LAKELAND FINANCIAL CORP
Form 10-Q
May 09, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 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 X 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):

Large accelerated filer _ Accelerated filer X 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 X

Number of shares of common stock outstanding at April 30, 2011: 16,200,619

LAKELAND FINANCIAL CORPORATION
Form 10-Q Quarterly Report
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PART II.

PART 1
LAKELAND FINANCIAL CORPORATION
ITEM 1 – FINANCIAL STATEMENTS

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

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	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$ 75,056	$ 42,513
Short-term investments	122,075	17,628
Total cash and cash equivalents	197,131	60,141
Securities available for sale (carried at fair value)	368,106	442,620
Real estate mortgage loans held for sale	697	5,606
Loans, net of allowance for loan losses of $48,495 and $45,007	2,055,871	2,044,952
Land, premises and equipment, net	30,597	30,405
Bank owned life insurance	39,284	38,826
Accrued income receivable	8,900	9,074
Goodwill	4,970	4,970
Other intangible assets	139	153
Other assets	43,545	45,179
Total assets	$ 2,749,240	$ 2,681,926

(continued)

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

(Page 2 of 2)

	March 31, 2011 (Unaudited)	December 31, 2010
LIABILITIES AND EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 302,552	$ 305,107
Interest bearing deposits	1,989,916	1,895,918
Total deposits	2,292,468	2,201,025
Short-term borrowings		
Securities sold under agreements to repurchase	142,430	142,015
U.S. Treasury demand notes	2,494	2,037
Other short-term borrowings	0	30,000
Total short-term borrowings	144,924	174,052
Accrued expenses payable	12,561	11,476
Other liabilities	2,177	2,318
Long-term borrowings	15,040	15,041
Subordinated debentures	30,928	30,928
Total liabilities	2,498,098	2,434,840
EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
16,198,619 shares issued and 16,103,335 outstanding as of March 31, 2011		
16,169,119 shares issued and 16,078,420 outstanding as of December 31, 2010	86,401	85,766
Retained earnings	164,754	161,299
Accumulated other comprehensive income	1,419	1,350
Treasury stock, at cost (2011 - 95,284 shares, 2010 - 90,699 shares)	(1,521)	(1,418)
Total stockholders' equity	251,053	246,997
Noncontrolling interest	89	89
Total equity	251,142	247,086

Total liabilities and equity	$	2,749,240	$	2,681,926

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

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LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2011 and 2010
(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended March 31, 2011	2010
NET INTEREST INCOME		
Interest and fees on loans		
Taxable	$ 25,865	$ 25,350
Tax exempt	121	19
Interest and dividends on securities		
Taxable	4,057	4,228
Tax exempt	689	645
Interest on short-term investments	18	14
Total interest income	30,750	30,256
Interest on deposits	6,685	6,515
Interest on borrowings		
Short-term	171	249
Long-term	360	531
Total interest expense	7,216	7,295
NET INTEREST INCOME	23,534	22,961
Provision for loan losses	5,600	5,526
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,934	17,435
NONINTEREST INCOME		
Wealth advisory fees	818	792
Investment brokerage fees	731	545
Service charges on deposit accounts	1,963	1,858
Loan, insurance and service fees	1,076	920
Merchant card fee income	234	280
Other income	372	532
Mortgage banking income	(49)	91
Net securities gains (losses)	(198)	0
Other than temporary impairment loss on available-for-sale securities:		
Total impairment losses recognized on securities	(121)	(193)

Loss recognized in other comprehensive income	0	22
Net impairment loss recognized in earnings	(121)	(171)
Total noninterest income	4,826	4,847

(continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2011 and 2010
(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
NONINTEREST EXPENSE		
Salaries and employee benefits	8,173	7,511
Occupancy expense	875	789
Equipment costs	554	529
Data processing fees and supplies	1,112	966
Credit card interchange	2	64
Other expense	3,452	3,189
Total noninterest expense	14,168	13,048
INCOME BEFORE INCOME TAX EXPENSE	8,592	9,234
Income tax expense	2,627	3,213
NET INCOME	$ 5,965	$ 6,021
Dividends and accretion of discount on preferred stock	0	805
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 5,965	$ 5,216
BASIC WEIGHTED AVERAGE COMMON SHARES	16,195,352	16,091,626
BASIC EARNINGS PER COMMON SHARE	$ 0.37	$ 0.32
DILUTED WEIGHTED AVERAGE COMMON SHARES	16,285,161	16,176,406
DILUTED EARNINGS PER COMMON SHARE	$ 0.37	$ 0.32

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 Three Months Ended March 31, 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			6,021			6,021
Other comprehensive income (loss), net of tax				2,682		2,682
Comprehensive income						8,703
Common stock cash dividends declared, $.155 per share			(2,493)			(2,493)
Treasury shares purchased under deferred directors' plan						
(5,411 shares)		95			(95)	0
Stock activity under stock compensation plans (21,100 shares)		197				197
Stock compensation expense		813				813
Short sale gain received		31				31
Accretion of preferred stock discount	104		(104)			0
Preferred stock dividend paid and/or accrued			(701)			(701)
	$ 54,199	$ 84,623	$ 152,668	$ (3,311)	$ (1,635)	$ 286,544

Balance at March 31, 2010											
Balance at January 1, 2011	$	0	$	85,766	$	161,299	$	1,350	$	(1,418)	$ 246,997
Comprehensive income:											
Net income						5,965					5,965
Other comprehensive income (loss), net of tax								69			69
Comprehensive income											6,034
Common stock cash dividends declared, $.155 per share						(2,510)					(2,510)
Treasury shares purchased under deferred directors' plan											
(4,585 shares)				103						(103)	0
Stock activity under stock compensation plans (24,500 shares)				266							266
Stock compensation expense				266							266
Balance at March 31, 2011	$	0	$	86,401	$	164,754	$	1,419	$	(1,521)	$ 251,053

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(in thousands)
(Unaudited)
(Page 1 of 2)

	2011	2010
Cash flows from operating activities:		
Net income	$ 5,965	$ 6,021
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	551	561
Provision for loan losses	5,600	5,526
Loss on sale and write down of other real estate owned	174	17
Amortization of intangible assets	14	13
Amortization of loan servicing rights	134	145
Net change in loan servicing rights valuation allowance	(3)	62
Loans originated for sale	(9,739)	(13,348)
Net gain on sales of loans	(322)	(319)
Proceeds from sale of loans	14,831	13,907
Net loss on sales of premises and equipment	10	0
Net loss on sales of securities available for sale	198	0
Impairment on available for sale securities	121	171
Net securities amortization	449	293
Stock compensation expense	266	813
Earnings on life insurance	(326)	(274)
Tax benefit of stock option exercises	(78)	(60)
Net change:		
Accrued income receivable	174	(530)
Accrued expenses payable	968	1,602
Other assets	1,177	36
Other liabilities	(38)	2,016
Total adjustments	14,161	10,631
Net cash from operating activities	20,126	16,652
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	68,847	0
Proceeds from maturities, calls and principal paydowns of securities available for sale	22,399	26,462
Purchases of securities available for sale	(17,251)	(35,117)
Purchase of life insurance	(132)	(9)
Net increase in total loans	(16,789)	(810)
Proceeds from sales of land, premises and equipment	14	(247)
Purchases of land, premises and equipment	(767)	265
Proceeds from sales of other real estate	576	0
Net cash from investing activities	56,897	(9,456)

(Continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(in thousands)
(Unaudited)
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	2011	2010
Cash flows from financing activities:		
Net increase (decrease) in total deposits	91,443	180,027
Net increase (decrease) in short-term borrowings	(29,128)	(142,965)
Payments on long-term borrowings	(1)	(1)
Common dividends paid	(2,510)	(2,492)
Preferred dividends paid	0	(701)
Proceeds from stock option exercise	266	225
Purchase of treasury stock	(103)	(96)
Net cash from financing activities	59,967	33,997
Net change in cash and cash equivalents	136,990	41,193
Cash and cash equivalents at beginning of the period	60,141	55,983
Cash and cash equivalents at end of the period	$ 197,131	$ 97,176
Cash paid during the period for:		
Interest	$ 6,323	$ 7,069
Income taxes	1,015	125
Supplemental non-cash disclosures:		
Loans transferred to other real estate	270	110

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

LAKELAND FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 period ending March 31, 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 March 31, 2011	2010
Net income	$ 5,965	$ 6,021
Dividends and accretion of discount on preferred stock	0	805
Net income available to common shareholders	$ 5,965	$ 5,216
Weighted average shares outstanding for basic earnings per common share	16,195,352	16,091,626
Dilutive effect of stock options and awards and warrants	89,809	84,780

Weighted average shares outstanding for diluted earnings per common share		16,285,161		16,176,406
Basic earnings per common share	$	0.37	$	0.32
Diluted earnings per common share	$	0.37	$	0.32

Stock options for 70,000 and 110,000 shares for the three month periods ended March 31, 2011 and March 31, 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 period ended March 31, 2010, were not considered in computing diluted earnings per share because they were antidilutive.

NOTE 3. LOANS

	March 31, 2011			December 31, 2010		
Commercial and industrial loans:						
Working capital lines of credit loans	$ 312,258	14.8	%	$ 281,546	13.4	%
Non-working capital loans	376,875	17.9		384,138	18.4	
Total commercial and industrial loans	689,133	32.7		665,684	31.8	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	112,339	5.3		106,980	5.1	
Owner occupied loans	334,562	15.9		329,760	15.8	
Nonowner occupied loans	346,971	16.5		355,393	17.0	
Multifamily loans	22,530	1.1		24,158	1.1	
Total commercial real estate and multi-family residential loans	816,402	38.8		816,291	39.0	
Agri-business and agricultural loans:						
Loans secured by farmland	99,073	4.7		111,961	5.4	
Loans for agricultural production	118,842	5.7		117,518	5.6	
Total agri-business and agricultural loans	217,915	10.4		229,479	11.0	
Other commercial loans	44,454	2.1		38,778	1.9	
Total commercial loans	1,767,904	84.0		1,750,232	83.7	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	106,176	5.0		103,118	4.9	
Open end and junior lien loans	176,725	8.4		182,325	8.7	
Residential construction and land development loans	3,438	0.2		4,140	0.2	
Total consumer 1-4 family mortgage loans	286,339	13.6		289,583	13.8	
Other consumer loans	50,804	2.4		51,123	2.5	
Total consumer loans	337,143	16.0		340,706	16.3	
Subtotal	2,105,047	100.0	%	2,090,938	100.0	%
Less: Allowance for loan losses	(48,495)			(45,007)		
Net deferred loan fees	(681)			(979)		
Loans, net	$2,055,871			$2,044,952		

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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 March 31, 2011:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
				(in thousands)		
Balance January 1,	$ 21,479	$ 15,893	$ 1,318	$ 270	$ 1,694	$ 68
Provision for loan losses	1,371	3,373	(124)	0	1,161	(8
Loans charged-off	(398)	(1,391)	0	0	(378)	(13
Recoveries	97	9	0	0	3	7
Net loans charged-off	(301)	(1,382)	0	0	(375)	(5
Balance March 31,	$ 22,549	$ 17,884	$ 1,194	$ 270	$ 2,480	$ 54
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7,612	$ 4,957	$ 276	$ 190	$ 69	$
Collectively evaluated for impairment	14,937	12,927	918	80	2,411	54
Total ending allowance balance	$ 22,549	$ 17,884	$ 1,194	$ 270	$ 2,480	$ 54
Loans:						
Loans individually evaluated for impairment	$ 20,739	$ 24,893	$ 1,185	$ 195	$ 1,675	$
	668,324	790,581	216,822	44,226	284,980	50,74

Loans collectively evaluated for impairment												
Total ending loans balance	$	689,063	$	815,474	$	218,007	$	44,421	$	286,655	$	50,74

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
				(in thousands)		
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 ended March 31, 2010:

	Three Months ended March 31, 2010
Balance at beginning of period	$ 32,073
Provision for loan losses	5,526
Loans charged-off	(1,532)
Recoveries	265
Net loans charged-off	(1,267)
Balance at end of period	$ 36,332

	Three Monthes ended March 31,	
	2011	2010
Allowance for loan losses to total loans	2.30%	1.81%

The following table presents loans individually evaluated for impairment as of and for the three month period ended March 31, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
			(in thousands)			
With no related allowance recorded:						
Commercial real estate and multi-family residential loans:						
Nonowner occupied loans	$ 857	$ 856	$ 0	$ 856	$ 0	$
With an allowance recorded:						
Commercial and industrial loans:						
Working capital lines of credit loans	5,630	5,631	3,303	5,615	3	
Non-working capital loans	15,107	15,108	4,309	15,163	127	[illegible]
Commercial real estate and multi-family residential loans:						
Construction and land development	1,395	1,393	245	1,396	0	

loans						
Owner occupied loans	2,942	2,943	912	3,205	6	
Nonowner occupied loans	19,711	19,701	3,800	19,950	17	
Multifamily loans	0	0	0	0	0	
Agri-business and agricultural loans:						
Loans secured by farmland	397	398	83	401	0	
Loans for agricultural production	787	787	193	819	0	
Other commercial loans	194	195	190	195	0	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	1,675	1,675	69	1,844	12	
Open end and junior lien loans	0	0	0	47	0	
Residential construction loans	0	0	0	0	0	
Other consumer loans	0	0	0	0	0	
Total	$ 48,695	$ 48,687	$ 13,104	$ 49,491	$ 165	$ 1

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 (in thousands)	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
Total	$ 48,015	$ 48,006	$ 12,141

The recorded investment in loans does not include accrued interest.

	March 31, 2010
Average of impaired loans during the year	$ 33,942
Interest income recognized during impairment	25
Cash-basis interest income recognized	21

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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 March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
	(in thousands)		(in thousands)	
Commercial and industrial loans:				
Non-impaired watch list loans	$ 284	$ 0	$ 372	$ 0
Working capital lines of credit loans	5,382	0	5,405	0
Non-working capital loans	4,656	0	4,786	0
Commercial real estate and multi-family residential loans:				
Non-impaired watch list loans	25	0	26	0
Construction and land development loans	1,393	0	1,400	0
Owner occupied loans	2,575	0	2,935	0
Nonowner occupied loans	19,250	0	19,049	0
Multifamily loans	0	0	0	0
Agri-business and agricultural loans:				
Non-impaired watch list loans	25	0	0	0
Loans secured by farmland	398	0	406	0
Loans for agricultural production	788	0	878	0
Other commercial loans		0	197	0
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	916	755	842	318
Open end and junior lien loans	0	0	267	0
Residential construction loans	0	0	0	0
Other consumer loans	196	9	20	12
Total	$ 35,888	$ 764	$ 36,583	$ 330

The recorded investment in loans does not include accrued interest.

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011 by class of loans:

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	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due (in thousands)	Loans Not Past Due	Total
Commercial and industrial loans:					
Non-impaired watch list loans	$ 0	$ 284	$ 284	$ 43,819	$ 44,103
Working capital lines of credit loans	0	5,382	5,382	293,898	299,280
Non-working capital loans	276	4,656	4,932	340,748	345,680
Commercial real estate and multi-family residential loans:					
Non-impaired watch list loans	0	25	25	58,257	58,282
Construction and land development loans	1,359	1,393	2,752	92,413	95,165
Owner occupied loans	0	2,575	2,575	311,783	314,358
Nonowner occupied loans	0	19,250	19,250	305,918	325,168
Multifamily loans	0	0	0	22,501	22,501
Agri-business and agricultural loans:					
Non-impaired watch list loans	0	25	25	4,069	4,094
Loans secured by farmland	0	398	398	96,655	97,053
Loans for agricultural production	0	788	788	116,072	116,860
Other commercial loans	0	0	0	44,421	44,421
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	1,996	1,671	3,667	102,288	105,955
Open end and junior lien loans	90	0	90	177,172	177,262
Residential construction loans	0	0	0	3,438	3,438
Other consumer loans	92	205	297	50,449	50,746
Total	$ 3,813	$ 36,652	$ 40,465	$ 2,063,901	$ 2,104,366

The recorded investment in loans does not include accrued interest.

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 (in thousands)	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
Total	$ 3,204	$ 36,913	$ 40,117	$ 2,049,842	$ 2,089,959

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 $5.5 million and $4.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 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.

	March 31, 2011	December 31, 2010
	(in thousands)	
Accruing troubled debt restructured loans	$ 7,656	$ 8,547
Nonaccrual troubled debt restructured loans	9,730	6,091
Total troubled debt restructured loans	$ 17,386	$ 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 to be 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 March 31, 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 (in thousands)	Doubtful	Not Rated
Commercial and industrial loans:					
Non-impaired watch list loans	$ 0	$ 15,995	$ 28,108	$ 0	$ 0
Working capital lines of credit loans	293,649	0	5,631	0	0
Non-working capital loans	328,670	7,100	8,008	0	1,894
Commercial real estate and multi-family residential loans:					
Non-impaired watch list loans	0	23,120	35,162	0	0
Construction and land development loans	93,772	0	1,393	0	0
Owner occupied loans	311,314	0	2,943	0	92
Nonowner occupied loans	304,611	0	20,557	0	0
Multifamily loans	22,501	0	0	0	0
Agri-business and agricultural loans:					
Non-impaired watch list loans	0	2,040	2,054	0	0
Loans secured by farmland	96,633	0	398	0	22
Loans for agricultural production	115,893	0	787	0	180
Other commercial loans	44,112	0	318	0	0
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	18,220	2,036	1,252	0	84,447
Open end and junior lien loans	13,701	0	171	0	163,388
	0	0	0	0	3,438

Residential construction loans										
Other consumer loans		10,741		0		497		0		39,518
Total	$	1,653,817	$	50,291	$	107,279	$	0	$	292,979

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 (in thousands)	Doubtful	Not Rated
Commercial and industrial loans:					
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
Commercial real estate and multi-family residential loans:					
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
Agri-business and agricultural loans:					
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
Other commercial loans	38,400	0	339	0	0
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	17,398	427	1,386	0	83,687
Open end and junior lien loans	13,380	0	178	0	169,341
Residential construction loans	0	0	0	0	4,136
Other consumer loans	9,394	0	497	0	41,220
Total	$ 1,620,820	$ 48,439	$ 120,062	$ 0	$ 300,638

The recorded investment in loans does not include accrued interest.

NOTE 5. 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.

	Fair Value	Gross Unrealized Gain	Gross Unrealized Losses	Amortized Cost
March 31, 2011				
U.S. Treasury securities	$ 1,029	$ 25	$ 0	$ 1,004
Agency residential mortgage-backed securities	257,068	5,673	(687)	252,082
Non-agency residential mortgage-backed securities	40,393	317	(2,121)	42,197
State and municipal securities	69,616	1,955	(250)	67,911
Total	$ 368,106	$ 7,970	$ (3,058)	$ 363,194
December 31, 2010				
U.S. Treasury securities	$ 1,036	$ 32	$ 0	$ 1,004
Agency residential mortgage-backed securities	308,851	10,422	(837)	299,266
Non-agency residential mortgage-backed securities	62,773	331	(6,136)	68,578
State and municipal securities	69,960	1,538	(637)	69,059
Total	$ 442,620	$ 12,323	$ (7,610)	$ 437,907

Information regarding the fair value and amortized cost of available for sale debt securities by maturity as of March 31, 2011 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 prepayment penalty.

	Fair Value	Amortized Cost
Due in one year or less	$ 1,570	$ 1,555
Due after one year through five years	13,211	12,683
Due after five years through ten years	37,127	36,067
Due after ten years	18,737	18,610
	70,645	68,915
Mortgage-backed securities	297,461	294,279
Total debt securities	$ 368,106	$ 363,194

Information regarding security proceeds, gross gains and gross losses are presented below.

	Three months ended March 31, 2011	2010
Sales of securities available for sale		
Proceeds	$ 68,847	$ 0
Gross gains	3,929	0
Gross losses	(4,127)	0

The Company sold 20 securities with a total book value of $69.1 million and a total fair value of $68.8 million during the first three months of 2011. The sales were related to a strategic realignment of the securities portfolio, and included six of the seven non-agency residential mortgage backed securities on which the Company had previously recognized other-than-temporary impairment. There were no securities sales during the first three months of 2010.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for 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 $265.2 million and $253.1 million were pledged as of March 31, 2011 and 2010, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2011 and December 31, 2010 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2011						
U.S. Treasury securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agency residential mortgage-backed securities	58,049	687	0	0	58,049	687
Non-agency residential mortgage-backed securities	0	0	29,621	2,121	29,621	2,121
State and municipal securities	10,656	199	430	51	11,086	250
Total temporarily impaired	$ 68,705	$ 886	$ 30,051	$ 2,172	$ 98,756	$ 3,058
December 31, 2010						
U.S. Treasury securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agency residential mortgage-backed securities	55,193	821	4,170	16	59,363	837
Non-agency residential mortgage-backed securities	1,607	2	50,786	6,134	52,393	6,136
State and municipal securities	15,811	577	422	60	16,233	637
Total temporarily impaired	$ 72,611	$ 1,400	$ 55,378	$ 6,210	$ 127,989	$ 7,610

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The number of securities with unrealized losses as of March 31, 2011 and December 31, 2010 is presented below.

	Less than 12 months	12 months or more	Total
March 31, 2011			
U.S. Treasury securities	0	0	0
Agency residential mortgage-backed securities	15	0	15
Non-agency residential mortgage-backed securities	0	9	9
State and municipal securities	21	1	22
Total temporarily impaired	36	10	46
December 31, 2010			
U.S. Treasury securities	0	0	0
Agency residential mortgage-backed securities	13	1	14
Non-agency residential mortgage-backed securities	1	18	19
State and municipal securities	35	1	36
Total temporarily impaired	49	20	69

All of the following are considered to determine whether or not the impairment of these securities is other-than-temporary. Eighty seven 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 municipal securities which are not rated. Mortgage-backed securities which are not issued by the U.S. Government or government sponsored agencies (non-agency residential mortgage-backed securities) met specific criteria set by the Asset Liability Management Committee at their time of purchase, including having the highest rating available by either Moody's or S&P. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed have been received. For the government, government-sponsored agency and municipal securities, management did not have concerns of credit losses and there was nothing to indicate that full principal will not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and did not expect material losses given current market conditions unless the securities are sold, which at this time management does not have the intent to sell nor will it more likely than not be required to sell these securities before the recovery of their amortized cost basis.

As of March 31, 2011, the Company had $40.4 million of collateralized mortgage obligations which were not issued by the federal government or government sponsored agencies, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase. At December 31, 2010, the Company had $62.8 million of these collateralized mortgage obligations. During the first quarter of 2011, the Company sold eight of the non-agency residential mortgage backed securities as part of a strategic realignment of the investment portfolio. The securities sold had a book value of $21.9 million and a fair value of $17.7 million. The sales included six of the seven non-agency mortgage backed securities on which the Company had previously recognized other-than-temporary impairment. Two of the 15 remaining non-agency residential mortgage backed securities were still rated AAA/Aaa as of March 31, 2011, but 13 were downgraded by S&P, Fitch and/or Moody's, including nine which were ranked below investment grade by one or more rating agencies. Of the five securities rated AAA/Aaa at December 31, 2010, three have been downgraded, but were still rated as investment grade. Of the 10 that were below AAA/Aaa at December 31, 2010, one incurred further downgrades.

For these non-agency residential mortgage-backed securities, additional analysis is performed to determine if the impairment is temporary or other-than-temporary in which case impairment would need to be recorded for these securities. The Company performs an independent analysis of the cash flows of the individual securities based upon assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses. Based upon the initial review, securities may be identified for further analysis computing the net present value using an appropriate discount rate (the current accounting yield) and comparing it to the book value of the security to determine if there is any other-than-temporary impairment that must be recorded. Based on this analysis of the non-agency residential mortgage-backed securities, the Company recorded an other-than-temporary impairment of $121,000 relating to one security in the three-months ended March 31, 2011, which is equal to the credit loss, establishing a new, lower amortized cost basis. Because management did not have the intent to sell these securities nor did management believe that it was more likely than not they would be required to sell these securities before the recovery of their new, lower amortized cost basis, management did not consider the remaining unrealized losses of the investment securities to be other-than-temporarily impaired at March 31, 2011.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income. The table represents the three months ended March 31, 2011 and 2010.

Three Months Ended March 31, 2011	Accumulated Credit Losses
Balance January 1, 2011	$ 1,812
Sales of securities for which other-than-temporary impairment losses were previously recognized	(1,739)