgage-backed securities	366,596	7,178	(1,679)	372,095
State and municipal securities	99,399	3,857	(444)	102,812
Total	\$466,981	\$11,053	\$(2,123)	\$475,911

There was no other-than-temporary impairment (“OTTI”) recognized in accumulated other comprehensive income (loss) for securities available for sale at March 31, 2015 and December 31, 2014.

Information regarding the fair value and amortized cost of available for sale debt securities by maturity as of March 31, 2015 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

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(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$5,318	\$5,368
Due after one year through five years	18,877	19,761
Due after five years through ten years	45,186	47,530
Due after ten years	31,625	32,335
	101,006	104,994
Mortgage-backed securities	363,641	372,203
Total debt securities	\$464,647	\$477,197
.....		

Securities proceeds, gross gains and gross losses are presented below.

(dollars in thousands)	Three months ended March 31,	
	2015	2014
Sales of securities available for sale		
Proceeds	\$7,787	\$0
Gross gains	42	0
Gross losses	0	0

The Company sold two securities with a total book value of \$7.7 million and a total fair value of \$7.8 million during the first three months of 2015. There were no securities sales during the first three months of 2014.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of \$189.3 million and \$202.4 million were pledged as of March 31, 2015 and December 31, 2014, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2015 and December 31, 2014 is presented below. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
Agency residential mortgage-backed securities						
securities	\$40,330	\$(289)	\$32,433	\$(507)	\$72,763	\$(796)
State and municipal securities	7,433	(70)	9,526	(216)	16,959	(286)
Total temporarily impaired	\$47,763	\$(359)	\$41,959	\$(723)	\$89,722	\$(1,082)
December 31, 2014						
Agency residential mortgage-backed securities						
securities	\$33,420	\$(148)	\$102,512	\$(1,531)	\$135,932	\$(1,679)
State and municipal securities	2,458	(28)	16,391	(416)	18,849	(444)
Total temporarily impaired	\$35,878	\$(176)	\$118,903	\$(1,947)	\$154,781	\$(2,123)

The total number of securities with unrealized losses as of March 31, 2015 and December 31, 2014 is presented below.

	Less than 12 months	12 months or more	Total
March 31, 2015			
Agency residential mortgage-backed securities	14	9	23
State and municipal securities	19	13	32
Total temporarily impaired	33	22	55
December 31, 2014			
Agency residential mortgage-backed securities	9	27	36
State and municipal securities	8	29	37
Total temporarily impaired	17	56	73

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings. Ninety-nine percent of the securities are backed by the U.S. government, government agencies, government sponsored agencies or are A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government-sponsored agency and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that it will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

(dollars in thousands)	2015	March 31, 2015	%	2014	December 31, 2014	%
Commercial and industrial loans:						
Working capital lines of credit loans	\$574,057	20.7	%	\$544,043	19.7	%
Non-working capital loans	504,878	18.2		491,330	17.8	
Total commercial and industrial loans	1,078,935	38.9		1,035,373	37.5	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	151,065	5.4		156,636	5.7	
Owner occupied loans	396,849	14.3		403,154	14.6	
Nonowner occupied loans	399,842	14.4		394,458	14.3	
Multifamily loans	94,327	3.4		71,811	2.6	
Total commercial real estate and multi-family residential loans	1,042,083	37.6				