

LAKELAND BANCORP INC
Form 10-Q
August 09, 2012
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission file number 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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New Jersey (State or other jurisdiction of incorporation or organization)	22-2953275 (I.R.S. Employer Identification No.)
250 Oak Ridge Road, Oak Ridge, New Jersey (Address of principal executive offices)	07438 (Zip Code)
(973) 697-2000 (Registrant's telephone number, including area code)	

(Former name, former address and former fiscal year, if changed since last report.)

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, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting Company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 27, 2012 there were 26,996,085 outstanding shares of Common Stock, no par value.

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LAKELAND BANCORP, INC.

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The Securities and Exchange Commission maintains a web site which contains reports, proxy and information statements and other information relating to registrants that file electronically at the address: <http://www.sec.gov>.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 (unaudited)	December 31, 2011
	(dollars in thousands except share and per share amounts)	
ASSETS:		
Cash	\$ 61,843	\$ 60,688
Interest-bearing deposits due from banks	14,875	11,870
Total cash and cash equivalents	76,718	72,558
Investment securities available for sale, at fair value	416,984	463,611
Investment securities held to maturity; fair value of \$94,129 in 2012 and \$74,274 in 2011	91,348	71,700
Federal Home Loan Bank Stock, at cost	8,100	8,333
Loans, net of deferred costs	2,088,784	2,041,575
Less: allowance for loan and lease losses	28,543	28,416
Net loans	2,060,241	2,013,159
Premises and equipment, net	32,020	27,917
Accrued interest receivable	7,771	8,369
Goodwill	87,111	87,111
Bank owned life insurance	45,438	44,760
Other assets	27,471	28,432
TOTAL ASSETS	\$ 2,853,202	\$ 2,825,950
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 474,233	\$ 449,560
Savings and interest-bearing transaction accounts	1,476,127	1,440,541
Time deposits under \$100 thousand	201,817	211,797
Time deposits \$100 thousand and over	125,223	147,755
Total deposits	2,277,400	2,249,653
Federal funds purchased and securities sold under agreements to repurchase	92,958	72,131
Other borrowings	145,000	155,000
Subordinated debentures	77,322	77,322
Other liabilities	13,581	12,061
TOTAL LIABILITIES	2,606,261	2,566,167
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, Series A, no par value, \$1,000 liquidation value, authorized 1,000,000 shares; issued 0 shares at June 30, 2012 and 19,000 shares at December 31, 2011		18,480
Common stock, no par value; authorized shares, 40,000,000; issued 27,274,714 shares at June 30, 2012 and 27,275,480 shares at December 31, 2011	278,593	270,044
Accumulated deficit	(31,764)	(26,061)
Treasury stock, at cost, 281,812 shares at June 30, 2012 and 439,340 at December 31, 2011	(3,546)	(5,551)

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Accumulated other comprehensive income	3,658	2,871
TOTAL STOCKHOLDERS EQUITY	246,941	259,783
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,853,202	\$ 2,825,950

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

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries**

CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
INTEREST INCOME				
Loans, leases and fees	\$ 25,272	\$ 26,120	\$ 50,730	\$ 52,785
Federal funds sold and interest-bearing deposits with banks	6	11	12	23
Taxable investment securities and other	2,207	2,962	4,547	5,675
Tax-exempt investment securities	453	507	943	1,006
TOTAL INTEREST INCOME	27,938	29,600	56,232	59,489
INTEREST EXPENSE				
Deposits	2,139	2,807	4,395	5,738
Federal funds purchased and securities sold under agreements to repurchase	28	28	56	55
Other borrowings	2,023	2,344	4,087	4,691
TOTAL INTEREST EXPENSE	4,190	5,179	8,538	10,484
NET INTEREST INCOME	23,748	24,421	47,694	49,005
Provision for loan and lease losses	3,877	5,406	8,433	10,333
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	19,871	19,015	39,261	38,672
NONINTEREST INCOME				
Service charges on deposit accounts	2,710	2,571	5,157	5,049
Commissions and fees	1,259	1,040	2,239	1,872
Gains on investment securities	241	444	273	444
Income on bank owned life insurance	339	359	678	714
Gains on leasing related assets	119	230	303	693
Other income	103	66	178	168
TOTAL NONINTEREST INCOME	4,771	4,710	8,828	8,940
NONINTEREST EXPENSE				
Salaries and employee benefits	9,565	9,199	19,000	18,185
Net occupancy expense	1,636	1,602	3,324	3,513
Furniture and equipment	1,139	1,225	2,222	2,389
Stationery, supplies and postage	355	395	691	760
Marketing expense	458	619	928	1,234
Core deposit intangible amortization		266		531
FDIC insurance expense	546	595	1,101	1,542
Collection expense	34	60	173	125
Legal expense	346	411	745	706
Expenses on other real estate owned and other repossessed assets	38	200	76	472
Other expenses	2,353	2,160	4,485	4,301
TOTAL NONINTEREST EXPENSE	16,470	16,732	32,745	33,758
Income before provision for income taxes	8,172	6,993	15,344	13,854
Income tax expense	2,719	2,135	4,920	4,225

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NET INCOME	\$ 5,453	\$ 4,858	\$ 10,424	\$ 9,629
Dividends on Preferred Stock and Accretion		294	620	1,580
Net Income Available to Common Stockholders	\$ 5,453	\$ 4,564	\$ 9,804	\$ 8,049
PER SHARE OF COMMON STOCK				
Basic earnings	\$ 0.20	\$ 0.17	\$ 0.36	\$ 0.30
Diluted earnings	\$ 0.20	\$ 0.17	\$ 0.36	\$ 0.30
Dividends	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.11

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

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
NET INCOME	\$ 5,453	\$ 4,858	\$ 10,424	\$ 9,629
OTHER COMPREHENSIVE INCOME NET OF TAX:				
Unrealized securities gains during period	823	2,228	954	3,104
Less: reclassification for gains included in net income	156	290	177	290
Change in pension liability, net	5	6	10	10
Other Comprehensive Income	672	1,944	787	2,824
TOTAL COMPREHENSIVE INCOME	\$ 6,125	\$ 6,802	\$ 11,211	\$ 12,453

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY - UNAUDITED

Six Months ended June 30, 2012

	Common stock		Series A	Accumulated	Treasury	Accumulated	Total
	Number of	Amount	Preferred	deficit	Stock	Other	
	Shares		Stock	(dollars in thousands)		Comprehensive	
						Income	
BALANCE January 1, 2012	25,976,648	\$ 270,044	\$ 18,480	(\$ 26,061)	(\$ 5,551)	\$ 2,871	\$ 259,783
Net Income				10,424			10,424
Other comprehensive income, net of tax						787	787
Preferred dividends				(100)			(100)
Accretion of discount			520	(520)			
Stock based compensation		368					368
Redemption of preferred stock			(19,000)				(19,000)
Warrant Repurchase		(2,800)					(2,800)
Adjustment for stock dividend	1,298,066	12,345		(12,345)			
Issuance of restricted stock awards		(1,153)			1,153		
Issuance of stock to dividend reinvestment and stock purchase plan		(229)		(515)	852		108
Exercise of stock options, net of excess tax benefits		18					18
Cash dividends, common stock				(2,647)			(2,647)
BALANCE June 30, 2012 (UNAUDITED)	27,274,714	\$ 278,593	\$	(\$ 31,764)	(\$ 3,546)	\$ 3,658	\$ 246,941

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

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	For the six months ended June 30,	
	2012	2011
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,424	\$ 9,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	3,122	3,135
Depreciation and amortization	1,435	1,999
Provision for loan and lease losses	8,433	10,333
Gains on securities	(273)	(444)
Gains on leases	(273)	(699)
Losses (gains) on sales of other assets	(72)	69
Losses on sales of premises and equipment		10
Stock-based compensation	368	316
Decrease in other assets	485	1,949
Increase (decrease) in other liabilities	1,654	(680)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,303	25,617
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments on and maturity of securities:		
Available for sale	62,595	83,304
Held to maturity	19,974	6,139
Proceeds from sales of securities		
Available for sale	53,718	39,928
Purchase of securities:		
Available for sale	(71,062)	(79,915)
Held to maturity	(39,699)	(10,605)
Net decrease in Federal Home Loan Bank Stock	233	2,648
Proceeds from sales of leases		16,433
Net (increase) decrease in loans and leases	(55,932)	2,270
Proceeds from sales of other repossessed assets	535	1,307
Capital expenditures	(5,538)	(1,336)
Proceeds from sales of bank premises and equipment		10
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(35,176)	60,183
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	27,747	(13,506)
Increase in federal funds purchased and securities sold under agreements to repurchase	20,827	38,128
Proceeds from other borrowings	230,000	15,000
Repayments of other borrowings	(240,000)	(80,000)
Redemption of preferred stock and common stock warrant	(21,800)	(20,000)
Exercise of stock options		72
Excess tax benefits	18	29
Issuance of stock to dividend reinvestment and stock purchase plan	108	163
Dividends paid	(2,867)	(3,299)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	14,033	(63,413)

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Net increase in cash and cash equivalents	4,160	22,387
Cash and cash equivalents, beginning of period	72,558	49,278
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 76,718	\$ 71,665

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation.

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. (the Company) and its subsidiary, Lakeland Bank (Lakeland). The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry.

The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair statement of the results of the interim periods presented. The results of operations for the quarter presented do not necessarily indicate the results that the Company will achieve for all of 2012. You should read these interim financial statements in conjunction with the audited consolidated financial statements and accompanying notes that are presented in the Lakeland Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2011.

The financial information in this quarterly report has been prepared in accordance with the Company's customary accounting practices. Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

On March 19, 2012, the Company's Board of Directors authorized a 5% stock dividend which was distributed on April 16, 2012 to holders of record as of March 30, 2012. All weighted average, actual share and per share information set forth in this Quarterly Report on Form 10-Q have been adjusted retroactively for the effects of the stock dividend.

Certain reclassifications have been made to prior period financial statements to conform to the 2012 presentation.

Note 2. Stock-Based Compensation

Share-based compensation expense of \$368,000 and \$316,000 was recognized for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, there was unrecognized compensation cost of \$1.6 million related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of approximately 3.2 years. Unrecognized compensation expense related to unvested stock options was approximately \$33,000 as of June 30, 2012 and is expected to be recognized over a period of 1.9 years.

In the first six months of 2012, the Company granted 91,269 shares of restricted stock at a grant date fair value of \$9.50 per share under the Company's 2009 equity compensation program. These shares vest over a five year period. Compensation expense on these shares is expected to average approximately \$173,000 per year for the next five years. In the first six months of 2011, the Company granted 100,112 shares of restricted stock at a grant date fair value of \$9.40 per share under the 2009 program. Compensation expense on these shares is expected to average approximately \$188,000 per year over a five year period.

There were no grants of stock options in the first six months of 2012 and 2011.

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Option activity under the Company's stock option plans is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2012	598,477	\$ 12.57		\$
Issued				
Exercised				
Forfeited				
Outstanding, June 30, 2012	598,477	\$ 12.57	2.59	\$ 67,882
Options exercisable at June 30, 2012	587,319	\$ 12.66	2.49	\$ 42,310

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first six months of 2012 and the exercise price, multiplied by the number of in-the-money options).

There were no options exercised in the first half of 2012. The aggregate intrinsic value of options exercised during the six months ended June 30, 2011 was \$78,000. Exercise of stock options during the first six months of 2011 resulted in cash receipts of \$72,000.

Information regarding the Company's restricted stock (all unvested) and changes during the six months ended June 30, 2012 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2012	172,772	\$ 8.96
Granted	91,269	9.50
Vested	(20,552)	6.82
Forfeited	(1,050)	9.34
Outstanding, June 30, 2012	242,439	\$ 9.34

Table of Contents**Note 3. Comprehensive Income**

The components of other comprehensive income are as follows:

For the quarter ended:	June 30, 2012			June 30, 2011		
	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount
Net unrealized gains on available for sale securities						
Net unrealized holding gains arising during period	\$ 1,314	(\$ 491)	\$ 823	\$ 3,503	(\$ 1,275)	\$ 2,228
Less reclassification adjustment for net gains arising during the period	241	(85)	156	444	(154)	290
Net unrealized gains	\$ 1,073	(\$ 406)	\$ 667	\$ 3,059	(\$ 1,121)	\$ 1,938
Change in minimum pension liability	7	(2)	5	8	(2)	6
Other comprehensive income, net	\$ 1,080	(\$ 408)	\$ 672	\$ 3,067	(\$ 1,123)	\$ 1,944
For the six months ended:	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount
Net unrealized gains on available for sale securities						
Net unrealized holding gains arising during period	\$ 1,508	(\$ 554)	\$ 954	\$ 4,867	(\$ 1,763)	\$ 3,104
Less reclassification adjustment for net gains arising during the period	273	(96)	177	444	(154)	290
Net unrealized gains	\$ 1,235	(\$ 458)	\$ 777	\$ 4,423	(\$ 1,609)	\$ 2,814
Change in minimum pension liability	15	(5)	10	15	(5)	10
Other comprehensive income, net	\$ 1,250	(\$ 463)	\$ 787	\$ 4,438	(\$ 1,614)	\$ 2,824

Note 4. Statement of Cash Flow Information, Supplemental Information

	For the six months ended June 30,	
	2012	2011
	(in thousands)	
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the period for income taxes	\$ 2,962	\$ 3,921
Cash paid during the period for interest	8,679	10,529
Transfer of loans and leases into other repossessed assets and other real estate owned	531	1,223
Transfer of leases held for sale to leases held for investment		1,517

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All weighted average, actual share and per share information set forth in this quarterly report on Form 10-Q for the six months ended June 30, 2012 and 2011 have been adjusted retroactively for the effects of the stock dividend distributed on April 16, 2012. The following schedule shows the Company's earnings per share for the periods presented:

(In thousands, except per share data)	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Net income available to common shareholders	\$ 5,453	\$ 4,564	\$ 9,804	\$ 8,049
Less: earnings allocated to participating securities	49	33	85	58
Net income allocated to common shareholders	\$ 5,404	\$ 4,531	\$ 9,719	\$ 7,991
Weighted average number of common shares outstanding - basic (1)	26,737	26,555	26,719	26,533
Share-based plans (1)	63	199	55	165
Weighted average number of common shares - diluted (1)	26,800	26,754	26,774	26,698
Basic earnings per share	\$ 0.20	\$ 0.17	\$ 0.36	\$ 0.30
Diluted earnings per share	\$ 0.20	\$ 0.17	\$ 0.36	\$ 0.30

(1) Adjusted for 5% stock dividend distributed April 16, 2012 to shareholders of record on March 30, 2012.

Options to purchase 570,914 shares of common stock at a weighted average price of \$12.79 per share were outstanding and were not included in the computation of diluted earnings per share for the quarter ended June 30, 2012 because the exercise price was greater than the average market price. Options to purchase 665,588 shares of common stock at a weighted average price of \$12.69 per share were not included in the computation of diluted earnings per share for the quarter ended June 30, 2011 because the exercise price was greater than the average market price.

Options to purchase 570,914 shares of common stock at a weighted average price of \$12.79 per share were outstanding and were not included in the computation of diluted earnings per share for the six months ended June 30, 2012 because the exercise price was greater than the average market price. Options to purchase 665,588 shares of common stock at a weighted average price of \$12.69 per share and 82,721 shares of restricted stock at a weighted average price of \$9.41 per share were outstanding and were not included in the computation of diluted earnings per share for the six months ended June 30, 2011 because the exercise price and the grant-date price, respectively, were greater than the average market price.

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AVAILABLE FOR SALE (in thousands)	June 30, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	\$ 37,235	\$ 178	\$ (1)	\$ 37,412	\$ 43,463	\$ 140	\$	\$ 43,603
Mortgage-backed securities	306,434	5,340	(243)	311,531	344,938	5,014	(428)	349,524
Obligations of states and political subdivisions	34,118	1,723	(52)	35,789	34,102	1,875	(9)	35,968
Other debt securities	17,596	36	(791)	16,841	20,965	72	(1,320)	19,717
Equity securities	14,766	670	(25)	15,411	14,543	306	(50)	14,799
	\$ 410,149	\$ 7,947	\$ (1,112)	\$ 416,984	\$ 458,011	\$ 7,407	\$ (1,807)	\$ 463,611

HELD TO MATURITY (in thousands)	June 30, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	\$ 9,998	\$ 225	\$	\$ 10,223	\$ 9,005	\$ 134	\$	\$ 9,139
Mortgage-backed securities	41,482	1,348		42,830	20,577	1,148	(1)	21,724
Obligations of states and political subdivisions	38,314	1,132	(46)	39,400	40,559	1,305	(9)	41,855
Other debt securities	1,554	122		1,676	1,559	72	(75)	1,556
	\$ 91,348	\$ 2,827	\$ (46)	\$ 94,129	\$ 71,700	\$ 2,659	\$ (85)	\$ 74,274

The following table shows investment securities by stated maturity. Securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay, and are, therefore, classified separately with no specific maturity date (in thousands):

	June 30, 2012			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 5,136	\$ 5,164	\$ 15,148	\$ 15,208
Due after one year through five years	40,813	40,879	12,756	13,401
Due after five years through ten years	39,276	40,504	18,575	19,323
Due after ten years	3,724	3,495	3,387	3,367
	88,949	90,042	49,866	51,299
Mortgage-backed securities	306,434	311,531	41,482	42,830
Equity securities	14,766	15,411		
Total securities	\$ 410,149	\$ 416,984	\$ 91,348	\$ 94,129

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The following table shows proceeds from sales of securities, gross gains and gross losses on sales or calls of securities and other than temporary impairments for the periods indicated (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Sale proceeds	\$ 37,178	\$ 39,928	\$ 53,718	\$ 39,928
Gross gains	485	500	584	500
Gross losses	(244)	(56)	(311)	(56)

Other than temporary impairment

Gains or losses on sales of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

Securities with a carrying value of approximately \$314.4 million and \$343.7 million at June 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following table indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2012 and December 31, 2011:

June 30, 2012

	Less than 12 months		12 months or longer		Number of securities	Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses		Fair value	Unrealized Losses
(dollars in thousands)							
AVAILABLE FOR SALE							
U.S. government agencies	\$ 4,998	\$ 1	\$	\$	1	\$ 4,998	\$ 1
Mortgage-backed securities	32,577	235	3,842	8	11	36,419	243
Obligations of states and political subdivisions	2,215	52			6	2,215	52
Other debt securities	6,053	64	5,257	727	5	11,310	791
Equity securities	4,604	25			2	4,604	25
	\$ 50,447	\$ 377	\$ 9,099	\$ 735	25	\$ 59,546	\$ 1,112

HELD TO MATURITY

Obligations of states and political subdivisions	\$ 3,011	\$ 40	\$ 395	\$ 6	10	\$ 3,406	\$ 46
	\$ 3,011	\$ 40	\$ 395	\$ 6	10	\$ 3,406	\$ 46

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December 31, 2011	Less than 12 months		12 months or longer		Number of securities	Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses		Fair value	Unrealized Losses
(dollars in thousands)							
AVAILABLE FOR SALE							
U.S. government agencies	\$	\$	\$	\$		\$	\$
Mortgage-backed securities	81,067	398	9,201	30	23	90,268	428
Obligations of states and political subdivisions	2,171	9	20		5	2,191	9
Other debt securities	467	12	5,645	1,308	4	6,112	1,320
Equity securities	5,043	50			4	5,043	50
	\$ 88,748	\$ 469	\$ 14,866	\$ 1,338	36	\$ 103,614	\$ 1,807
HELD TO MATURITY							
Mortgage-backed securities	\$ 1,513	\$ 1	\$	\$	1	\$ 1,513	\$ 1
Obligations of states and political subdivisions	790	2	395	7	4	1,185	9
Other debt securities	957	75			2	957	75
	\$ 3,260	\$ 78	\$ 395	\$ 7	7	\$ 3,655	\$ 85

Management has evaluated the securities in the above table and has concluded that none of the securities with unrealized losses have impairments that are other-than-temporary. In its evaluation, management considered the credit rating on the securities and the results of discounted cash flow analyses. All investment securities are evaluated on a periodic basis to determine if factors are identified that would require further analysis. In evaluating the Company's securities, management considers the following items:

The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;

The Company's ability and intent to hold the securities, including an evaluation of the need to sell the security to meet certain liquidity measures, or whether the Company has sufficient levels of cash to hold the identified security in order to recover the entire amortized cost of the security;

The length of time the security's fair value has been less than amortized cost; and

Adverse conditions related to the security or its issuer if the issuer has failed to make scheduled payments or other factors. As of June 30, 2012, equity securities included \$13.0 million in investment funds that do not have a quoted market price but use net asset value per share or its equivalent to measure fair value.

The funds include \$2.9 million in funds that are primarily invested in community development loans that are guaranteed by the Small Business Administration (SBA). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed within 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of June 30, 2012, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to this investment.

The funds also include \$10.1 million in funds that are invested in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. As of June 30, 2012, the amortized cost of these securities was \$9.9 million and the fair value was \$10.1 million. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to this investment.

Table of Contents**Note 7. Loans and Leases.**

The following sets forth the composition of Lakeland's loan and lease portfolio as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in thousands)	
Commercial, secured by real estate	\$ 1,060,575	\$ 1,012,982
Commercial, industrial and other	216,406	209,915
Leases	25,603	28,879
Real estate-residential mortgage	421,338	406,222
Real estate-construction	56,151	79,138
Home equity and consumer	308,622	304,190
Total loans	2,088,695	2,041,326
Plus: deferred costs, net of fees	89	249
Loans, net of deferred costs	\$ 2,088,784	\$ 2,041,575

Non-Performing Assets and Past Due Loans

The following schedule sets forth certain information regarding the Company's non-performing assets and its accruing troubled debt restructurings:

(in thousands)	June 30, 2012	December 31, 2011
Commercial, secured by real estate	\$ 9,304	\$ 16,578
Commercial, industrial and other	1,650	4,608
Leases	536	575
Real estate - residential mortgage		