InfuSystem Holdings, Inc
Form ARS
April 20, 2011

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2010 Annual Report

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C., 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 000-51902

INFUSYSTEM HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-3341405**

(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

31700 Research Park Drive

Madison Heights, Michigan 48071

(Address of Principal Executive Offices) (Zip Code)

Registrant s Telephone Number, including Area Code:

(248) 291-1210

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Common Stock, par value $0.0001 per share	**New York Stock Exchange Amex**

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 periods as 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ¨

Non-accelerated filer ¨ Smaller reporting company x
(Do not check if smaller reporting company.)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

The aggregate market value of the registrant s voting equity held by non-affiliates of the registrant, computed by reference to the closing sales price for the registrant s common stock on June 30, 2010, as reported on the OTC Bulletin Board, was approximately $40,828,912. In determining the market value of the voting equity held by non-affiliates, securities of the registrant beneficially owned by directors and officers of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant s common stock outstanding as of March 9, 2011 was 21,105,506.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of this registrant s definitive proxy statement for its 2011 Annual Meeting of Stockholders to be filed with the SEC no later than 120 days after the end of the registrant s fiscal year are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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Cautionary Statement about Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding the future financial position, business strategy, plans, and objectives of management for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, should, plan, expect, and similar expressions, as they relate to us, are intended to identify forwar statements. We have based these forward-looking statements largely on current expectations and projections about future events and financial trends that we believe may affect financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, without limitation, those described in Risk Factors and elsewhere in this Annual Report on Form 10-K, including, among other things:

- dependence on our Medicare Supplier Number;
- changes in third-party reimbursement rates;
- availability of chemotherapy drugs used in our infusion pump systems;
- physician s acceptance of infusion pump therapy over oral medications;
- our growth strategy, involving entry into new fields of infusion-based therapy;
- the current global financial crisis;
- industry competition; and
- dependence upon our suppliers.

These risks are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

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PART I

References in this Annual Report on Form 10-K to we, us, or the Company are to InfuSystem Holdings, Inc. and its subsidiaries.

Item 1. Business.
Background

We were formed as a Delaware blank check company in 2005 for the purpose of acquiring through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more operating businesses in the healthcare sector. We completed our initial public offering on April 18, 2006. On September 29, 2006, we entered into a Stock Purchase Agreement (as, amended the Stock Purchase Agreement) with I-Flow Corporation (I-Flow), Iceland Acquisition subsidiaries, our wholly-owned subsidiaries, and InfuSystem, a wholly-owned subsidiary of I-Flow Corporation. Upon the closing of the transactions contemplated by the Stock Purchase Agreement on October 25, 2007, Iceland Acquisition subsidiaries purchased all of the issued and outstanding capital stock of InfuSystem from I-Flow and concurrently merged with and into InfuSystem. As a result of the merger, Iceland Acquisition subsidiaries ceased to exist as an independent entity and InfuSystem, as the corporation surviving the merger, became our wholly-owned subsidiary Effective October 25, 2007, we changed our corporate name from HAPC, INC. to InfuSystem Holdings, Inc.

InfuSystem was incorporated under the laws of the State of California in December 1997 under the name I-Flow subsidiary, Inc., as a wholly owned subsidiary of I-Flow. In February 1998, I-Flow subsidiary, Inc. acquired Venture Medical, Inc. and InfuSystem II, Inc. in a merger transaction pursuant to which I-Flow subsidiary, Inc. as the surviving corporation changed its name to InfuSystem, Inc.

Business Concept and Strategy

The Company is the leading provider of infusion pumps and related services. The Company services hospitals, oncology practices and other alternate site healthcare providers. Headquartered in Madison Heights, Michigan, the Company delivers local, field-based customer support, and also operates pump service and repair Centers of Excellence in Michigan, Kansas, California, and Ontario, Canada.

Our core service is to supply electronic ambulatory infusion pumps and associated disposable supply kits to oncology practices, infusion clinics and hospital outpatient chemotherapy clinics to be utilized in the treatment of a variety of cancers including colorectal cancer. Colorectal cancer (CRC) is the second most prevalent form of cancer in the United States, according to the American Cancer Society, and the standard of care for the treatment of CRC relies upon continuous chemotherapy infusions delivered via electronic ambulatory infusion pumps.

The Company provides these pumps and related supplies to oncology clinics, obtains an assignment of insurance benefits from the patient, and bills the patient s insurance company or patient as appropriate, for the use of the pump and supplies, and collects payment. The Company provides pump management services for the pumps and associated disposable supply kits to over 1,300 oncology practices in the United States. The Company retains title to the pumps during this process.

In addition, the Company sells, rents and leases new and pre-owned pole mounted and ambulatory infusion pumps to, and provides biomedical certification, maintenance and repair services for, these same oncology practices as well as to other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others in the United States and Canada. The Company also provides these products and services to customers in the hospital market.

The Company purchases new and pre-owned pole mounted and ambulatory infusion pumps from a variety of sources on a non-exclusive basis. The Company repairs, refurbishes and provides biomedical certification for the devices as needed. The pumps are then available for sales, rental or to be used within the Company s ambulatory infusion pump management service.

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One aspect of our business strategy over the next one to three years is to expand into treatment of other cancers. We currently generate approximately 20% of our revenue from treatments for disease states other than colorectal cancer. There are a number of approved treatment regimens for head and neck, pancreatic, esophageal and other gastric cancers which present opportunities for growth. There are also a number of other drugs currently approved by the U.S. Food and Drug Administration (the FDA), as well as agents in the pharmaceutical development pipeline, which we believe could potentially be used with continuous infusion protocols for the treatment of other diseases in addition to colorectal cancer. Drugs or protocols currently in clinical trials may also obtain regulatory approval over the next several years. If these new drugs obtain regulatory approval for use with continuous infusion protocols, we expect the pharmaceutical companies to focus their sales and marketing forces on promoting the new drugs and protocols to physicians.

Another aspect of our business strategy over the next one to three years is to actively pursue opportunities for the expansion of our business through strategic alliances, joint ventures and/or acquisitions. We believe there are opportunities to acquire smaller, regional competitors that perform similar services to us, but do not have the national market access, a network of third party payor contracts or operating economies of scale that we currently enjoy. We also plan to leverage our extensive networks of oncology practices and insurers by distributing complementary products and introducing key new services.

We face risks that other competitors can provide the same services as us. Those risks are currently mitigated by our existing third party payor contracts and economies of scale, which allow for predictable reimbursement and less costly purchase and management of the pumps, respectively. Additionally, we have already established a long standing relationship as a provider of pumps to over 1,300 oncology practices in the United States. We believe that there are competitive barriers to entry against other suppliers with respect to these oncology practices because we have an established national presence and third party payor contracts in place covering approximately 195 million third party payor lives (i.e., persons enrolled in various managed care plans or commercial insurance carriers such as health maintenance organizations and preferred provider organizations) increasing the likelihood that we participate in the insurance networks of patients to whom physicians wish to refer an ambulatory infusion pump provider. Moreover, we have an available inventory of approximately 21,000 active ambulatory infusion pumps, which may allow us to be more responsive to the needs of physicians and patients than a new market entrant. We do not perform any research and development.

First Biomedical

On June 15, 2010, we acquired all of the issued and outstanding stock of First Biomedical, Inc (First Biomedical) pursuant to a Stock Purchase Agreement with the stockholders of First Biomedical.

First Biomedical sells, rents, services and repairs new and pre-owned infusion pumps and other medical equipment. It also sells a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. Headquartered in Olathe, Kansas, with additional facilities in California and Toronto, First Biomedical is a leading provider to alternate site healthcare facilities and hospitals in the United States and Canada. The acquisition of First Biomedical has allowed us to expand our offerings to existing customers with the addition of biomedical service and repair, while simultaneously bolstering the growth of infusion pump sales within our existing and potential future markets.

First Biomedical s results of operations are included in our consolidated statements of operations from the date of acquisition.

Continuous Infusion Therapy

Continuous infusion of chemotherapy involves the gradual administration of a drug via a small, lightweight, portable electronic infusion pump over a prolonged period of time, defined as greater than 8 hours, and up to 24 hours daily. A cancer patient can receive his or her medicine anywhere from 1 to 30 days per month depending

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on the chemotherapy regimen that is most appropriate to that individual s health status and disease state. This may be followed by periods of rest and then repeated cycles with treatment goals of progression free disease survival. This drug administration method has replaced intravenous push or bolus administration in specific circumstances. The advantages of slow continuous low doses of certain drugs are well documented. Clinical studies support the use of continuous infusion chemotherapy for decreased toxicity without loss of anti-tumor efficacy. The 2009/2010 National Comprehensive Cancer Network (NCCN) Guidelines recommend the use of continuous infusion for treatment of numerous cancer diagnoses. We believe that the growth of continuous infusion therapy is driven by three factors: evidence of improved clinical outcomes; lower toxicity and side effects; and a favorable reimbursement environment.

In the past decade, significant progress has been made in the treatment of colorectal cancer due to advances in surgery, radiotherapy and chemotherapy. In the late 1990s, medical researchers discovered that the delivery method of the drug (or schedule) was a key component to drug availability, efficacy and tolerability. Schedule dependant anti-tumor activity and toxicity has resulted in continuous infusion 5-Fluorouracil being adopted as the standard of care. In 2000, the FDA approved Camptosar (the trade name for the generic chemotherapy drug Irinotecan), a drug developed by Pfizer, for first-line therapy in combination with 5-Fluorouracil for the treatment of colorectal cancer. In 2002, the FDA approved Eloxatin (the trade name for the generic chemotherapy drug Oxaliplatin), a drug developed by Sanofi-Aventis, for use in combination with continuous infusion 5-Fluorouracil for the treatment of colorectal cancer. FOLFIRI, the chemotherapy protocol which includes Camptosar in combination with continuous infusion 5-Fluorouracil and the drug Leucovorin, and FOLFOX, the chemotherapy protocol which includes Eloxatin in combination with continuous infusion 5-Fluorouracil and Leucovorin, have resulted in significantly improved overall survival rates for colorectal cancer patients at various stages of the disease state. We believe that Sanofi-Aventis and Pfizer have each dedicated significant resources to educating physicians and promoting the use of FOLFOX and FOLFIRI. Simultaneously, the NCCN has established these regimens as the standards of care for the treatment of colorectal cancer.

The use of continuous infusion has been demonstrated to decrease or alter the toxicity of a number of cytotoxic, or cell killing agents. Higher doses of drugs can be infused over longer periods of time, leading to improved tolerance and decreased toxicity. For example, the cardiotoxicity (heart muscle damage) of the chemotherapy drug Doxorubicin is decreased by schedules of administration (The Chemotherapy Source Book, Perry, M.C.). Nausea, vomiting, diarrhea and decreased white blood cell and platelet counts are all affected by duration of delivery. Continuous infusion can lead to improved tolerance and patient comfort while enhancing the patient s ability to remain on the chemotherapy regimen. Additionally, the lower toxicity profile and resulting reduction in side effects enables patients undergoing continuous infusion therapy to continue a relatively normal lifestyle, which may include continuing to work, go shopping, and care for family members. We believe that the partnering of physician management and patient autonomy provide for the highest quality of care with the greatest patient satisfaction.

We believe that oncology practices have a heightened sensitivity to whether and how much they are reimbursed for services. Simultaneously, the Center for Medicare and Medicaid Services (CMS) and private insurers are increasingly focusing on evidenced based medicine to inform their reimbursement decisions that is, aligning reimbursement with clinical outcomes and adherence to standards of care. Continuous infusion therapy is a main component of the standard of care for certain cancer types because clinical evidence demonstrates superior outcomes. Payors recognize this and it is reflected in favorable reimbursement for clinical services related to the delivery of this care.

Services

Our core service is to provide oncology offices, infusion clinics and hospital out-patient chemotherapy clinics with ambulatory infusion pumps in addition to related supplies for patient use. We then directly bill and collect payment from payors and patients for the use of these pumps. We own approximately 21,000 ambulatory

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infusion pumps which are dedicated to this service offering. At any given time, it is estimated that approximately 60% of the pumps are in the possession of patients. The remainder of the pumps is in transport for cleaning and calibration, or in oncology clinics as back-ups.

After a doctor determines that a patient is eligible for ambulatory infusion pump therapy, the doctor arranges for the patient to receive an infusion pump and provides the necessary chemotherapy drugs. The oncologist and nursing staff train the patient in the use of the pump and initiate service. The physician bills insurers, Medicare, Medicaid, third party payor companies or patients (collectively, payors) for the physician s professional services associated with initiating and supervising the infusion pump administration, as well as the supply of drugs. We directly bill payors for the use of the pump and related disposable supplies. We have contracts with more than 200 payors that cover approximately 195 million third party payor lives. Billing to payors requires coordination with patients and physicians who initiate the service, as physicians offices must provide us with appropriate paperwork (patient s insurance information, physician s order and an acknowledgement of benefits that shows receipt of equipment by the patient) in order for us to bill the payors.

In addition to providing high quality and convenient care, we believe that our business offers significant economic benefits for patients, providers and payors.

We provide patients with 24-hour by 7 days (24x7) service and support. We employ oncology and intravenous certified registered nurses trained on ambulatory infusion pump equipment who staff our 24x7 hotline to address questions that patients may have about their pump treatment, the infusion pumps or other medical or technical questions related to the pumps.

Physicians use our services to outsource the capital commitment, pump service, maintenance and billing and administrative burdens associated with pump ownership. Our service also allows the doctor to continue a direct relationship with the patient and to receive professional service fees for setting up the treatment and administering the drugs.

We believe our services are attractive to payors because they are generally less expensive than hospitalization or home care.

Other services we offer include the sales, rental and leasing of pole mounted and ambulatory infusion pumps to oncology practices, hospitals and other clinical settings. We own a fleet of approximately 14,000 new and used pole mounted and ambulatory pumps, representing over 70 makes and models of equipment which are dedicated to these services. These pumps are available for daily, weekly, monthly or annual rental periods as well as for sale or lease.

In addition to sales, rental and leasing services, the company also provides biomedical maintenance, repair and certification services for the devices we provide as well as for devices owned by customers but not acquired through InfuSystem. We operate pump service and repair Centers of Excellence across the United States and Canada and employ a staff of highly trained technicians to provide these services.

Relationships with Physician Offices

We have business relationships with clinical oncologists in more than 1,300 practices. Though this represents a substantial portion of the oncologists in the United States, we believe we can continue to expand our network to further penetrate the oncology market. Based on our high retention rates and the positive results of our professional customer satisfaction research, we believe our relationships with physician offices are strong.

We believe that, in general, we do not compete directly with hospitals and physician offices to treat patients. Rather, by providing products and services to hospitals and physician offices and other care facilities and providers, we believe that we assist other providers in meeting increasing patient demand and manage institutional constraints on capital and manpower due to the nature of limited resources in hospitals and physician offices.

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Sales and Marketing

We employ a sales team of approximately 39 salespersons to coordinate our sales and marketing activities. Our efforts are directed primarily at physician s offices, infusion clinics, hospital outpatient chemotherapy clinics and other enterprises serving patients who receive continuous infusions.

Employees

As of December 31, 2010, we had 180 employees, including 167 full-time employees and 13 part-time employees. None of our employees are unionized.

Company Officers

Sean McDevitt, Chairman and Chief Executive Officer

Mr. McDevitt has served as the Company s Chairman of the Board since April 2005 and as Chief Executive Officer since September 2009. Mr. McDevitt is a founding principal, and since 2007 has been a Managing Director of Maren Group, an investment banking firm which provides mergers and acquisitions advisory services in the healthcare and technology sectors. Prior to joining Maren Group, Mr. McDevitt was a Managing Director of FTN Midwest Securities Corp. from September 2004 to January 2007. In 1999, Mr. McDevitt co-founded Alterity Partners, a boutique investment bank which provided capital markets and merger and acquisition advisory services to high growth companies. Alterity Partners was acquired by FTN Midwest Securities Corp. in September 2004. Mr. McDevitt was formerly a senior investment banker at Goldman Sachs & Company, from 1995 through 1999 where he led deal teams in a variety of technology and healthcare/biopharmaceutical transactions, including mergers and acquisitions, divestitures and initial public offerings. Prior to Goldman Sachs & Company, Mr. McDevitt worked in sales and marketing at Pfizer Inc. from 1991 until 1994. He was a Captain in the U.S. Army Rangers and was decorated for combat in the Panama invasion. He is a member of the Council on Foreign Relations. Mr. McDevitt received his B.S. in Computer Science and Electrical Engineering from the U.S. Military Academy at West Point and an M.B.A. from Harvard Business School.

James M. Froisland, Chief Financial Officer

Mr. Froisland has served as the Company s Chief Financial Officer since December 2010. Prior to joining InfuSystem, from 2006 to 2010, Mr. Froisland served as Senior Vice President, Chief Financial Officer, Chief Information Officer and Corporate Secretary for Material Sciences Corporation (NASDAQ:MASC). Prior to this role, Mr. Froisland served as Senior Vice President, Chief Financial Officer and Chief Information Officer for InteliStaf Healthcare, Inc. and has held a variety of c-level and senior financial and information technology positions at Burns International Services Corporation, Anixter International Inc., Budget Rent A Car Corporation, Allsteel Inc., and The Pillsbury Company. Mr. Froisland started his career with KPMG, LLP and is a Certified Public Accountant. Mr. Froisland has an MBA, in Management Information Systems from the Carlson School of Management, University of Minnesota, and a BA, in Math and Accounting, from Luther College. Mr. Froisland also serves on the Board of Directors and Audit Committee for Westell Technologies, Inc. (NASDAQ:WSTL).

Material Suppliers

We supply a wide variety of pumps and associated equipment, as well as disposables and ancillary supplies. The majority of our pumps are electronic ambulatory pumps purchased from the following manufacturers, each of which is material and supplies more than 10% of the ambulatory pumps purchased by us: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and WalkMed Infusion, LLC (formerly known as McKinley Medical, LLC). There are no supply agreements in place with any of the suppliers. All purchases are handled pursuant to pricing agreements, which contain no material terms other than prices that are subject to change by the manufacturer.

Seasonality

Our business is not subject to seasonality.

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Environmental Laws

We are required to comply with applicable environmental laws regulating the disposal of cleaning agents used in the process of cleaning our ambulatory infusion pumps, as well as the disposal of sharps and blood products used in connection with the pumps. We do not believe that compliance with such laws has a material effect on our business.

Significant Customers

We have sought to establish contracts with as many third party payor organizations as commercially practicable, in an effort to ensure that reimbursement is not a significant obstacle for providers who recommend continuous infusion therapy and wish to utilize our services. A third party payor organization is a health care payor or a group of medical services payors that contracts to provide a wide variety of healthcare services to enrolled members through participating providers such as us. A payor is any entity that pays on behalf of a member patient.

We currently have contracts with more than 200 third party payor plans that cover approximately 195 million lives. Material terms of contracts with third party payor organizations are typically a set fee or rate, or discount from billed charges for equipment provided. These contracts generally provide for a term of one year, with automatic one-year renewals, unless we or the contracted payor do not wish to renew. Our largest contracted payor is Medicare, which accounted for approximately 31% of our gross billings for ambulatory infusion pump services for the year ended December 31, 2010. Our contracts with various individual Blue Cross/Blue Shield affiliates in the aggregate accounted for approximately 23% of our gross billings for ambulatory infusion pump services for the year ended December 31, 2010. We also contract with various other third party payor organizations, commercial Medicare replacement plans, self insured plans and numerous other insurance carriers. No individual payor, other than Medicare and the Blue Cross/Blue Shield entities, accounts for greater than approximately 6% of our ambulatory infusion pump services gross billings.

Competitors

We believe that our competition is primarily composed of regional providers, hospital-owned durable medical equipment (DME) providers, physician providers and home care infusion providers. An estimate of the number of competitors is not known or reasonably available, due to the wide variety in type and size of the market participants described below. We are not aware of any industry reports with respect to the competitive market described below. The description of market segments and business activities within those market segments is based on our experiences in the industry.

Regional Providers: Regional DME providers act as distributors for a variety of medical products. We believe regional DME provider sales forces generally consist of a relatively small number of salespeople, usually covering several states. Regional DME providers tend to carry a limited selection of infusion pumps and their salespeople generally have limited resources. Regional DME providers usually do not have 24x7 nursing services. We believe that regional DME providers have relatively few third party payor contracts, which may prevent these providers from being paid at acceptable levels and may also result in higher out-of-pocket costs for patients.

Hospital-owned DME Providers: Many hospitals have in-house DME providers to supply basic equipment. In general, however, these providers have limited capital and tend to stock a small inventory of infusion pumps. We believe that hospital-owned providers have limited ability to grow because of restricted patient populations. Growth from outside of the hospital may pose a challenge because hospitals typically will not provide referrals to competitors, instead preferring to offer patients a choice of non-hospital-affiliated DME providers.

Physician Providers: A limited number of physicians maintain an inventory of their own infusion pumps and provide them to patients for a fee. However, we believe that pump utilization in this area

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tends to be low and the costs associated with ongoing supplies, preventative maintenance and repairs can be relatively high. Moreover, we believe that a high percentage of DME claims by doctors are rejected by payors upon first submission, requiring a physician s staff to spend significant time and effort to resubmit claims and receive payment for treatment. The numerous service and technical questions from patients may present another significant cost to a physician provider s staff.

Home Care Infusion Providers: Home care infusion providers provide chemotherapy drugs and services to allow for in-home patient treatment. We believe that home care infusion treatment can be very costly and that many patients do not carry insurance coverage that covers home-based infusion services, resulting in larger out-of-pocket costs. Because home care treatments may take as long as six months, these costs can be high and can result in higher patient co-payments. We believe that home care providers may also be reluctant to offer 24x7 coverage or additional patient visits, due to capped fees.

Regulation of Our Business

Our business is subject to certain regulations. Specifically, as a Medicare supplier of DME and related supplies, we must comply with DMEPOS Supplier Standards established by the Health Care Financing Administration regulating Medicare suppliers of DME and prosthetics, orthotics and supplies (DMEPOS). The DMEPOS Supplier Standards consist of 26 requirements that must be met in order for a DMEPOS supplier to be eligible to receive payment for a Medicare-covered item. Some of the more significant DMEPOS Supplier Standards require us to (i) advise Medicare beneficiaries of their option to purchase certain equipment, (ii) honor all warranties under state law and not charge Medicare beneficiaries for the repair or replacement of equipment or for services covered under warranty, (iii) permit agents of the Centers for Medicare and Medicaid Services to conduct on-site inspections to ascertain compliance with the DMEPOS Supplier Standards, (iv) maintain liability insurance in prescribed amounts, (v) refrain from contacting Medicare beneficiaries by telephone, except in certain limited circumstances, (vi) answer questions and respond to complaints of beneficiaries regarding the supplied equipment, (vii) disclose the DMEPOS Supplier Standards to each Medicare beneficiary to whom we supply equipment, (viii) maintain a complaint resolution procedure and record certain information regarding each complaint, (ix) maintain accreditation from a CMS approved accreditation organization and, (x) meet the surety bond requirements specified in 42 C.F.R. 424.57.

We are also subject to the provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) which are designed to protect the security and confidentiality of certain patient health information. Under HIPAA, we must provide patients access to certain records and must notify patients of our use of personal medical information and patient privacy rights. Moreover, HIPAA sets limits on how we may use individually identifiable health information and prohibits the use of patient information for marketing purposes. The adoption of the American Recovery and Reinvestment Act of 2009 (ARRA) includes a new breach notification requirement that applies to breaches of unsecured health information occurring on or after September 23, 2009.

We are subject to regulation in the various states in which we operate. We believe we are in compliance with all such regulation.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the U.S., comprehensive programs are under consideration that seek to, among other things, increase access to healthcare for the uninsured and control the escalation of healthcare expenditures within the economy. On March 23, 2010, healthcare reform legislation (the Healthcare Legislation) was approved by Congress and has been signed into law. This legislation has only recently been enacted and requires the adoption of implementing regulations, which may impact our business.

Available Information

Our Internet address is www.infusystem.com. On this Web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange

Commission (the SEC): our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; our Current Reports on Form 8-K; our proxy statements related to our annual stockholders meetings; and any amendments to those reports or statements. All such filings are available on our Web site free of charge. The content on our Web site is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

Item 1A. Risk Factors.

An investment in our securities involves a high degree of risk. You should consider carefully all of the material risks described below, together with the other information contained in this Annual Report on Form 10-K. If any of the following events occur, our business, financial condition, results of operations and cash flows may be materially adversely affected.

RISK FACTORS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE.

We are dependent on our Medicare Supplier Number.

We are required to have a Medicare Supplier Number in order to bill Medicare for services provided to Medicare patients. Furthermore, all third party and Medicaid contracts require us to have a Medicare Supplier Number. In addition, we are required to comply with Medicare Supplier Standards in order to maintain such number. If we are unable to comply with the relevant standards, we could lose our Medicare Supplier Number. The loss of such identification number for any reason would prevent us from billing Medicare for patients who rely on Medicare to pay their medical expenses and, as a result, we would experience a decrease in our revenues. Without such a number, we would be unable to continue our various third party and Medicaid contracts. A significant portion of our revenue is dependent upon our Medicare Supplier Number.

The Center for Medicare and Medicaid Services (CMS) has issued a ruling that all durable medical equipment (DME) providers must be accredited by a recognized accrediting entity by September 30, 2009. On February 17, 2009, we received accreditation from Community Health Accreditation Program (CHAP), thus meeting this CMS requirement. If we lost our accredited status, our financial condition, revenues and results of operations would be materially and adversely affected.

Changes in third-party reimbursement rates may adversely impact our revenues.

Our revenues are substantially dependent on third-party reimbursement. We are paid directly by private insurers and governmental agencies, often on a fixed fee basis, for continuous infusion equipment and related disposable supplies provided to patients. If the average fees allowable by private insurers or governmental agencies were reduced, the negative impact on revenues could have a material adverse effect on our financial condition, results of operations and cash flows. Also, if amounts owed to us by patients and insurers are reduced or not paid on a timely basis, we may be required to increase our bad debt expense and/or decrease our revenues.

Any change in the overall healthcare reimbursement system may adversely impact our business.

Changes in the healthcare reimbursement system often create financial incentives and disincentives that encourage or discourage the use of a particular type of product, therapy or clinical procedure. Market acceptance of continuous infusion therapy may be adversely affected by changes or trends within the healthcare reimbursement system. Changes to the health care reimbursement system that favor other technologies or treatment regimens that reduce reimbursements to providers or treatment facilities that use our services, may adversely affect our ability to market our services profitably.

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Our success is impacted by the availability of the chemotherapy drugs that are used in our continuous infusion pump systems.

We primarily derive our revenue from the rental of ambulatory infusion pumps to oncology patients through physicians offices and chemotherapy clinics. A shortage in the availability of chemotherapy drugs that are used in the continuous infusion pump system could have a material adverse effect on our financial condition, results of operations and cash flows.

If future clinical studies demonstrate that oral medications are as effective as or more effective than continuous infusion therapy, our business could be adversely affected.

Numerous clinical trials are currently ongoing, evaluating and comparing the therapeutic benefits of current continuous infusion-based regimens with various oral medication regimens. If these clinical trials demonstrate that oral medications provide equal or greater therapeutic benefits and/or demonstrate reduced side effects compared to prior oral medication regimens, our revenues and overall business could be materially and adversely affected. Additionally, if new oral medications are introduced to the market that are superior to existing oral therapies, physicians willingness to prescribe continuous infusion-based regimens could decline, which would adversely affect our financial condition, results of operations and cash flows.

Global financial conditions may negatively impact our business, results of operations, financial condition and/or liquidity.

The recent global financial crisis affecting the banking system and financial markets, as well as the uncertainty in global economic conditions, have resulted in a significant tightening of credit markets, a low level of liquidity in financial markets and reduced corporate profits and capital spending. As a result, our customers (i.e., patients and payors) may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. In addition, the current global financial crisis could also adversely impact our suppliers ability to provide us with materials and components, either of which may negatively impact our financial condition, results of operations and cash flows. The financial crisis could also adversely impact our ability to access the financial markets.

Although we maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same loss rates that we have in the past, especially given the current turmoil of the worldwide economy.

State licensure laws for durable medical equipment, or DME, suppliers are subject to change. If we fail to comply with any state s laws, we will be unable to operate as a DME supplier in such state and our business operations will be adversely affected.

As a DME supplier operating in all 50 states of the United States, we are subject to each state s licensure laws regulating DME suppliers. State licensure laws for DME suppliers are subject to change and we must ensure that we are continually in compliance with the laws of all 50 states. In the event that we fail to comply with any state s laws governing the licensing of DME suppliers, we will be unable to operate as a DME supplier in such state until we regain compliance. We may also be subject to certain fines and/or penalties and our business operations could be adversely affected.

Our growth strategy includes expanding into treatment for cancers other than colorectal. There can be no assurance that continuous infusion-based regimens for these other cancers will become standards of care for large numbers of patients or that we will be successful in penetrating these different markets.

An aspect of our growth strategy is to expand into the treatment of other cancers, such as head, neck and gastric. Currently, relatively small percentages of these patients are treated with regimens that include continuous infusion therapy. That population will expand only if clinical trial results for new drugs and new combinations of

drugs demonstrate superior outcomes for regimens that include continuous infusion therapy relative to alternatives. No assurances can be given that these new drugs and drug combinations will be approved or will prove superior to oral medication or other treatment alternatives. In addition, no assurances can be given that we will be able to penetrate successfully any new markets that may develop in the future or manage the growth in additional resources that would be required.

The industry in which we operate is intensely competitive and changes rapidly. If we are unable to successfully compete with our competitors, our business operations may suffer.

The drug infusion industry is highly competitive. Some of our competitors and potential competitors have significantly greater resources than we do for research and development, marketing and sales. As a result, they may be better able to compete for market share, even in areas in which our services may be superior. The industry is subject to technological changes and such changes may put our current fleet of pumps at a competitive disadvantage. If we are unable to effectively compete in our market, our financial condition, results of operations and cash flows may materially suffer.

Our industry is dependent on regulatory guidelines that affect our billing practices. If our competitors do not comply with these regulatory guidelines, our business could be adversely affected.

Aggressive competitors may not fully comply with rules pertaining to documentation required by CMS and other payors for patient billing. Competitors, who don t meet the same standards of compliance that we do with regards to billing regulations, can put us at a potential competitive disadvantage. We are a participating provider with Medicare and under contract with more than 200 additional insurance plans, all of which have very stringent guidelines. If our competitors do not comply with these regulatory guidelines, our business could be adversely affected.

We rely on independent suppliers for our products. Any delay or disruption in the supply of products, particularly our supply of electronic ambulatory pumps, may negatively impact our operations.

Our infusion pumps are obtained from outside vendors. The majority of our new pumps are electronic ambulatory infusion pumps which are supplied to us by three major suppliers: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and WalkMed Infusion, LLC (formerly known as McKinley Medical, LLC). The loss or disruption of our relationships with outside vendors could subject us to substantial delays in the delivery of pumps to customers. Significant delays in the delivery of pumps could result in possible cancellation of orders and the loss of customers. Our inability to provide pumps to meet delivery schedules could have a material adverse effect on our reputation in the industry, as well as our financial condition, results of operations and cash flows.

Although we do not manufacture the products we distribute, if one of the products distributed by us proves to be defective or is misused by a health care practitioner or patient, we may be subject to liability that could adversely affect our financial condition and results of operations.

Although we do not manufacture the pumps that we distribute, a defect in the design or manufacture of a pump distributed by us, or a failure of pumps distributed by us to perform for the use specified, could have a material adverse effect on our reputation in the industry and subject us to claims of liability for injuries and otherwise. Misuse of the pumps distributed by us by a practitioner or patient that results in injury could similarly subject us to liability. Any substantial underinsured loss could have a material adverse effect on our financial condition, results of operations and cash flows. Furthermore, any impairment of our reputation could have a material adverse effect on our revenues and prospects for future business.

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Unexpected costs or delays in integrating acquisitions could adversely affect our financial results.

During the year the Company acquired all of the outstanding stock of First Biomedical, and plans to make additional acquisitions going forward . As a result, we must devote significant management attention and resources to integrating the business practices and operations . We may encounter difficulties that could harm the businesses, adversely affect our financial condition, and cause our stock price to decline, including the following:

- We may have difficulty or experience delays in integrating the business and operations;
- We may have difficulty maintaining employee morale and retaining key managers and other employees as we take steps to combine the personnel and business cultures of separate organizations into one, and to eliminate duplicate positions and functions; and
- We may have difficulty preserving important relationships with others, such as strategic partners, customers, and suppliers, who may delay or defer decisions on agreements with us, or seek to change existing agreements with us, because of the acquisition.

The integration process may divert the attention of our officers and management from day-to-day operations and disrupt our business, particularly if we encounter these types of difficulties. The failure of the combined company to meet the challenges involved in the integration process could cause an interruption of or a loss of momentum in the activities of the combined company and could seriously harm our results of operations.

Even if the operations are integrated successfully, the combined company may not fully realize the expected benefits of the transaction, including the synergies, cost savings or growth opportunities, whether within the anticipated time frame, or anytime in the future.

We intend to actively pursue opportunities for the further expansion of our business through strategic alliances, joint ventures and/or acquisitions. Future strategic alliances, joint ventures and/or acquisitions may require significant resources and/or result in significant unanticipated costs or liabilities to us.

Over the next two to three years we intend to actively pursue opportunities for the further expansion of our business through strategic alliances, joint ventures and/or acquisitions. Any future strategic alliances, joint ventures or acquisitions will depend on our ability to identify suitable partners or acquisition candidates, as the case may be, negotiate acceptable terms for such transactions and obtain financing, if necessary. We also face competition for suitable acquisition candidates which may increase our costs. Acquisitions or other investments require significant managerial attention, which may be diverted from our other operations. Any future acquisitions of businesses could also expose us to unanticipated liabilities.

If we engage in strategic acquisitions, we may experience significant costs and difficulty in assimilating operations or personnel, which could threaten our future growth.

If we make any acquisitions, we could have difficulty assimilating operations, technologies and products or integrating or retaining personnel of acquired companies. In addition, acquisitions may involve entering markets in which we have no or limited direct prior experience. The occurrence of any one or more of these factors could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition, pursuing acquisition opportunities could divert our management s attention from our ongoing business operations and result in decreased operating performance. Moreover, our profitability may suffer because of acquisition-related costs or amortization of intangible assets. Furthermore, we may have to incur debt or issue equity securities in future acquisitions. The issuance of equity securities would dilute our existing stockholders.

Covenants in our debt agreements restrict our business.

The credit agreement that governs our credit facility with Bank of America, N.A. and KeyBank National Association contains, and the agreements that govern our future indebtedness may contain, covenants that restrict our ability to and the ability of our subsidiaries to, among other things:

create, incur, assume or suffer to exist any lien upon any of our property, assets or revenues;

- make certain investments;
- create, incur, assume or suffer to exist any indebtedness;
- merge, dissolve, liquidate, consolidate all or substantially all of our assets;
- make any disposition or enter into any agreement to make any disposition; and
- declare or make, directly or indirectly, any dividend or other restricted payment, or incur any obligation (contingent or otherwise) to do so.

Recently adopted healthcare reform legislation may adversely affect our business.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the U.S., comprehensive programs are under consideration that seek to, among other things, increase access to healthcare for the uninsured and control the escalation of healthcare expenditures within the economy. On March 23, 2010, healthcare reform legislation (the Healthcare Legislation) was approved by Congress and has been signed into law. This legislation has only recently been enacted and requires the adoption of implementing regulations, which may impact our business. The Healthcare Legislation could have a material adverse effect on our business, financial condition and results of operations.

If we fail to comply with applicable healthcare regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients rights may be applicable to our business. We may be subject to healthcare fraud and abuse regulation and patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal healthcare program Anti-Kickback Statute, which prohibits, among other things, soliciting, receiving or providing remuneration, directly or indirectly, to induce (i) the referral of an individual, for an item or service, or (ii) the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us that promote medical devices, provide medical device management services and may provide coding and billing advice to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ in significant ways from state to state and often are not preempted by HIPAA, thus complicating compliance efforts.

Additionally, the compliance environment is changing, with more states, such as California and Massachusetts, mandating implementation of compliance programs, compliance with industry ethics codes, and spending limits, and other states, such as Vermont, Maine, and Minnesota,

requiring reporting to state governments of gifts, compensation and other remuneration to physicians. Federal legislation, the Physician Payments Sunshine Act of 2009, has been proposed and is moving forward in Congress. This legislation would require disclosure to the federal government of payments to physicians. These laws all provide for penalties for

non-compliance. The shifting regulatory environment, along with the requirement to comply with multiple jurisdictions with different compliance and reporting requirements, increases the possibility that a company may run afoul of one or more laws.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

We are dependent on key personnel, and the loss of any key employees or officers may have a materially adverse effect on our operations.

Our success is substantially dependent on the continued services of our executive officers and other key personnel who generally have extensive experience in our industry. Our future success also will depend in large part upon our ability to identify, attract and retain other highly qualified managerial, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any key employees, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have a material adverse effect on our business and results of operations.

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates, judgments, and assumptions that may ultimately prove to be incorrect.

The accounting estimates and judgments that management must make in the ordinary course of business affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. If management misinterprets GAAP, subsequent adjustments resulting from errors could have a material adverse effect on our operating results for the period or periods in which the change is identified. Additionally, subsequent adjustments from errors could require us to restate our financial statements. Restating financial statements could result in a material decline in the price of our stock.

RISK FACTORS RELATING SPECIFICALLY TO OUR COMMON STOCK AND WARRANTS

The market price of our common stock has been, and is likely to remain, volatile and may decline in value.

The market price of our common stock has been and is likely to continue to be volatile. Market prices for securities of healthcare services companies, including ours, have historically been volatile, and the market has from time to time experienced significant price and volume fluctuations that appear unrelated to the operating performance of particular companies. The following factors, among others, can have a significant effect on the market price of our securities:

- announcements of technological innovations, new products, or clinical studies by others;
- government regulation;
- changes in the coverage or reimbursement rates of private insurers and governmental agencies;
- announcements regarding new products or services or strategic alliances or acquisitions;
- developments in patent or other proprietary rights;
- the liquidity of the market for our common stock and warrants;

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- changes in health care policies in the United States or globally;
- global financial conditions; and
- comments by securities analysts and general market conditions.

The realization of any risks described in these Risk Factors could also have a negative effect on the market price of our common stock and warrants.

We do not pay dividends and this may negatively affect the price of our stock.

Under the terms of our credit agreement with Bank of America, N.A. and KeyBank National Association, we are not permitted to pay dividends on our common stock and do not anticipate paying dividends on our common stock in the foreseeable future. The future price of our common stock may be adversely impacted because we do not pay dividends.

Future sales of our common stock may depress our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur. In addition to the shares of our common stock currently available for sale in the public market, shares of our common stock sold in past private placements (which include shares held by certain members of our board of directors) and the shares of common stock underlying our outstanding warrants are subject to registration rights. If the holders of these securities choose to exercise their registration rights, this would result in an increase in the number of shares of our common stock available for resale in the public market, which in turn could lead to a decrease in our stock price and a dilution of stockholders ownership interests. These factors could also make it more difficult for us to raise funds through future equity offerings.

Certain anti-takeover provisions in our amended and restated certificate of incorporation and bylaws and the Delaware General Corporation Law (the DGCL,), as well as our stockholders rights plan, may discourage, delay or prevent a change in control of our company and adversely affect the trading price of our common stock.

Our amended and restated certificate of incorporation and bylaws and the DGCL contain certain anti-takeover provisions which may discourage, delay or prevent a change in control of our company that our stockholders may consider favorable and, as a result, adversely affect the trading price of our common stock. Our amended and restated certificate of incorporation authorizes our board of directors to issue up to 1,000,000 shares of blank check preferred stock. Our amended and restated bylaws include provisions establishing advance notice procedures with respect to stockholder proposals and director nominations and permitting only stockholders holding at least a majority of our outstanding common stock to call a special meeting. Additionally, as a Delaware corporation, we are subject to section 203 of the DGCL, which, among other things, and subject to various exceptions, restricts certain business transactions between a corporation and a stockholder owning 15% or more of the corporation s outstanding voting stock (an interested stockholder) for a period of three years from the date the stockholder becomes an interested stockholder.

In addition, our board of directors has adopted a stockholder rights plan. This plan would cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our board of directors.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

We do not own any real property. We lease office and warehouse space at the following locations:

Madison Heights	MI
New York	NY
Bennington	VT
Olathe	KS
Santa Fe Springs	CA
Mississauga	Ontario, Canada

We believe that such office and warehouse space is suitable and adequate for our business.

Item 3. Legal Proceedings.

We are involved in legal proceedings arising out of the ordinary course and conduct of our business, the outcomes of which are not determinable at this time. We have insurance policies covering such potential losses where such coverage is cost effective. In our opinion, any liability that might be incurred by us upon the resolution of these claims and lawsuits will not, in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is currently traded on the NYSE Amex under the symbol INFU. Our warrants and units are currently traded on the OTC Bulletin Board under the symbols INHIU.OB and INHIW.OB, respectively. Prior to December 23, 2010, our common stock was traded on the OTC Bulletin Board under the symbol INHI.OB.

Each warrant entitles the holder to purchase from us one share of our common stock at an exercise price of $5.00. Our warrants will expire at 5:00 p.m., New York City time, on April 11, 2011, or earlier upon redemption.

The following tables set forth, for the calendar quarter indicated, the quarterly high and low bid information of our common stock, units and warrants, respectively, as reported on the NYSE Amex or the OTC Bulletin Board, as applicable. The quotations listed below reflect interdealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

Common Stock

Quarter ended	High	Low
December 31, 2010	$ 2.70	$ 2.10
September 30, 2010	$ 2.70	$ 2.05
June 30, 2010	$ 2.70	$ 2.25
March 31, 2010	$ 2.85	$ 2.10
December 31, 2009	$ 3.00	$ 2.15
September 30, 2009	$ 3.00	$ 2.15
June 30, 2009	$ 3.25	$ 2.08
March 31, 2009	$ 2.50	$ 1.52

Units*

Quarter ended	High	Low
December 31, 2010	$ 2.05	$ 2.05
September 30, 2010	$ 1.50	$ 1.50
June 30, 2010	$ 1.50	$ 1.50
March 31, 2010	$ 2.45	$ 2.35
December 31, 2009	$ 2.20	$ 2.10
September 30, 2009	$ 2.10	$ 2.10
June 30, 2009	$ 2.10	$ 2.10
March 31, 2009	$ 2.10	$ 2.10

* There are 1,650 units outstanding as of December 31, 2010 which are included within common stock in the consolidated financial statements.

Warrants

Quarter ended	High	Low
December 31, 2010	$ .04	$ .01
September 30, 2010	$ .08	$ .02
June 30, 2010	$ .10	$ .06
March 31, 2010	$ .09	$ .053
December 31, 2009	$ .10	$ .05

September 30, 2009	$ .11	$ .05
June 30, 2009	$ .12	$ .065
March 31, 2009	$ .125	$ .05

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Holders of Common Equity

As of February 16, 2011, we had approximately 359 stockholders of record of our common stock. This does not include beneficial owners of our common stock, including Cede & Co., nominee of the Depository Trust Company.

Dividends

We have not paid any dividends on our common stock to date. The payment of dividends in the future will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition. Under the terms of our credit agreement with Bank of America, N.A. and KeyBank National Association, we are not permitted to pay dividends. It is the present intention of our board of directors to retain all earnings, if any, for use in our business operations and, accordingly, our board of directors does not anticipate declaring any dividends in the foreseeable future.

Equity Compensation Plan Information

The following table provides information as of December 31, 2010 with respect to compensation plans, including individual compensation arrangements, under which our equity securities are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (2) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	191,229	$ 2.66	68,437
Equity compensation plans not approved by security holders (3)	2,112,500	Not Applicable	Not Applicable
Total	2,303,729	$ 2.66	68,437

(1) This amount includes 60,750 shares of common stock issuable upon the vesting of certain restricted stock awards (the Restricted Stock Awards) and 130,479 shares of common stock issuable upon the exercise of a vested stock option award (the Stock Option) made under the InfuSystem Holdings, Inc. 2007 Stock Incentive Plan (the Plan). This amount does not include 237,500 shares of common stock which vested under the terms of the Restricted Stock Awards during the year ended December 31, 2010. This amount also does not include 1,125,000 shares of common stock issuable upon the vesting of Restricted Stock Awards granted to directors in 2010, all of which vested prior to December 31, 2010.

(2) Represents the exercise price of the Stock Option.

(3) This amount includes 2,112,500 shares of common stock issuable upon the vesting of certain Restricted Stock Awards made outside of the Plan during the year ended December 31, 2010. This amount does not include 62,500 shares of common stock which vested under the terms of the Restricted Stock Awards during the year ended December 31, 2010. This amount also does not include 50,000 shares of common stock issuable upon the vesting of a Restricted Stock Award granted to a director in 2010, all of which vested prior to December 31, 2010.

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Stock Performance Graph

The graph set forth below compares the change in the our cumulative total stockholder return on our common stock between December 29, 2006 and December 31, 2010 with the cumulative total return of the NASDAQ Composite Index and the NASDAQ Biotechnology Index during the same period. This graph assumes the investment of $100 on December 29, 2006 in our common stock and each of the comparison groups and assumes reinvestment of dividends, if any. We have not paid any dividends on our common stock, and no dividends are included in the report of our performance. This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

	12/29/06	12/31/07	12/31/08	12/31/09	12/31/10
InfuSystem Holdings, Inc. Common Stock	$ 100.00	$ 74.24	$ 42.04	$ 39.36	$ 41.68
Nasdaq Composite Index	$ 100.00	$ 109.81	$ 65.29	$ 93.95	$ 109.84
Nasdaq Biotechnology Index	$ 100.00	$ 105.71	$ 91.38	$ 105.68	$ 121.52

Recent Sales of Unregistered Securities

None.

Repurchases of Equity Securities

As previously announced, our board of directors has authorized a share repurchase program of up to $2 million of our outstanding common shares. The repurchase program will be funded by our available cash balance.

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Stock repurchases may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as our management deems to be appropriate. The timing and actual number of shares repurchased will depend on a variety of factors, including price, financing and regulatory requirements, as well as other market conditions. The program does not require us to repurchase any specific number of shares or to complete the program within a specific period of time.

The following table provides information about our purchased of common stock during the fourth quarter of the year ended December 31, 2010:

(period)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2010 October 31, 2010		$		$
November 1, 2010 November 30, 2010	9,574	2.45	9,574	1,976,000
December 1, 2010 December 31, 2010	36,247	2.46	36,247	1,887,000
Total for fourth quarter of 2010	45,821	$ 2.46	45,821	$ 1,887,000

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Item 6. Selected Financial Data.

InfuSystem Holdings, Inc. and Subsidiaries

You should read the following selected financial data together with our financial statements and related notes included in Item 8 of this Annual Report on Form 10-K, and with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K. We have derived the statement of operations data for the years ended December 31, 2010, 2009 and 2008 and the balance sheet data as of December 31, 2010 and 2009 from our audited financial statements, which are included in Item 8 of this Annual Report on Form 10-K. Our historical results for any period are not necessarily indicative of results to be expected for any future period. The information for InfuSystem Holdings, Inc. for the year ended December 31, 2007 includes operations for InfuSystem from October 26, 2007 through December 31, 2007.

Statement of Operations Data (1)

(in thousands, except per share data)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Net revenues	$ 47,229	$ 38,964	$ 35,415	$ 6,582
Total operating expenses	(48,167)	(33,636)	(30,629)	(8,079)
Total other (loss) income	(2,285)	(3,577)	6,080	(189)
Income tax (benefit) expense	(1,371)	(977)	(907)	(1,110)
Net (loss) income	(1,852)	774	9,959	(2,796)
Net (loss) income per share basic	$ (0.09)	$ 0.04	$ 0.56	$ (0.15)
Net (loss) income per share diluted	$ (0.09)	$ 0.04	$ 0.53	$ (0.15)

Balance Sheet Data (at period end) (1)

(in thousands)	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007
Total assets	$ 130,364	$ 114,690	$ 116,220	$ 116,426
Long-term debt, including current maturities	32,197	24,141	30,669	32,294
Stockholders equity	85,086	81,465	80,073	68,759

(1) On October 25, 2007, we completed our acquisition of 100% of the issued and outstanding capital stock of InfuSystem from I-Flow pursuant to the terms of the Stock Purchase Agreement. InfuSystem s results of operations are included in our Consolidated Statements of Operations from the date of the acquisition. For more information, see Note 3 Acquisitions to our Consolidated Financial Statements which are included in this Annual Report on Form 10-K.

Predecessor InfuSystem

The statement of operations data for the period from January 1, 2007 to October 25, 2007 and fiscal year ended December 31, 2006 and the balance sheet data as of December 31, 2006 was derived from the audited financial statements of Predecessor InfuSystem, which are not included in this report.

Statement of Operations Data

	January 1, 2007 to October 25, 2007	Year Ended December 31, 2006
Net revenues	$ 25,001	$ 31,716
Cost of revenues	6,702	8,455
Total operating expenses	15,673	15,091

Income tax expense	1,086	3,094
Net income	1,777	4,963

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Balance Sheet Data (at period end)

	December 31, 2006
Total assets	$ 27,628
Stockholders equity	22,008

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Overview

We are the leading provider of infusion pumps and related services. We service hospitals, oncology practices and other alternate site healthcare providers. Headquartered in Madison Heights, Michigan, we deliver local, field-based customer support, and also operate Centers of Excellence in Michigan, Kansas, California, and Ontario, Canada.

We supply electronic ambulatory infusion pumps and associated disposable supply kits to oncology practices, infusion clinics and hospital outpatient chemotherapy clinics. These pumps and supplies are utilized primarily by colorectal cancer patients who receive a standard of care treatment that utilizes continuous chemotherapy infusions delivered via electronic ambulatory infusion pumps. We obtain an assignment of insurance benefits from the patient, bill the insurance company or patient accordingly, and collect payment. We provide pump management services for the pumps and associated disposable supply kits to over 1,300 oncology practices in the United States, and retain title to the pumps during this process.

We sell or rent new and pre-owned pole mounted and ambulatory infusion pumps to, and provide biomedical recertification, maintenance and repair services for, oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others.

On June 15, 2010, we entered into a stock purchase agreement with the shareholders of First Biomedical, Inc. to acquire all of the issued and outstanding stock of First Biomedical and completed the acquisition for total consideration of $17.4 million. First Biomedical s results of operations are included in our consolidated statements of operations from the acquisition date.

First Biomedical sells, rents, services and repairs new and pre-owned infusion pumps and other medical equipment. First Biomedical also sells a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. Headquartered in Olathe, KS, with additional facilities in California and Toronto, First Biomedical is a leading provider to alternate site healthcare facilities and hospitals in the United States and Canada.

InfuSystem Holdings, Inc. Results of Operations for the Year ended December 31, 2010 compared to the Year ended December 31, 2009

Revenues

Our revenue for the year ended December 31, 2010 was $47.2 million, a 21% increase compared to $39.0 million for the year ended December 31, 2009. The increase in revenues is primarily related to revenues generated by recently acquired First Biomedical, obtaining business at new customer facilities, as well as deeper penetration into existing customer facilities.

Gross Profit

Gross profit for the year ended December 31, 2010 was $33.5 million, an increase of 17% compared to $28.6 million in the prior year. It represented 71% of revenues in the current year compared to 73% in the prior

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year. The decrease, as a percentage of revenues, is primarily related to higher pump depreciation and disposal costs, a higher mix of pump sales and services, including First Biomedical, as compared to third party billings, partially offset by lower supplies costs.

Provision for Doubtful Accounts

Provision for doubtful accounts for the year ended December 31, 2010 was $4.5 million, compared to $4.0 million for the year ended December 31, 2009. The provision for doubtful accounts remained consistent at 10% of revenues for the year ended December 31, 2010, compared to the year ended December 31, 2009.

Amortization of Intangible Assets

Amortization of intangible assets for the year ended December 31, 2010 was $2.3 million, a 28% increase compared to $1.8 million for the year ended December 31, 2009. The increase is primarily related to additional intangible assets associated with the acquisition of First Biomedical, as well as amortization of new software.

Selling and Marketing Expenses

For the year ended December 31, 2010, our selling and marketing expenses were $7.1 million compared to $5.3 million for the year ended December 31, 2009. Selling and marketing expenses during these periods consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, marketing, share-based compensation, travel and entertainment and other miscellaneous expenses. The increase in expenses is primarily related to expenses incurred by recently acquired First Biomedical. As compared to the prior year, these expenses increased from 13% to 15% of revenues for the year ended December 31, 2010.

General and Administrative Expenses

During the year ended December 31, 2010, our general and administrative expenses were $20.6 million, compared to $12.2 million for the year ended December 31, 2009. The increase is primarily related to an increase in share-based compensation, expenses incurred at recently acquired First Biomedical, and costs associated with the acquisition of First Biomedical. General and administrative expenses during these periods consisted primarily of administrative personnel salaries, fringe benefits and payroll-related items, professional fees, share-based compensation, insurance and other miscellaneous expenses. General and administrative expenses have increased from 31% to 44% of revenues for the year ended December 31, 2010 compared to the same period in the prior year. The increase as a percentage of revenue is primarily related to an increase in share-based compensation expense.

Other Income and Expenses

During the year ended December 31, 2010, we recorded a gain on derivatives of $207 thousand, compared to a loss of $78 thousand during the year ended December 31, 2009. Included in the year ended December 31, 2010 gain was an unrealized gain from the change in fair value of our warrants, a realized loss recorded in connection with the warrant exchange, and a realized gain on the termination of our prior interest rate swap, whereas the year ended December 31, 2009 loss included an unrealized loss from the change in the fair value of our warrants and an unrealized gain from the change in the fair value of the interest rate swap that was in place at the time. For more information, refer to the discussion under Summary of Significant Accounting Policies Warrants and Derivative Financial Instruments included in Note 2 and Warrants and Derivative Financial Instruments included in Note 6 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

During the year ended December 31, 2010, we recorded interest expense of $3.4 million, compared to $3.5 million for the year ended December 31, 2009. These amounts consist primarily of interest paid on our term

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loans, cash payments associated with our terminated and new interest rate swaps, amortization of deferred debt issuance costs and interest expense on capital leases. The decrease is primarily related to a lower interest rate of the new term loan as well as a lower swap rate. These were offset by a one-time expensing of all of the remaining I-Flow deferred debt issuance costs and an increase in capital leases.

During the year ended December 31, 2010, we recorded income tax benefit of $1.4 million, compared to an expense of $977 thousand for the year ended December 31, 2009. The effective tax rate for the year ended December 31, 2010 was 47.21%, compared to 55.43% for the year ended December 31, 2009. The effective tax rate of 47.21% for the year ended December 31, 2010, as compared to the statutory rate of 34%, is primarily driven by permanent items including the current change in the valuation allowance on net deferred tax assets, the change in the net deferred tax liability on indefinite-lived goodwill and various state tax expenses. Refer to the discussion under Summary of Significant Accounting Policies Income Taxes included in Note 2 and Income Taxes included in Note 8 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

Inflation

Management believes that there has been no material effect on our operations or financial condition as a result of inflation or changing prices of our ambulatory infusion pumps during the period from December 31, 2009 through December 31, 2010.

InfuSystem Holdings, Inc. Results of Operations for the Year ended December 31, 2009 compared to the Year ended December 31, 2008

Revenues

Our revenue is predominantly derived from our rental of ambulatory infusion pumps which are primarily used for continuous infusion of chemotherapy drugs for patients with colorectal cancer. Our revenue for the year ended December 31, 2009 was $39.0 million, an 11% improvement compared to $35.4 million for the year ended December 31, 2008. The increase in revenues is primarily due to obtaining business at new customer facilities, improved operational efficiency tools which led to successful billing of older or delayed documentation, as well as increased reimbursement.

Gross Profit

Gross profit for the year ended December 31, 2009 was $28.6 million, up 9% compared to $26.2 million for the year ended December 31, 2008. It represented 73% of revenues for the year ended December 31, 2009 compared to 74% for the year ended December 31, 2008. The decrease, as a percent of revenues, was primarily related to increased revenues, as well as higher pump repair and maintenance costs, offset by lower freight costs as compared to the prior period.

Amortization of Intangible Assets

Amortization of intangible assets for the year ended December 31, 2009 was $1.8 million, which was identical to the amount recognized for the year ended December 31, 2008. This represents the annual amortization expense associated with our Physician Relationships, which we amortize over 15 years.

Provision for doubtful accounts

Provision for doubtful accounts for the year ended December 31, 2009 was $4.0 million, compared to $3.2 million for the year ended December 31, 2008. The provision for doubtful accounts has increased slightly from 9% to 10% of revenues for the year ended December 31, 2009, compared to the year ended December 31, 2008. The increase, as a percentage of revenue, is directly related to a slight increase in the mix of billings directly to patients, as compared to billings to third-party payors.

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Selling and Marketing Expenses

For the year ended December 31, 2009, our selling and marketing expenses were $5.3 million, compared to $4.7 million for the year ended December 31, 2008. Selling and marketing expenses during these periods consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, travel and entertainment, marketing, share-based compensation, and other miscellaneous expenses. These expenses have remained fairly consistent as a percentage of revenues, at approximately 13% for the years ended December 31, 2009 and 2008.

General and Administrative Expenses

During the year ended December 31, 2009, our general and administrative expenses were $12.2 million, compared to $11.8 million for the year ended December 31, 2008. General and administrative expenses during these periods consisted primarily of administrative personnel, including management and officers salaries, fringe benefits and payroll-related items, professional fees, share-based compensation, insurance (including directors and officers insurance) and other miscellaneous expenses. The expenses in total have decreased slightly from 33% to 31% of revenues for the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease, as a percentage of revenues, for the year ended December 31, 2009 is primarily driven by a decrease in stock based compensation and a decrease in professional fees primarily related to significant efficiencies associated with the preparation and audit of our Annual Report on Form 10-K. These decreases were partially offset by the recognition of Steve Watkins , our former CEO, compensation and benefits in accordance with his separation agreement.

Other Income and Expenses

During the year ended December 31, 2009, we recorded a loss on derivatives of $78 thousand, compared to a gain of $9.8 million during the year ended December 31, 2008. These amounts represent an unrealized (loss) gain which resulted from the change in the fair value of our warrants, combined with an unrealized gain (loss) resulting from the change in the fair value of our single interest rate swap.

During the year ended December 31, 2009, we recorded interest expense of $3.5 million, compared to $3.8 million for the year ended December 31, 2008. These amounts consist of interest paid to Kimberly-Clark (formerly I-Flow) on our term loan, the amortization of deferred debt issuance costs incurred in conjunction with the loan, expense associated with the interest rate swap and interest expense on capital leases for ambulatory pumps. The decrease is primarily the result of a decrease in interest expense on the term loan with Kimberly-Clark (formerly I-Flow). This was the result of a decrease in the outstanding balance due to significant principal payments made during the year ended December 31, 2009. This was partially offset by higher cash payments associated with our single interest rate swap, due to the LIBOR rate being significantly lower during the year ended December 31, 2009 as compared to the year ended December 31, 2008. The decrease was also partially offset by interest expense related to new capital leases that we entered into during the year to finance the purchase of ambulatory pumps.

During the year ended December 31, 2009, we recorded income tax expense of $977 thousand, compared to $907 thousand for the year ended December 31, 2008. The effective tax rate for the year ended December 31, 2009 was 55.43%, compared to 8.34% for the year ended December 31, 2008. The effective tax rate of 55.4% for the year ended December 31, 2009, as compared to the statutory rate of 34%, is primarily driven by permanent items including the current change in the valuation allowance on net deferred tax assets, the change in the net deferred tax liability on indefinite-lived goodwill and various state tax expenses.

Liquidity and Capital Resources

As of December 31, 2010 we had cash resources of $5.0 million compared to $7.8 million at December 31, 2009. The decrease in cash was primarily related to cash used for the acquisition of First Biomedical, partially offset by an increase in outstanding term debt and positive cash flows from operating activities.

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Cash provided by operating activities for the year ended December 31, 2010 was $10.8 million, compared to cash provided by operating activities of $9.7 million for the year ended December 31, 2009. The increase is primarily attributable to higher revenues and earnings, not including non-cash items such as stock based compensation and depreciation.

Cash used in investing activities for the year ended December 31, 2010 was $19.1 million, compared to $4.6 million for the year ended December 31, 2009. The increase is primarily related to cash paid for the acquisition of First Biomedical, partially offset by lower purchases of infusion pumps, more extensive use of capital leases, as a percentage of acquisitions, to acquire such equipment, and the non-repeat of first half 2009 expenditures associated with both moving our office facilities and investments in customized software.

Cash provided by financing activities for the year ended December 31, 2010 was $5.5 million, compared to cash used in financing activities of $8.9 million for the year ended December 31, 2009. The increase is primarily related to an increase in outstanding term debt, partially offset by upfront costs associated with our new credit facilities and higher principal payments associated with capital leases.

Management believes the current funds, together with expected cash flows from ongoing operations as well as the $4.9 million available on the revolving credit facility from Bank of America referred to below, are sufficient to fund our current operations for at least the next 12 months.

On June 15, 2010, we entered into a credit facility with Bank of America, N.A. as Administrative Agent, and KeyBank National Association as Documentation Agent. The facility consists of a $30.0 million term loan and a $5.0 million revolving credit facility, both of which mature in June 2014. Interest on the term loan is payable at our choice of LIBOR plus 4.5%, or the Bank of America prime rate plus 3.5%. As of December 31, 2010, interest was payable at LIBOR plus 4.5%, which equaled approximately 4.76%.

Proceeds from the new term loan were used to repay the outstanding balance of our debt held by Kimberly-Clark (I-Flow), as well as contribute to the acquisition consideration for First Biomedical. As of December 31, 2010, the Company had a letter of credit in the amount of $81 thousand outstanding, leaving $4.9 million available on its revolving credit facility.

The Bank of America term loan is collateralized by substantially all of our assets and requires us to comply with covenants principally relating to satisfaction of a total leverage ratio, a fixed charge coverage ratio, and an annual limit on capital expenditures. As of December 31, 2010, we believe we were in compliance with all such covenants.

Contractual Obligations

As of December 31, 2010, future payments related to contractual obligations are as follows:

	Payment Due by Period (1) (2)				
	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
	(Amounts in Thousands)				
Debt obligations	$ 4,500	$ 9,569	$ 14,625	$	$ 28,694
Capital Lease Obligations	1,051	2,236	216		3,503
Operating Lease Obligations	481	596	395		1,472
Total	$ 6,032	$ 12,401	$ 15,236	$	$ 33,669

(1) The table above does not include any potential payout to Kimberly-Clark (formerly I-Flow) associated with the earn-out provision in the Stock Purchase Agreement. For more information, refer to the discussion under Acquisitions included in Note 3 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.
(2) The table above does not include any interest payments associated with our variable rate term debt. For more information, refer to the discussion under Debt and other Long-term Obligations included in Note 7 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

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Included in the operating lease obligations are future minimum lease payments as of December 31, 2010 under various lease agreements we have entered into for office space.

Contingent Liabilities

We do not have any contingent liabilities.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements, including the notes thereto. We consider critical accounting policies to be those that require more significant judgments and estimates in the preparation of our consolidated financial statements, including the following: revenue recognition, which includes contractual allowances; accounts receivable and allowance for doubtful accounts; warrants and derivative financial instruments; income taxes; and goodwill valuation. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Management believes its application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change.

Our accounting policies are more fully described under the heading Summary of Significant Accounting Policies in Note 2 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. We believe the following critical accounting estimates are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments:

Revenue Recognition

The majority of our revenue is rental revenue in the oncology market. Revenues are recognized predominantly under fee for service arrangements through equipment that we rent to patients. We recognize revenue only when all of the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) services have been rendered; 3) the price to the customer is fixed or determinable; and 4) collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when 1) we receive a physician s written order and assignment of benefits, signed by the physician and patient, respectively, and 2) we have verified actual pump usage and 3) we receive patient acknowledgement of assignment of benefits. We recognize rental revenue from electronic infusion pumps as earned, normally on a month-to-month basis. Pump rentals are billed at our established rates, which often differ from contractually allowable rates provided by third-party payors such as Medicare, Medicaid and commercial insurance carriers. All billings to third party payors are recorded net of provision for contractual adjustments to arrive at net revenues.

Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Due to continuing changes in the health care industry and third-party reimbursement, it is possible that management s estimates could change in the near term, which could have an impact on our results of operations and cash flows.

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Our largest payor is Medicare, which accounted for approximately 31% of our gross billings for the year ended December 31, 2010. We have contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 23% of our gross billings for the year ended December 31, 2010. No individual payor, other than Medicare and the Blue Cross/Blue Shield entities accounts for greater than 6% of our gross billings.

We recognize revenue for selling, renting and servicing new and pre-owned infusion pumps and other medical equipment to oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others, when 1) persuasive evidence of an arrangement exists; 2) services have been rendered; 3) the price to the customer is fixed or determinable; and 4) collectability is reasonably assured. We perform an analysis to estimate sales returns and record an allowance. This estimate is based on historical sales returns.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and other direct pay customers for goods provided and services rendered. We perform periodic analyses to assess the accounts receivable balances and record an allowance for doubtful accounts based on the estimated collectability of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Our estimate for allowance for doubtful accounts is based upon management s assessment of historical and expected net collections by payor. Due to continuing changes in the health care industry and third-party reimbursement it is possible that management s estimates could change in the near term, which could have an impact on its financial position, results of operations, and cash flows.

Following is an analysis of the allowance for doubtful accounts for InfuSystem Holdings, Inc. for the years ended December 31, 2010, 2009 and 2008 ($000 s):

		Balance at beginning of Period	Acquired in acquisition	Charged to costs and expenses	Deductions (1)	Balance at end of Period
Allowance for doubtful accounts	2010	$ 1,842	$ 37	$ 4,515	$ (4,598)	$ 1,796
Allowance for doubtful accounts	2009	$ 1,552		$ 4,006	$ (3,716)	$ 1,842
Allowance for doubtful accounts	2008	$ 1,638		$ 3,187	$ (3,273)	$ 1,552

(1) Deductions represent the write-off of uncollectible account receivable balances.

Warrants and Derivative Financial Instruments

On April 18, 2006, we consummated our initial public offering (IPO) of 16,666,667 units. Each unit consists of one share of common stock and two redeemable common stock purchase warrants. Each warrant entitles the holder to purchase from us one share of our common stock at an exercise price of $5.00. On May 18, 2006, we sold an additional 208,584 units (the Overallotment Units) to FTN Midwest Securities Corp., the underwriter of our IPO (FTN Midwest), pursuant to a partial exercise by FTN Midwest of its overallotment option. The Warrant Agreement provides for us to register the shares underlying the warrants in the absence of our ability to deliver registered shares to the warrant holders upon warrant exercise.

ASC 815 requires freestanding derivative contracts that are settled in a company s own stock, including common stock warrants, to be designated as equity instruments, assets or liabilities. Under the provisions of this standard, a contract designated as an asset or a liability must be carried at its fair value on a company s balance sheet, with any changes in fair value recorded in the company s results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period.

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On February 16, 2010 we announced an Offer to Exchange common stock for outstanding warrants. At the time, we had 35,108,219 outstanding warrants. The exchange offer expired on March 17, 2010. Holders of our warrants had the option to exchange their warrants for either One (1) share of Common Stock for every thirty-five (35) Warrants tendered, or One (1) share of Common Stock for every twenty-five (25) Warrants tendered, provided the recipient agreed to be subject to a lock-up provision precluding transfer of the shares of Common Stock received for six months following the expiration of the Exchange Offer. The lock-up provision expired in September 2010. Based on the final count, 25,635,723 Warrants were properly tendered; 24,766,700 were tendered for shares of Common Stock subject to a lock-up, and 869,023 were tendered for unrestricted shares of Common Stock. Under the terms of the Exchange Offer, we issued an aggregate 1,015,489 shares of Common Stock in exchange for the tendered Warrants. After the exchange, there are 8,329,638 publicly held warrants and 1,142,858 privately held warrants outstanding.

In accordance with ASC 815, the 8,329,638 remaining warrants issued in connection with the IPO and overallotment to purchase common stock must be settled in registered shares and are separately accounted for as liabilities as discussed in Note 6. The fair value of these warrants is shown on our balance sheet and the unrealized changes in the value of these warrants are shown in our statement of operations as Gain (loss) on derivatives. These warrants are freely traded on the Over the Counter Bulletin Board. Consequently, the fair value of these warrants is estimated as the market price of the warrant at each period end. To the extent the market price increases or decreases, our warrant liabilities will also increase or decrease with a corresponding impact on the Company s results of operations within Gain (loss) on derivatives .

Sales of warrants that can be settled in unregistered shares of common stock, as discussed in Note 10, are treated as equity and included in additional paid in capital. The total warrants issued to date that can be settled in unregistered shares of common stock are 1,142,858 at an issue price of $.70 per warrant or a total issue price of $800 thousand.

ASC 815 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

Cash Flow Hedge

We are exposed to risks associated with future cash flows related to the variability of the interest rate on its term loan with Bank of America. In order to manage the exposure of these risks, we enter into interest rate swaps. On July 20, 2010, we entered into a single interest rate swap and designated the swap as a cash flow hedge. In accordance with ASC 815, the fair value of the swap is shown on our consolidated balance sheet within derivative liabilities, unrealized changes in the fair value are included in accumulated other comprehensive loss within the stockholders equity section on our consolidated balance sheet, and any realized changes would be included in our consolidated statement of operations within interest expense.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes,* which requires that we recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax (expense) benefit results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when, in the opinion of management, it is more likely than not that some or all of any deferred tax assets will not be realized. For more information, refer to the Income Taxes discussion included in Note 8.

Goodwill Valuation

Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the businesses acquired.

In accordance with the provisions of ASC 350, *Intangibles Goodwill and Other,* goodwill is tested annually for impairment or more frequently if circumstances indicate the possibility of impairment. Significant judgments required to estimate fair value include estimating future cash flows, and determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value which could trigger impairment. We performed the annual impairment test at October 31, 2010, and determined there was no impairment of goodwill. The fair value of the Company s single reporting unit was estimated using a valuation model that combined an income and market approach, utilizing the discounted cash flow and guideline public company methods, respectively, which indicated that the fair value of its net assets exceeded the carrying value by less than 10%. No events have occurred subsequent to October 31, 2010 that indicates impairment may have occurred.

The relationship of the Company s market capitalization to the carrying value of its net assets can impact estimates of these assumptions, and can therefore impact the Company s judgment as to the fair value of its reporting unit when performing goodwill impairment tests. During 2010, the Company s market capitalization remained fairly consistent with such experience in 2009. The Company evaluated the movement in its stock price along with its 2010 performance relative to expectations. In addition, the Company assessed several unique factors; a thinly traded, closely held, illiquid stock, an overhang created by having a significant amount of warrants outstanding (see Note 6), and a limited research or analyst coverage. The implied control premium was within the range of market control premiums paid in transactions of companies in the healthcare industry during the past three years. Based on this evaluation, the Company concluded that neither the market capitalization at October 31, 2010, nor the change vs. the prior year, were definitive indicators of impairment.

As the Company s warrants expire in April 2011 and its common stock was listed on the NY AMEX in December 2010, the Company will monitor the impact of these factors as well as control premiums for healthcare transactions, operational performance measures, general economic conditions and its market capitalization. A downward trend in one or more of these factors could cause the Company to reduce the estimated fair value of its reporting unit and recognize a corresponding impairment of goodwill in connection with a future goodwill impairment test.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

At December, 2010, the principal plus accrued interest on our term loan with Bank of America was $28.1 million. The term loan bears interest at LIBOR plus 4.5% or the Bank of America prime rate plus 3.5%, at our option. The loan is a variable rate loan and therefore fair value approximates book value. See Note 7 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of our term loan with Bank of America.

We are exposed to interest rate fluctuations on our underlying variable rate long-term debt. We utilize a single interest rate swap agreement to moderate approximately 65% of such exposure. We do not use derivative financial instruments for trading or other speculative purposes.

Based on the term loans and interest rate swaps outstanding, a decrease in LIBOR to zero (which is less than a 100 basis point decrease) and a 100 basis point decrease in the Bank of America prime rate would have increased our cash flow and pretax earnings by approximately $52 thousand for the year ended December 31, 2010. A 100 basis point increase in LIBOR and the Bank of America prime rate would have decreased our cash flow and pretax earnings year ended December 31, 2010 by approximately $14 thousand.

We have classified certain warrants as derivative liabilities, which resulted in a liability of $83 thousand at December 31, 2010. We classified the warrants as derivative liabilities because there is a possibility that we may be required to settle the warrants in registered shares of common stock. We are required to compare the fair market value of these instruments from the date of the initial recording to their fair market value as of the end of each reporting period and to reflect the change in fair market value in our Consolidated Statements of Operations as a gain or loss for the applicable period.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

InfuSystem Holdings, Inc.

Madison Heights, Michigan

We have audited the accompanying consolidated balance sheets of InfuSystem Holdings, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of InfuSystem Holdings, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/S/ DELOITTE & TOUCHE LLP

Detroit, Michigan

March 10, 2011

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)		**December 31, 2010**		**December 31, 2009**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	5,014	$	7,750
Accounts receivable, less allowance for doubtful accounts of $1,796 and $1,842 at December 31, 2010 and 2009, respectively		6,679		5,517
Inventory		1,699		925
Prepaid expenses and other current assets		750		395
Deferred income taxes		1,147		125
Total Current Assets		15,289		14,712
Property & equipment, net		16,672		13,499
Deferred debt issuance costs, net		658		781
Goodwill		64,092		56,580
Intangible assets, net		33,252		28,911
Other assets		401		207
Total Assets	$	130,364	$	114,690
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities:				
Accounts payable	$	2,016	$	1,306
Accrued expenses and other current liabilities		4,631		1,573
Derivative liabilities		183		2,670
Current portion of long-term debt		5,551		5,501
Total Current Liabilities		12,381		11,050
Long-term debt, net of current portion		26,646		18,640
Deferred income taxes		5,788		3,314
Other liabilities		406		221
Total Liabilities	$	45,221	$	33,225
Commitments and Contingencies				
Stockholders Equity				
Preferred stock, $.0001 par value: authorized 1,000,000 shares; none issued				
Common stock, $.0001 par value; authorized 200,000,000 shares; issued 21,163,337 and 18,734,144, respectively; outstanding 21,117,516 and 18,734,144, respectively		2		2
Additional paid-in capital		87,004		81,410
Accumulated other comprehensive loss		(64)		
Retained (deficit) earnings		(1,799)		53
Total Stockholders Equity		85,143		81,465
Total Liabilities and Stockholders Equity	$	130,364	$	114,690

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)	**Year Ended December 31, 2010**	**Year Ended December 31, 2009**	**Year Ended December 31, 2008**
Net revenues	$ 47,229	$ 38,964	$ 35,415
Cost of revenues:			
Product, service and supply costs	7,730	6,200	5,422
Pump depreciation, sales and disposals	5,954	4,127	3,769
Gross profit	33,545	28,637	26,224
Sales, general and administrative expenses:			
Provision for doubtful accounts	4,515	4,006	3,187
Amortization of intangibles	2,259	1,827	1,827
Selling and marketing	7,087	5,258	4,659
General administrative	20,622	12,218	11,765
Total sales, general and administrative expenses	34,483	23,309	21,438
Operating (loss) income	(938)	5,328	4,786
Other (loss) income:			
Gain (loss) on derivatives	207	(78)	9,815
Interest expense	(3,352)	(3,499)	(3,735)
Gain on extinguishment of long-term debt	1,118		
Other expense	(258)		
Total other (loss) income	(2,285)	(3,577)	6,080
(Loss) income before income taxes	(3,223)	1,751	10,866
Income tax benefit (expense)	1,371	(977)	(907)
Net (loss) income	$ (1,852)	$ 774	$ 9,959
Net (loss) income per share:			
Basic	$ (0.09)	$ 0.04	$ 0.56
Diluted	$ (0.09)	$ 0.04	$ 0.53
Weighted average shares outstanding:			
Basic	19,721,378	18,609,797	17,940,952
Diluted	19,721,378	18,931,356	18,672,321

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF

STOCKHOLDERS EQUITY

	Common Stock					**Treasury Stock**		
(in thousands, except share data)	**Shares**	**Par Value $0.0001 Amount**	**Paid in Capital in Excess of Par**	**Retained (Deficit) Earnings**	**Accumulated Other Comprehensive Loss**	**Shares**	**Amount**	**Total Stockholders Equity**
Balances at January 1, 2008	**18,316**	**2**	**$ 79,437**	**$ (10,680)**	**$**	**(1,491)**	**$**	**$ 68,759**
Gross restricted shares issued upon vesting	275							
Amortization of stock-based compensation expense			1,550					1,550
Issuance of treasury stock for services						257		
Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation	(78)		(195)					(195)
Net income				9,959				9,959
Balances at December 31, 2008	**18,513**	**2**	**$ 80,792**	**$ (721)**	**$**	**(1,234)**	**$**	**$ 80,073**
Gross restricted shares issued upon vesting	265							
Common stock issued to employees	8							
Amortization of stock-based compensation expense			753					753
Issuance of treasury stock for services						1,234		
Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation	(52)		(135)					(135)
Net income				774				774
Balances at December 31, 2009	**18,734**	**2**	**$ 81,410**	**$ 53**	**$**		**$**	**$ 81,465**
Gross restricted shares issued upon vesting	1,476							
Common stock issued to employees	5							
Shares issued from warrant exchange	1,015		2,015					2,015
Amortization of stock-based compensation expense			3,860					3,860
Treasury shares repurchased			(114)			(46)		(114)
Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation	(67)		(167)					(167)
Net loss				(1,852)				(1,852)
Comprehensive loss					(64)			(64)
Balances at December 31, 2010	**21,163**	**2**	**$ 87,004**	**$ (1,799)**	**$ (64)**	**(46)**	**$**	**$ 85,143**

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
OPERATING ACTIVITIES			
Net (loss) income	$ (1,852)	$ 774	$ 9,959
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
(Gain) loss on derivative liabilities	(207)	78	(9,815)
(Gain) on extinguishment of long-term debt	(1,118)		
Provision for doubtful accounts	4,515	4,006	3,187
Depreciation	5,357	4,122	3,935
Loss on disposal of pumps	994	342	553
Amortization of intangible assets	2,259	1,827	1,827
Amortization of deferred debt issuance costs	980	495	642
Stock-based compensation	3,860	753	1,550
Deferred income taxes	(1,236)	2,254	935
Changes in assets and liabilities, exclusive of effects of acquisitions:			
(Increase) in accounts receivable, net of provision	(3,948)	(5,355)	(1,835)
(Increase) decrease in other current assets	(506)	(253)	560
(Increase) in other assets	(173)	(207)	
Increase (decrease) in accounts payable and other liabilities	2,252	872	(601)
(Decrease) in derivative liabilities from termination of interest rate swap	(365)		
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,812	9,708	10,897
INVESTING ACTIVITIES			
Capital expenditures	(2,444)	(4,612)	(1,733)
Cash paid for acquisition, net of cash acquired	(16,616)		
Proceeds from sale of property		1	10
Payment of deferred acquisition costs			(105)
Cash received for acquisition from I-Flow			784
NET CASH USED IN INVESTING ACTIVITIES	(19,060)	(4,611)	(1,044)
FINANCING ACTIVITIES			
Principal payments on term loan	(22,623)	(8,565)	(2,044)
Cash proceeds from term loan	30,000		
Capitalized debt issuance costs	(808)		
Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation	(167)	(135)	(195)
Treasury shares repurchased	(68)		
Principal payments on capital lease obligations	(822)	(160)	(61)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,512	(8,860)	(2,300)
Net change in cash and cash equivalents	(2,736)	(3,763)	7,553
Cash and cash equivalents, beginning of period	7,750	11,513	3,960
Cash and cash equivalents, end of period	$ 5,014	$ 7,750	$ 11,513

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The following table presents certain supplementary cash flow information for the years ended December 31, 2010, 2009 and 2008:

(in thousands)	Year Ended December 31, 2010		Year Ended December 31, 2009	Year Ended December 31, 2008
Cash paid for interest (including swap payments)	$	2,372	$ 2,933	$ 3,115
Cash paid for income taxes	$	21	$ 18	$ 533
Supplementary non-cash activities:				
Property acquired with a capital lease	$	1,869	$ 2,198	$ 480
Tender offer to exchange warrants	$	2,016	$	$
Additions to property (a)	$ 903			

Total deposits decreased slightly (less than 1.0%) compared to December 31, 2012, as increases in interest bearing checking, savings, and money market balances of $46.2 million or 2.2% and increases in noninterest bearing deposits of $59.0 million or 7.1% were offset by a $108.2 million or 11.1% decrease in time deposits. Other borrowings, consisting mainly of short term advances with the FHLB, were up $219.7 million or 196.4% from December 31, 2012. A more detailed discussion of deposits and borrowings is provided below in this section under the caption “Deposits and Other Liabilities”.

Shareholders’ Equity

The Consolidated Statements of Changes in Shareholders’ Equity included in the Consolidated Financial Statements of the Company contained in Part II, Item 8. of this Report, detail the changes in equity capital. Total shareholders’ equity was up $16.6 million or 3.7% to $457.9 million at December 31, 2013, from $441.4 million at December 31, 2012. Additional paid-in capital increased by $11.4 million, from $334.7 million at December 31, 2012, to $346.1 million at December 31, 2013. The $11.4 million increase included the following: $5.0 million of proceeds from stock option exercises and the related tax benefits; $1.4 million related to stock-based compensation; $4.0 million related to shares issued for dividend reinvestment plans; $715,000 related to shares issued for the employee stock ownership plan; and $284,000 related to shares issued for director deferred compensation plan. Retained earnings increased by $28.4 million, reflecting net income of $50.9 million less dividends of $22.5 million.

Accumulated other comprehensive loss increased from a net unrealized loss of $2.1 million at December 31, 2012 to a net unrealized loss of $25.1 million at December 31, 2013; reflecting a $34.7 million increase in unrealized loss on available-for-sale securities due to market rates, and an $11.7 million increase in unrealized gains associated with postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company's defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage capital ratios.

Total shareholders' equity was up $142.2 million or 47.5% to $441.4 million at December 31, 2012, from $299.1 million at December 31, 2011 mainly as a result of the stock issued as part of the VIST acquisition, a capital raise completed in the second quarter of 2012 and net income. Additional paid-in capital increased by $128.3 million, from $206.4 million at December 31, 2011, to $334.6 million at December 31, 2012. The $128.3 million included the following: the issuance of $83.1 million in common stock for the acquisition of VIST Financial; the net $37.9 million capital raise completed in the second quarter of 2012; $2.8 million of proceeds from stock option exercises and the related tax benefits; $1.3 million related to stock-based compensation; $1.9 million related to shares issued under dividend reinvestment plans; $1.0 million related to shares issued under the employee stock ownership plan; and $199,000 related to shares issued under the director deferred compensation plan. Retained earnings increased by $12.3 million, reflecting net income of $31.3 million less dividends of $19.0 million.

Accumulated other comprehensive loss decreased from a net unrealized loss of $3.7 million at December 31, 2011 to a net unrealized loss of $2.1 million at December 31, 2012; reflecting a $3.1 million increase in unrealized gains on available-for-sale securities due to lower market rates, and an $1.6 million loss associated with postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company's defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage capital ratios.

The Company continued its long history of increasing cash dividends with a per share increase of 5.5% in 2013, which follows an increase of 4.3% in 2012. Dividends per share amounted to $1.54 in 2013, compared to $1.46 in 2012, and $1.40 in 2011. Cash dividends paid represented 44.2%, 60.8%, and 43.5% of after-tax net income in each of 2013, 2012, and 2011, respectively.

On October 25, 2011, the Company's Board of Directors authorized a new stock repurchase plan for the Company to repurchase up to 335,000 shares of the Company's common stock. Purchases may be made on the open market or in privately negotiated transactions over 24 months. The 24 month period ended October 25, 2013 and no shares were purchased under the plan.

The Company and its subsidiary banks are subject to quantitative capital measures established by regulation to ensure capital adequacy. Consistent with the objective of operating a sound financial organization, the Company and its subsidiary banks maintain capital ratios well above regulatory minimums and meet the requirements to be considered well-capitalized under the regulatory guidelines.

During the first quarter of 2010, the Comptroller of the Currency ("OCC") notified the Company that it was requiring Mahopac Bank, one of the Company's four banking subsidiaries, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac has exceeded these minimum requirements since the time of the notification and was notified by the OCC during the first quarter of 2013 that it was no longer requiring Mahopac to maintain the higher capital ratios agreed to in 2010.

As of December 31, 2013, the capital ratios for the Company's other four subsidiary banks exceeded the minimum levels required to be considered well capitalized. Additional information on the Company's capital ratios and regulatory requirements is provided in "Note 21 - Regulations and Supervision" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report on Form 10-K.

Securities

The Company maintains a portfolio of securities such as U.S. Treasuries, U.S. government sponsored entities securities, U.S. government agencies, non-U.S. Government agencies or sponsored entities mortgage-backed securities, obligations of states and political subdivisions thereof and equity securities. Management typically invests in securities with short to intermediate average lives in order to better match the interest rate sensitivities of its assets and liabilities. Investment decisions are made within policy guidelines established by the Company's Board of Directors. The investment policy established by the Company's Board of Directors is based on the asset/liability management goals of the Company, and is monitored by the Company's Asset/Liability Management Committee. The intent of the policy is to establish a portfolio of high quality diversified securities, which optimizes net interest income within safety and liquidity limits deemed acceptable by the Asset/Liability Management Committee.

The Company classifies its securities at date of purchase as available-for-sale, held-to-maturity or trading. Securities, other than certain obligations of states and political subdivisions thereof, are generally classified as available-for-sale. Securities available-for-sale may be used to enhance total return, provide additional liquidity, or reduce interest rate risk. The held-to-maturity portfolio consists solely of obligations of state and political subdivisions. The securities in the trading portfolio reflect those securities that the Company elects to account for at fair value, with the adoption of ASC Topic 825,

Financial Instrument.

The Company's securities portfolio at December 31, 2013 totaled $1.38 billion compared to $1.43 billion at December 31, 2012. The fair value of the available-for-sale portfolio, the held-to-maturity portfolio, and the trading portfolio decreased from year end 2012. The decrease in the available-for-sale portfolio was mainly due to decreases in obligations of U.S. government sponsored entities and obligations of U.S. states and political subdivisions offset by an increase in mortgage-backed securities issued by U.S. Government sponsored entities. In addition, fair values decreased between year end 2012 and year end 2013 as a result of changes in market interest rates. The decrease in the held-to-maturity portfolio was due to maturities and calls during the year. The tables below show the composition of the securities portfolios as of the past three year ends. Additional information on the securities portfolio is available in "Note 3 Securities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report, which details the types of securities held, the carrying and fair values, and the contractual maturities as of December 31, 2013 and 2012.

Available-for-Sale Securities	2013		2012		2011	
(in thousands)	**Amortized Cost**[1]	Fair Value	**Amortized Cost**[1]	Fair Value	**Amortized Cost**[1]	Fair Value
U.S. Treasury securities	$0	$0	$1,001	$1,004	$2,020	$2,070
Obligations of U.S. Government sponsored entities	558,130	556,345	570,871	593,778	408,958	422,590
Obligations of U.S. states and political subdivisions	68,216	67,962	76,803	79,056	56,939	59,653
Mortgage-backed securities - residential, issued by						
U.S. Government agencies	147,766	146,678	162,853	167,667	123,426	129,773
U.S. Government sponsored entities	587,843	577,472	526,364	540,355	501,136	517,378
Non-U.S. Government agencies or sponsored entities	306	311	4,457	4,354	6,334	5,876
U.S. corporate debt securities	5,000	4,633	5,009	5,083	5,017	5,183
Total debt securities	1,367,261	1,353,401	1,347,358	1,391,297	1,103,830	1,142,523
Equity securities	1,475	1,410	2,058	2,043	1,023	1,023
Total available-for-sale securities	$1,368,736	$1,354,811	$1,349,416	$1,393,340	$1,104,853	$1,143,546

[1] *Net of other-than-temporary impairment losses recognized in earnings.*

Equity securities include miscellaneous investments carried at fair value, which approximates cost.

Held-to-Maturity Securities	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. states and political subdivisions	$18,980	$19,625	$24,062	$25,163	$26,673	$27,255
Total held-to-maturity securities	$18,980	$19,625	$24,062	$25,163	$26,673	$27,255

Trading Securities	2013	2012	2011

	Fair Value	Fair Value	Fair Value
Obligations of U.S. Government sponsored entities	$8,275	$11,860	$12,693
Mortgage-backed securities-residential issued by U.S. Government sponsored entities	2,716	4,590	6,905
Total trading securities	$10,991	$16,450	$19,598

The decrease in trading securities reflects principal repayments and maturities received during 2013. The pre-tax mark-to-market losses on trading securities in 2013 were $538,000 and $332,000 in 2012, compared to pre-tax net mark-to-market gains of $62,000 in 2011.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles. During 2013, the Company sold three non-U.S. Government agencies or sponsored entities mortgage backed securities for a gain of approximately $94,000. Prior to 2013, these non-U.S. Government agencies or sponsored entities mortgage backed securities were determined to be other-than-temporarily impaired and the Company did recognize net credit impairment charges to earnings of $441,000 over the life of these securities. Also during 2013, one non-U.S. Government agencies or sponsored entities mortgage backed security was repaid in full. The Company did not recognize any net credit impairment charge to earnings in 2013.

The Company uses a two step modeling approach to analyze each non-agency CMO issue to determine whether or not the current unrealized losses are due to credit impairment and therefore other-than-temporarily impaired ("OTTI"). Step one in the modeling process applies default and severity credit vectors to each security based on current credit data detailing delinquency, bankruptcy, foreclosure and real estate owned (REO) performance. The results of the credit vector analysis are compared to the security's current credit support coverage to determine if the security has adequate collateral support. If the security's current credit support coverage falls below certain predetermined levels, step two is utilized. In step two, the Company uses a third party to assist in calculating the present value of current estimated cash flows to ensure there are no adverse changes in cash flows during the quarter leading to an other-than-temporary-impairment. Management's assumptions used in step two include default and severity vectors and prepayment assumptions along with various other criteria including: percent decline in fair value; credit rating downgrades; probability of repayment of amounts due, credit support and changes in average life. As a result of the modeling process, the Company does not consider its one remaining non-agency CMO's to be other-than-temporarily impaired at December 31, 2013. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Central Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock and ACBB stock totaled $17.2 million, $7.7 million and $95,000 at December 31, 2013, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. On December 31, 2013, the entire $2.1 million of the Company's Federal Reserve Bank stock was redeemed. The redemption was due to the conversion of Mahopac Bank from a nationally-chartered bank and a member of the Federal Reserve to a New York State-chartered bank and not a member of the Federal Reserve. At December 31, 2012, the Company's holdings of FHLBNY stock, FHLBPITT stock, and FRB stock totaled $13.2 million, $4.1 million, and $2.1 million, respectively.

Management's policy is to purchase investment grade securities that, on average, have relatively short expected durations. This policy helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. The contractual maturity distribution of debt securities and mortgage-backed securities as of December 31, 2013, along with the weighted average yield of each category, is presented in *Table 3-Maturity Distribution* below. Balances are shown at amortized cost and weighted average yields are calculated on a fully taxable-equivalent basis. Expected maturities will differ from contractual maturities presented in *Table 3-Maturity Distribution* below, because issuers may have the right to call or prepay obligations with or without penalty and mortgage-backed securities will pay throughout the periods prior to contractual maturity.

Table 3 - Maturity Distribution

	As of December 31, 2013			
	Securities Available-for-Sale *		Securities Held-to-Maturity	
(dollar amounts in thousands)	Amount	Yield (FTE)	Amount	Yield (FTE)
U.S. Treasury securities				
Obligations of U.S. Government sponsored entities				
Within 1 year	$15,503	2.53 %	$0	0.00 %
Over 1 to 5 years	240,648	2.47 %	0	0.00 %
Over 5 to 10 years	301,979	1.81 %	0	0.00 %
	$558,130	2.11 %	$0	0.00 %
Obligations of U.S. state and political subdivisions				
Within 1 year	$7,593	5.37 %	$10,952	3.90 %
Over 1 to 5 years	22,905	4.80 %	5,636	7.17 %
Over 5 to 10 years	11,266	4.65 %	1,878	7.52 %
Over 10 years	26,452	5.37 %	514	8.14 %
	$68,216	5.06 %	$18,980	5.34 %
Mortgage-backed securities - residential				
Within 1 year	$57	3.30 %	$0	0.00 %
Over 1 to 5 years	6,580	5.05 %	0	0.00 %
Over 5 to 10 years	137,104	2.94 %	0	0.00 %
Over 10 years	592,174	2.37 %	0	0.00 %
	$735,915	2.50 %	$0	0.00 %
Other securities				
Within 1 year	$2,500	4.05 %	$0	0.00 %
Over 10 years	2,500	3.03 %	0	0.00 %
Equity securities	1,475	2.31 %	0	0.00 %
	$6,475	3.26 %	$0	0.00 %
Total securities				
Within 1 year	$25,653	3.52 %	$10,952	3.90 %
Over 1 to 5 years	270,133	2.73 %	5,636	7.17 %
Over 5 to 10 years	450,349	2.25 %	1,878	7.52 %
Over 10 years	621,126	2.50 %	514	8.14 %
Equity securities	1,475	2.31 %	0	0.00 %
	$1,368,736	2.48 %	$18,980	5.34 %

**Balances of available-for-sale securities are shown at amortized cost.*

The average taxable-equivalent yield on the securities portfolio was 2.39% in 2013 compared to 2.61% in 2012 and 3.11% in 2011. The decrease in yields was primarily a result of the reinvestment of proceeds from principal repayments and maturities at lower market rates.

At December 31, 2013, there were no holdings of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of the Company's shareholders' equity.

Loans and Leases

Table 4 Composition of Loan and Lease Portfolio

Originated Loans and Leases	**As of December 31,**				
(in thousands)	2013	2012	2011	2010	2009
Commercial and industrial					
Agriculture	$74,788	$77,777	$67,566	$65,918	$71,480
Commercial and industrial other	562,439	446,876	417,128	409,432	423,015
Subtotal commercial and industrial	637,227	524,653	484,694	475,350	494,495
Commercial real estate					
Construction	46,441	41,605	47,304	58,519	55,626
Agriculture	52,627	48,309	53,071	48,485	40,516
Commercial real estate other	903,320	722,273	665,859	619,458	601,221
Subtotal commercial real estate	1,002,388	812,187	766,234	726,462	697,363
Residential real estate					
Home equity	171,809	159,720	161,278	164,765	166,618
Mortgages	658,966	573,861	500,034	462,032	458,823
Subtotal residential real estate	830,775	733,581	661,312	626,797	625,441
Consumer and other					
Indirect	21,202	26,679	32,787	41,668	51,363
Consumer and other	32,312	32,251	30,961	31,757	35,324
Subtotal consumer and other	53,514	58,930	63,748	73,425	86,687
Leases	5,563	4,618	6,489	9,949	12,821
Total loans and leases	2,529,467	2,133,969	1,982,477	1,911,983	1,916,807
Less: unearned income and deferred costs and fees	(2,223)	(863)	(628)	(1,625)	(1,989)
Total originated loans and leases, net of unearned income and deferred costs and fees	$2,527,244	$2,133,106	$1,981,849	$1,910,358	$1,914,818
Acquired Loans					
Commercial and industrial					
Commercial and industrial other	128,503	167,427	0	0	0
Subtotal commercial and industrial	128,503	167,427	0	0	0
Commercial real estate					
Construction	39,353	43,074	0	0	0
Agriculture	3,135	3,247	0	0	0
Commercial real estate other	366,438	445,359	0	0	0
Subtotal commercial real estate	408,926	491,680	0	0	0
Residential real estate					
Home equity	67,183	81,657	0	0	0
Mortgages	35,336	41,618	0	0	0
Subtotal residential real estate	102,519	123,275	0	0	0
Consumer and other					

Indirect	5	24	0	0	0
Consumer and other	1,219	1,498	0	0	0
Subtotal consumer and other	1,224	1,522	0	0	0
Covered loans	25,868	37,600	0	0	0
Total loans and leases	667,040	821,504	0	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$667,040	821,504	$0	$0	$0

The Company did not have any acquired loans accounted for in accordance with ASC Topic 805 for the years ended December 31, 2011, 2010 and 2009.

Total loans and leases of $3.2 billion at December 31, 2013 were up $239.7 million or 8.1% from December 31, 2012. The growth was mainly due to organic loan growth. On August 1, 2012, the Company acquired $889.3 million of loans in the VIST Financial acquisition. These loans are shown in the table under the acquired loan and lease heading. All other loans, including loans originated by VIST Bank since acquisition date of August 1, 2012, are considered originated loans. Originated loan balances at December 31, 2013 are up 18.5% over year-end 2012. The increase in originated loans was in commercial, commercial real estate and residential real estate loans; consumer loans were down compared to the prior year. As of December 31, 2013 total loans and leases represented 63.8% of total assets compared to 61.1% of total assets at December 31, 2012.

Residential real estate loans, including home equity loans, of $933.3 million at December 31, 2013 increased by $76.4 million or 8.9% from $856.9 million at year-end 2012, and comprised 29.2% of total loans and leases at December 31, 2013. The growth in residential real estate loan balances reflects higher origination volumes due to the low interest rate environment as well as a decision to retain certain residential mortgages in portfolio rather than sell them in the secondary market due to interest rate considerations. The Company's Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

Prior to August 2012, residential mortgage loans were generally sold to Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA"). With the acquisition to VIST on August 1, 2012, the Company also sells loans to other third parties, including money center banks. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loans also are subject to customary representations and warranties made by the Company, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these general representations and warranties. While in the past in rare circumstances the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans included on the Company's balance sheet at December 31, 2013 was insignificant. The Company has never had to repurchase a loan sold with recourse.

During 2013, 2012, and 2011, the Company sold residential mortgage loans totaling $13.6 million, $37.5 million, and $26.6 million, respectively, and realized net gains on these sales of $301,000, $885,000, and $496,000, respectively. These residential real estate loans are generally sold without recourse in accordance with

standard secondary market loan sale agreement. When residential mortgage loans are sold to FHLMC or SONYMA, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2013, 2012, and 2011, the Company recorded mortgage-servicing assets of $85,000, $123,000, and $176,000, respectively.

The Company has not originated any hybrid loans, such as payment option ARMs. The Company underwrites residential real estate loans in accordance with secondary market standards in effect at the time of origination, including loan-to-value ("LTV") and documentation requirements. The Company does not underwrite low or reduced documentation loans other than those that meet secondary market standards for low or reduced documentation loans. In those instances, W-2's and paystubs are used instead of sending Verification of Employment forms to employers to verify income and bank deposit statements are used instead of Verification of Deposit forms mailed to financial institutions to verify deposit balances.

Commercial real estate loans totaled $1.4 billion at December 31, 2013; an increase of $107.4 million compared to December 31, 2012, and represented 44.2% of total loans and leases at December 31, 2013, up from 44.1% at December 31, 2012.

Commercial and industrial loans totaled $765.7 million at December 31, 2013, which is an increase of $73.7 million from $692.1 million reported as of December 31, 2012. As of December 31, 2013, agriculturally-related loans totaled $130.6 million or 4.1% of total loans and leases compared to $129.3 million or 4.4% of total loans and leases at December 31, 2012. Agriculturally-related loans include loans to dairy farms and cash and vegetable crop farms. Agriculturally related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The consumer loan portfolio includes personal installment loans, indirect automobile financing, and overdraft lines of credit. Consumer and other loans were $54.7 million at December 31, 2013, compared to $60.5 million at December 31, 2012. The originated consumer and other loan portfolio at December 31, 2013 was down 9.2% from year-end 2012, mainly in the indirect auto loan category as a result of increased auto lending competition.

The lease portfolio increased by 20.5% to $5.6 million at December 31, 2013 from $4.6 million at December 31, 2012. The lease portfolio has traditionally consisted of leases on vehicles for consumers and small businesses. More aggressive competition for automobile financing has led to a decline in the consumer lease portfolio over the past several years. Management continues to review leasing opportunities, primarily commercial leasing and municipal leasing. As of December 31, 2013, commercial leases and municipal leases represented 100.0% of total leases.

Acquired loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 – "Fair Value Measurements and Disclosures" (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). At acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality".

The carrying value of loans acquired from VIST and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was $46.8 million at December 31, 2013, compared to $80.2 million at December 31, 2012. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was $620.2 million at December 31, 2013 as compared to $741.3 million at December 31, 2012. The fair value of the acquired loans not exhibiting evidence of credit impairment was determined by projecting contractual cash flows discounted at risk-adjusted interest rates.

The carrying value of the acquired loans reflects management's best estimate of the amount to be realized from the acquired loan and lease portfolios. However,

the amounts the Company actually realizes on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments.

Purchased performing loans were recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. Such estimated credit losses are recorded as an accretable discount in a manner similar to purchased impaired loans. The fair value discount other than for credit loss is accreted as an adjustment to yield over the estimated lives of the loans. Interest is accrued daily on the outstanding principal balances of purchased performing loans. Fair value adjustments are also accreted into income over the estimated lives of the loans on a level yield basis.

At December 31, 2013, acquired loans included $25.9 million of covered loans as compared to $37.6 million of covered loans at the prior year-end. VIST Financial had acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with loss sharing agreements with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if certain levels of reimbursement are reached, 80%. See Note 6 – “FDIC Indemnification Asset Related to Covered Loans” in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report on Form 10-K.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. The Company reviewed the lending policies of Tompkins and VIST Financial, and adopted a uniform policy for the Company. There were no significant changes to the Company’s existing policies, underwriting standards and loan review. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company's loan and lease customers are located primarily in the New York and Pennsylvania communities served by its four subsidiary banks. Although operating in numerous communities in New York State and Pennsylvania, the Company is still dependent on the general economic conditions of these states. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

Analysis of Past Due and Nonperforming Loans	As of December 31,				
(dollar amounts in thousands)	2013	2012	2011	2010	2009
Loans 90 days past due and accruing					
Commercial and industrial	$0	$0	$0	$842	$294
Commercial real estate	161	0	0	0	0
Residential real estate	446	257	1,378	368	75
Consumer and other	0	0	2	0	0
Leases	0	0	0	7	0
Total loans 90 days past due and accruing	607	257	1,380	1,217	369
Nonaccrual loans					
Commercial and industrial	1,679	1,340	7,105	7,271	7,334
Commercial real estate	23,364	25,014	26,352	24,791	16,664
Residential real estate	13,086	11,084	5,884	9,111	7,070
Consumer and other	254	302	237	309	193
Leases	0	0	10	19	28
Total nonaccrual loans	38,383	37,740	39,588	41,501	31,289
Troubled debt restructurings not included above	45	1,532	428	2,564	3,265
Total nonperforming loans and leases	39,035	39,529	41,396	45,282	34,923
Other real estate owned	4,253	4,862	1,334	1,255	299
Total nonperforming assets	$43,288	$44,391	$42,730	$46,537	$35,222
Total nonperforming loans and leases as a percentage of total loans and leases	1.22 %	1.34 %	2.09 %	2.37 %	1.82 %
Total nonperforming assets as a percentage of total assets	0.87 %	0.92 %	1.26 %	1.43 %	1.12 %
Allowance as a percentage of nonperforming loans and leases	71.65 %	62.34 %	66.65 %	61.46 %	69.72 %

* The 2013 and 2012 columns in the above table excludes $7.0 million and $18.7 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as we can reasonably estimate future cash flows on these acquired loans and we expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value of these loans and their expected cash flows into interest income.

The level of nonperforming assets at the past five year ends is illustrated in the table above. In general, nonperforming assets increased in 2009 and 2010, reflective of weak economic conditions which began in 2008. The Company has seen the level of nonperforming assets remain flat over the past few years. Nonperforming assets at year-end 2013 are down 2.5% from year-end 2012.

While certain economic indicators have started to show signs of improvement there is much debate over the strength and sustainability of the upturn and weaknesses remain such as higher than normal unemployment. The Company has seen some improvement in the financial conditions of many of the Company's commercial and agricultural customers. The Company's ratio of nonperforming assets to total assets continues to compare favorably to its peer group's most recent ratio of 1.69% at December 31, 2013. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion.

Nonperforming loans at December 31, 2013 were down $494,000 or 1.2% from December 31, 2012. Nonperforming loans represented 1.22% of total loans at December 31, 2013, compared to 1.34% of total loans at December 31, 2012, and 2.09% of total loans at December 30, 2011. A breakdown of nonperforming loans by portfolio segment is shown above. Loans secured by commercial real estate represent 59.9% of total nonperforming loans at December 31, 2013. Included in this category are two relationships with an aggregate balance of $9.6 million at December 31, 2013 and $10.0 million at December 31, 2012. These relationships are considered impaired and have been written down to fair value. The increase in residential real estate nonaccrual loans reflects the impact of the weakness in the economy and real estate markets. Nonperforming residential real estate loans represent 1.4% of total residential real estate loans at December 31, 2013.

Loans are considered modified in a troubled debt restructuring ("TDR") when, due to a borrower's financial difficulties; the Company makes a concession(s) to the borrower that it would not otherwise consider. When modifications are provided for reasons other than as a result of the financial distress of the borrower, these loans are not classified as TDRs or impaired. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the following categories: "loans 90 days past due and accruing", "nonaccrual loans", or "troubled debt restructurings not included above". Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and have shown a satisfactory period of repayment (generally six consecutive months) and where full collection of all is reasonably assured. The TDR amount of $1.5 million at December 31, 2012, consisted of two commercial relationships where three loans were modified with concessions granted due to the stressed financial condition of the borrower. By the end of 2013, this relationship was no longer classified as a TDR as it had been performing for a year and it yields a market rate of interest. At December 31, 2013 the Company had $7.2 million in TDRs, which were included in nonaccrual loans in the table above.

In general, the Company places a loan on nonaccrual status if principal or interest payments becomes 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when called for by regulatory requirements. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal and interest income is recorded only after principal recovery is reasonably assured. The difference between the interest income that would have been recorded if these loans and leases had been paid in accordance with their original terms and the interest income that was recorded for the year ended December 31, 2013, was $1.2 million. The amount for the year ended December 31, 2012, was $1.7 million and $2.7 million for December 31, 2011. The Company had no material commitments to make additional advances to borrowers with nonperforming loans.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans and loans that are 90 days or more past due. Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less

estimated selling costs, and such impaired amounts are generally charged off.

The Company's recorded investment in originated loans and leases that are considered impaired totaled $22.2 million at December 31, 2013, and $24.7 million at December 31, 2012. At December 31, 2013 and 2012, the $22.2 million and $24.7 million, respectively, did not have any specific reserve allocations. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans or the loans have been written down to fair value. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis. There was no interest income recognized on impaired loans and leases, all collected in cash, for 2013, 2012 and 2011.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 71.7% at December 31, 2013, compared to 62.3% at December 31, 2012. The Company's ratio is below our peer group ratio of 116.75% as of December 31, 2013. The Company's nonperforming loans are mostly made up of collateral dependent impaired loans requiring little to no specific allowance due to the level of collateral available with respect to these loans and/or previous charge-offs.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its credit administration function, identified 50 commercial relationships from the originated portfolio and 29 commercial relationships from the acquired portfolio totaling $14.5 million and $11.5 million, respectively at December 31, 2013 that were potential problem loans.

At December 31, 2012 there were 42 relationships totaling $25.4 million in the originated portfolio and 49 relationships totaling $30.2 million in the acquired portfolio that were considered potential problem loans. Of the 50 commercial relationships from the originated portfolio, there are 3 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $6.5 million. Of the 29 commercial relationships from the acquired loan portfolio, there are 2

relationships that equaled or exceeded $1.0 million, which in aggregate totaled $4.1 million. Although the Company had seen an increase in potential problem loans due to weak economic conditions over the past several years, the asset quality metrics showed improvement during 2013. The decrease in the dollar volume of potential problem loans since year-end 2012 was mainly due to the upgrade of several large commercial credits to a risk grading better than Substandard as well as the charge off of a certain credit. The Company continues to monitor these relationships, however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management's attention is focused on these credits, which are reviewed on at least a quarterly basis.

The Allowance for Loan and Lease Losses

Originated loans and leases

Management reviews the appropriateness of the allowance for loan and lease losses ("allowance") on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that assumptions could have on the Company's results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and allowance allocations are calculated in accordance with ASC Topic 310, *Receivables* and ASC Topic 450, *Contingencies*.

The Company's methodology for determining the allowance for loan and lease losses focuses on ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans, values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic and industrial conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a regular basis.

At least annually, management reviews all commercial and industrial and commercial real estate loans exceeding a certain threshold and assigns a risk rating. The Company uses an internal loan rating system of pass credits, special mention loans, substandard loans, doubtful loans, and loss loans (which are fully charged off). The definitions of "special mention", "substandard", "doubtful" and "loss" are consistent with bank regulatory definitions. Factors considered in assigning loan ratings include: the customer's ability to repay based upon customer's expected future cash flow, operating results, and financial condition; the underlying collateral, if any; and the economic environment and industry in which the customer operates. Special mention loans have potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects and a downgrade to a more severe risk rating. A substandard loan credit has a well-defined weakness which makes payment default or principal exposure likely, but not yet certain. There is a possibility that the Company will sustain some loss

if the deficiencies are not corrected. A doubtful loan has a high possibility of loss, but the extent of the loss is difficult to quantify because of certain important and reasonably specific pending factors.

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated 6 or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or discounted cash flows. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. Based on its evaluation of the allowance as of December 31, 2013, management considers the allowance to be appropriate. Under adversely or positively different conditions or assumptions, the Company would need to increase or decrease the allowance.

The allocation of the Company's allowance as of December 31, 2013, and each of the previous four years is illustrated in *Table 5- Allocation of the Allowance for Loan and Lease Losses*, below.

Acquired Loans and Leases

As part of our determination of the fair value of our acquired loans at the time of acquisition, the Company established a credit mark to provide for future losses in our acquired loan portfolio. There was no allowance for loan losses carried over from the acquired company. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration would result in the establishment of an allowance for the acquired loan portfolio.

Acquired loans accounted for under ASC 310-30

Acquired loans were accounted for under ASC 310-30, and our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC 310-20

We establish our allowance for loan losses through a provision for credit losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans, which includes the remaining net purchase discount or premium, and other factors that warrant recognition in determining our allowance for loan losses.

Table 5 - Allocation of the Allowance for Originated and Acquired Loan and Lease Losses

(in thousands)	As of December 31, 2013	2012	2011	2010	2009
Originated loans outstanding at end of year	$2,527,244	$2,133,106	$1,981,849	$1,910,358	$1,914,818
Allocation of the originated allowance by originated loan type:					
Commercial and industrial	$8,406	$7,533	$8,936	$7,824	$7,304
Commercial real estate	10,459	10,184	12,662	14,445	11,119
Residential real estate	5,771	4,981	4,247	3,526	3,616
Consumer and other	2,059	1,940	1,709	1,976	2,230
Leases	5	5	39	61	81
Total	$26,700	$24,643	$27,593	$27,832	$24,350
Allocation of the originated allowance as a percentage of total originated allowance:					
Commercial and industrial	31 %	31 %	32 %	28 %	30 %
Commercial real estate	39 %	41 %	46 %	52 %	46 %
Residential real estate	22 %	20 %	16 %	13 %	15 %
Consumer and other	8 %	8 %	6 %	7 %	9 %
Leases	0 %	0 %	0 %	0 %	0 %
Total	100 %	100 %	100 %	100 %	100 %
Loan and lease types as a percentage of total originated loans and leases:					
Commercial and industrial	25 %	24 %	24 %	25 %	26 %
Commercial real estate	40 %	39 %	39 %	38 %	36 %
Residential real estate	33 %	33 %	33 %	32 %	32 %
Consumer and other	2 %	4 %	3 %	4 %	5 %
Leases	0 %	0 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %

(in thousands)	As of December 31, 2013	2012	2011	2010	2009
Acquired loans outstanding at end of year	$667,040	$821,504	$ 0	$ 0	$ 0
Allocation of the acquired allowance by originated loan type:					
Commercial and industrial	$168	$0	$ 0	$ 0	$ 0
Commercial real estate	770	0	0	0	0
Residential real estate	274	0	0	0	0
Consumer and other	58	0	0	0	0
Total	$1,270	$0	$ 0	$ 0	$ 0
Allocation of the acquired allowance as a percentage of total acquired allowance:					
Commercial and industrial	13 %	0 %	0 %	0 %	0 %
Commercial real estate	61 %	0 %	0 %	0 %	0 %
Residential real estate	22 %	0 %	0 %	0 %	0 %
Consumer and other	5 %	0 %	0 %	0 %	0 %
Total	100 %	0 %	0 %	0 %	0 %
Loan and lease types as a percentage of total acquired loans and leases:					
Commercial and industrial	19 %	20 %	0 %	0 %	0 %
Commercial real estate	61 %	60 %	0 %	0 %	0 %
Residential real estate	15 %	15 %	0 %	0 %	0 %
Consumer and other	1 %	1 %	0 %	0 %	0 %
Covered	4 %	4 %	0 %	0 %	0 %
Total	100 %	100 %	0 %	0 %	0 %

The above tables provide, as of the dates indicated, an allocation of the allowance for probable and inherent loan losses by loan type. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

The five year trend in the allowance is shown above. The allowance increased steadily between 2007 and 2010 consistent with deterioration in asset quality measures, including: higher levels of net charge-offs, internally-classified commercial and commercial real estate loans, and nonperforming loans and leases; weak economic conditions; soft real estate markets; and growth in the loan portfolio. With economic conditions stabilizing and gradually improving, asset quality measures have improved over the past few years. As of December 31, 2013, the total allowance for loan and lease losses was approximately $28.0 million, which is up $3.3 million from year-end 2012. Both the allowance for originated loans and allowance for acquired loans were up over year-end 2012.

The increase in the allowance for originated loans in 2013 over 2012 was mainly due to 18.5% growth in the originated portfolio. The growth was in commercial

and industrial, commercial real estate, and residential real estate loans, which contributed to increase in the reserve allocations for each of these portfolios in 2013 over 2012. Asset quality metrics improved in the originated portfolio with decreases in total nonperforming originated loans and leases, net charge-offs of originated loans and leases and originated loans internally-classified Special Mention and Substandard at December 31, 2013 compared to December 31, 2012. The amount of originated loans internally-classified Special Mention, Substandard and Doubtful totaled $77.4 million at December 31, 2013 compared to $101.4 million at December 31, 2012 and $126.6 million at December 31, 2011. Gross charge-offs in the originated portfolio totaled $4.3 million in 2013, down from $12.5 million in 2012. In addition to growth in the originated residential portfolio between year-end 2013 and 2012, the increase in the allocation for residential real estate reflects an uptick in nonperforming residential real estate loans over the past two years.

The increase in the allowance for acquired loans and leases reflects deterioration in specific loans during 2013. The amount of acquired loans internally-classified as Special Mention and Substandard at December 31, 2013 were down from December 31, 2012, reflecting charge-offs, successful workouts and related paydowns, and the sale of $5.5 million of commercial loans and commercial real estate loans during 2013.

The level of future charge-offs is dependent upon a variety of factors such as national and local economic conditions, trends in various industries, underwriting characteristics, and conditions unique to each borrower. Given uncertainties surrounding these factors, it is difficult to estimate future losses.

Table 6 - Analysis of the Allowance for Originated and Acquired Loan and Lease Losses

(in thousands)	December 31, 2013	2012	2011	2010	2009
Average originated loans outstanding during year	$2,307,493	$2,301,901	$1,928,540	$1,897,983	$1,850,453
Balance of allowance at beginning of year	24,643	27,593	27,832	24,350	18,672
Originated loans charged-off:					
Commercial and industrial	1,605	5,328	2,403	3,265	1,653
Commercial real estate	651	3,977	4,488	1,167	558
Residential real estate	752	2,390	2,730	791	828
Consumer and other	1,282	826	608	912	1,195
Leases	0	0	3	0	0
Total loans charged-off	$4,290	$12,521	$10,232	$6,135	$4,234
Recoveries of originated loans previously charged-off:					
Commercial and industrial	4,162	198	424	464	305
Commercial real estate	718	200	280	225	27
Residential real estate	48	30	33	85	24
Consumer and other	419	306	311	336	268
Total loans recovered	$5,347	$734	$1,048	$1,110	$624
Net loans (recovered) charged-off	(1,057)	11,787	9,184	5,025	3,610
Additions to allowance charged to operations	1,000	8,837	8,945	8,507	9,288
Balance of originated allowance at end of year	$26,700	$24,643	$27,593	$27,832	$24,350
Originated allowance as a percentage of originated loans and leases outstanding	1.06 %	1.16 %	1.39 %	1.46 %	1.27 %
Net (recoveries) charge-offs as a percentage of average originated loans and leases outstanding during the year	(0.05 %)	0.51 %	0.48 %	0.26 %	0.20 %

(in thousands)	December 31, 2013	2012	2011	2010	2009
Average acquired loans outstanding during year	$746,045	$80,208	$0	$0	$0
Acquired loans charged-off:					
Commercial and industrial	2,991	0	0	0	0
Commercial real estate	179	0	0	0	0
Residential real estate	696	0	0	0	0
Consumer and other	25	0	0	0	0
Total loans charged-off	$3,891	$0	$0	$0	$0
Recoveries of acquired loans previously charged-off:					
Net loans charged-off	3,891	0	0	0	0
Additions to allowance charged to operations	5,161	0	0	0	0
Balance of acquired allowance at end of year	$1,270	$0	$0	$0	$0
Acquired allowance as a percentage of acquired loans outstanding	0.17 %	0.00 %	0.00%	0.00%	0.00%
Net charge-offs as a percentage of average acquired loans and leases outstanding during the year	0.52 %	0.00 %	0.00%	0.00%	0.00%
Total net charge-offs as a percentage of average total loans and leases outstanding during the year	0.09 %	0.49 %	0.48%	0.26%	0.20%

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The provision for loan and lease losses represents management's estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $6.2 million in 2013, compared to $8.8 million in 2012. The provision for originated loans and leases was $1.0 million in 2013, down from $8.8 million in 2012. The decrease in provision for originated loans reflects improved asset quality measures and the loan recoveries of $5.3 million in 2013, resulting in net recoveries for the year of $1.1 million. The recoveries were mainly related to one large commercial relationship that was charged off in 2012. The provision for acquired loans and leases was $5.2 million in 2013; there was no provision for acquired loans in 2012. The provision was driven by the $3.9 million in net charge-offs in 2013 as well as deterioration in expected cash flows on some acquired loans subsequent to the acquisition of the loans. Of the $3.9 million of charge-offs, approximately $3.0 million was related to one large commercial relationship that was written down to fair value in the second quarter of 2013.

For 2013, net charge-offs totaled $2.8 million or 0.09% of average total loans and leases compared to net charge-offs of $11.8 million or 0.49% of average total loans and leases. The most recent peer ratio is 0.29%. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion. The peer ratio is as of December 31, 2013, the most recent data available from the Federal Reserve Board.

The ratio of the allowance for originated loan and lease losses as a percentage of total loans decreased 10 basis points from 1.16% at year-end 2012 to 1.06% at year-end 2013, which is reflective of the improvement in the level of loans internally classified Special Mention, Substandard and Doubtful and nonperforming loans and leases. Management believes that, based upon its evaluation as of December 31, 2013, the allowance is appropriate.

Deposits and Other Liabilities

Total deposits of $3.9 billion at December 31, 2013, were flat compared to year-end 2012. Noninterest bearing deposits and interest checking, savings and money market balances grew $59.0 million and $46.2 million, respectively over year end 2012 but were offset by a $108.2 million decline in total time deposits. The low interest rate environment has caused a shift in customer savings trends, as time deposits have continued to decline, while noninterest-bearing deposits and savings deposits have increased.

The most significant source of funding for the Company is core deposits. Prior to December 31, 2011, the Company defined core deposits as total deposits less time deposits of $100,000 or more, brokered deposits and municipal money market deposits. A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) made permanent an increase in the maximum amount of FDIC deposit insurance for financial institutions to $250,000 per depositor. Effective December 31, 2011, as a result of this change the Company defines core deposits as total deposits less time deposits of $250,000 or more (formerly $100,000), brokered deposits and municipal money market deposits.

Core deposits grew by $42.4 million or 1.3% to $3.3 billion at year-end 2013 from $3.2 billion at year-end 2012. Core deposits represented 83.4% of total deposits at December 31, 2013, compared to 82.2% of total deposits at December 31, 2012.

Municipal money market accounts increased by $34.9 million or 8.2% to $459.4 million at year-end 2013 from $424.5 million at year-end 2012. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and receive an additional inflow at the end of March from the electronic deposit of state funds.

Table 1-Average Statements of Condition and Net Interest Analysis shows the average balance and average rate paid on the Company’s primary deposit categories for the years ended December 31, 2013, 2012, and 2011. Average interest-bearing deposits were up 21.8% in 2013 over 2012. The average cost of interest-bearing deposits decreased to 0.40% for 2013 from 0.47% in 2012. A maturity schedule of time deposits outstanding at December 31, 2013, is included in “Note 9 Deposits” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $55.3 million at December 31, 2013, and $65.4 million at December 31, 2012. Management generally views local repurchase agreements as an alternative to large time deposits. The Company’s wholesale repurchase agreements amounted to $112.4 million at December 31, 2013, and $148.5 million at December 31, 2012. At December 31, 2013, the wholesale repurchase agreements included

$80.0 million with the FHLB and $32.4 million with a large financial institution. Refer to “Note 10 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company’s repurchase agreements.

The Company's other borrowings totaled $331.5 million at year-end 2013, up $219.7 million or 196.4% from $111.8 million at year-end 2012. The increase in borrowings was regulated by investment cashflows in order to fund earning loan growth. The $331.5 million in borrowings at December 31, 2013, included $215.7 million in overnight advances, $101.3 million in term advances and a $14.5 million advance from a bank. Of the $101.3 million of the FHLB term advances at year-end 2013, $81.3 million are due over one year and have a weighted average rate of 4.96%. In 2007, the Company elected to account for a $10.0 million advance with the FHLB at fair value. The fair value of this advance decreased by $555,000 (pre-tax net mark-to-market gain of $555,000) over the 12-months ended December 31, 2013.

Refer to "Note 11 Other Borrowings" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company's term borrowings with the FHLB.

LIQUIDITY MANAGEMENT

The objective of liquidity management is to ensure the availability of adequate funding sources to satisfy the demand for credit, deposit withdrawals, operating expenses, and business investment opportunities. The Company's large, stable core deposit base and strong capital position are the foundation for the Company's liquidity position. The Company uses a variety of resources to meet its liquidity needs, which include deposits, cash and cash equivalents, short-term investments, cash flow from lending and investing activities, repurchase agreements, and borrowings. The Company may also use borrowings as part of a growth strategy. Asset and liability positions are monitored primarily through the Asset/Liability Management Committee of the Company's subsidiary banks. This Committee reviews periodic reports on the liquidity and interest rate sensitivity positions. Comparisons with industry and peer groups are also monitored. The Company's strong reputation in the communities it serves, along with its strong financial condition, provides access to numerous sources of liquidity as described below. Management believes these diverse liquidity sources provide sufficient means to meet all demands on the Company's liquidity that are reasonably likely to occur.

Core deposits, discussed above under "Deposits and Other Liabilities", are a primary and low cost funding source obtained primarily through the Company's branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time

deposits of $250,000 or more, brokered time deposits, municipal money market accounts, securities sold under agreements to repurchase, overnight borrowings and term advances from the FHLB and other funding sources. Rates and terms are the primary determinants of the mix of these funding sources.

Non-core funding sources totaled $1.2 billion at December 31, 2013, an increase of $128.1 million or 12.5% from $1.0 billion at December 31, 2012. Non-core funding sources increased year-over-year as the Company used growth in core deposits and FHLB advances as loan demand continued to be strong in 2013. With the growth in FHLB advances, non-core funding sources as a percentage of total liabilities increased from 23.4% at year-end 2012 to 25.4% at year-end 2013.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $1.0 billion and $986.8 million at December 31, 2013 and 2012, respectively, were either pledged or sold under agreements to repurchase. Pledged securities or securities sold under agreements to repurchase represented 74.7% of total securities at December 31, 2013, compared to 68.8% of total securities at December 31, 2012.

Cash and cash equivalents totaled $82.9 million as of December 31, 2013, down from $118.9 million at December 31, 2012. Short-term investments, consisting of securities due in one year or less, decreased from $53.1 million at December 31, 2012, to $37.0 million on December 31, 2013. The Company also has $11.0 million of securities designated as trading securities.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were $724.5 million at December 31, 2013 compared with $712.4 million at December 31, 2012. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $993.6 million at December 31, 2013 as compared to $921.9 million at December 31, 2012. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At December 31, 2013, the unused borrowing capacity on established lines with the FHLB was $1.1 billion.

As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets to secure additional borrowings from the FHLB. At December 31, 2013, total unencumbered mortgage loans of the Company were $525.9 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

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The Company has not identified any trends or circumstances that are reasonably likely to result in material increases or decreases in liquidity in the near term.

Table 7 - Loan Maturity

Remaining maturity of originated loans	At December 31, 2013			
(in thousands)	Total	Within 1 year	1-5 years	After 5 years
Commercial and industrial	$637,227	$188,102	$205,201	$243,924
Commercial real estate	1,002,388	39,752	74,969	887,667
Residential real estate	830,775	556	13,220	816,999
Total	$2,470,390	$228,410	$293,390	$1,948,590

Remaining maturity of acquired loans	At December 31, 2013			
(in thousands)	Total	Within 1 year	1-5 years	After 5 years
Commercial and industrial	$128,503	$44,230	$54,323	$29,950
Commercial real estate	408,926	152,510	129,744	126,672
Residential real estate	102,519	22,153	21,311	59,055
Covered Loans	25,868	17,550	1,986	6,332
Total	$665,816	$236,443	$207,364	$222,009

Of the loan amounts shown above in Table 7 - Loan Maturity, maturing over 1 year, $1.1 billion have fixed rates and $1.5 billion have adjustable rates.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments under standby letters of credit, unused portions of lines of credit, and commitments to fund new loans and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan and letter of credit commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of December 31, 2013, are not necessarily indicative of future cash requirements. Further information on these commitments and contingent liabilities is provided in "Note 18 Commitments and Contingent Liabilities" in

Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

CONTRACTUAL OBLIGATIONS

The Company leases land, buildings, and equipment under operating lease arrangements extending to the year 2090. Most leases include options to renew for periods ranging from 5 to 20 years. In addition, the Company has a software contract for its core banking application through July 31, 2017, along with contracts for more specialized software programs through 2018. Further information on the Company's lease arrangements is provided in "Note 8 Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company's contractual obligations as of December 31, 2013, are shown in *Table 8-Contractual Obligations and Commitments* below.

Table 8 - Contractual Obligations and Commitments

Contractual cash obligations (in thousands)	Payments Due By Period	Within			
As of December 31, 2013	Total	1 year	1-3 years	3-5 years	Over 5 Years
Long-term debt	$209,389	$52,196	$96,051	$61,142	$ 0
Operating leases	43,704	4,737	8,909	7,475	22,583
Software contracts	4,285	1,695	2,066	524	0
Total contractual cash obligations	$257,378	$58,628	$107,026	$69,141	$ 22,583

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RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to “Note 1 Summary of Significant Accounting Policies” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Form 10-K for details of recently issued accounting pronouncements and their expected impact on the Company’s financial statements.

Fourth Quarter Summary

Fourth quarter 2013 net income was $14.3 million, up 28.0% over fourth quarter 2012 net income of $11.2 million. Diluted earnings per share of $0.96 for the fourth quarter of 2013, was up 24.7% from $0.77 for the comparable period in 2012. Both current and prior period results were impacted by certain non-recurring items including, but not limited to, merger related expenses associated with the acquisition of VIST Financial Corporation completed on August 1, 2012. After adjusting for non-recurring income and expenses, quarter-to-date diluted earnings per share would have been $0.91 for the fourth quarter of 2013, up from $0.81 for the same period last year. The 2012 adjusted diluted earnings per share included $5.7 million in provision expense, which was related to the charge-off of two large commercial credits in the originated portfolio.

The net interest margin for the fourth quarter of 2013 was 3.78%, compared to 3.83% for the fourth quarter of 2012, and 3.63% for the third quarter in 2013. Improvement in the current period, compared to the third quarter of 2013 reflects the benefit of loan prepayment income, interest related to the payoff of a nonaccrual loan, and growth in average loans and noninterest-bearing deposits.

Net interest income of $42.6 million for the fourth quarter of 2013 represents an increase of 1.9% over the same quarter last year, and 5.3%, from the third quarter of 2013. The increase in net interest income over prior periods was a result of growth in average interest-earning assets, growth in noninterest bearing deposits and lower funding costs. Average interest-earning assets for the fourth quarter of 2013 were up $37.5 million or 0.8% over average assets for the third quarter of 2013 and up $139.4 million or 3.2% over average interest-earning assets for the fourth quarter of 2012. Average noninterest bearing deposits balances for the fourth quarter of 2013 were up $38.5 million or 4.7% over average noninterest

bearing deposit balances for the third quarter of 2013 and up $66.5 million or 8.5% over average noninterest bearing deposit balances for the fourth quarter of 2012. The average cost of interest bearing liabilities in the fourth quarter of 2013 was 0.63% compared to 0.66% in the third quarter of 2013 and 0.77% in the fourth quarter of 2012.

Provision for loan and lease losses was $585,000 for the fourth quarter of 2013, down from $5.7 million in the fourth quarter of 2012. Net recoveries totaled $977,000 for the fourth quarter of 2013 as compared to net charge-offs of $7.6 million in the fourth quarter of 2012. The fourth quarter 2012 loan charge-offs included the charge-off of one large commercial relationship totaling $4.2 million.

Noninterest income was $17.4 million for the fourth quarter of 2013, up 11.7% over the same period in 2012, and down 5.9% from the third quarter of 2013.

Trends in key fee income business areas in the fourth quarter of 2013 compare favorably to the same quarter last year. Insurance revenue was up 1.5%, investment services income was up 2.4%, deposit fees were up 11.2%, and card services revenue was up 22.4%. The decline in noninterest income from the most recent prior quarter is primarily due to net losses on sale of loans of $345,000 in the fourth quarter of 2013, compared to net gains on loans sales of $115,000 in the third quarter of 2013. The current period noninterest income benefited from a $1.3 million gain associated with certain deposit accounts that converted to alternative products during the quarter.

Noninterest expense was $40.3 million in the fourth quarter of 2013, up 5.4% from the same period in 2012, and up 7.2% compared to the third quarter of 2013. The increase over prior periods is mainly due to higher salary and benefit expenses.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Interest rate risk is the primary market risk category associated with the Company’s operations. Interest rate risk refers to the volatility of earnings caused by changes in interest rates. The Company manages interest rate risk using

income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the potential effect of interest rate shifts on net interest income for future periods. Each quarter the Company's Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within Board-approved levels. The Committee also discusses strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not currently use derivatives, such as interest rate swaps, to manage its interest rate risk exposure, but may consider such instruments in the future.

The Company's Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 basis point parallel change in rates. Based upon the simulation analysis performed as of November 30, 2013, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income from the base case of approximately 1.10%, while a 100 basis point parallel decline in interest rates over a one-year period would result in a decrease in one-year net interest income from the base case of 0.80%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The decrease in net interest income in the rising rate scenario is a result of the balance sheet showing a more liability sensitive position. Rate sensitive assets which reprice or are replaced into higher rates outpace rising non-maturity deposit costs, resulting in an expansion of balance sheet spread and a decreasing trend in net interest income. The slight exposure in the 100 basis point decline scenario results from the Company's assets repricing downward to a greater degree than the rates on the Company's interest-bearing liabilities, mainly deposits. Rates on savings and money market accounts are at low levels given the historically low interest rate environment experienced in recent years. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

In our most recent simulation, the base case scenario, which assumes interest rates remain unchanged from the date of the simulation, showed a relatively flat net interest margin during 2013.

Although the simulation model is useful in identifying potential exposure to interest rate movements, actual results may differ from those modeled as the repricing, maturity, and prepayment characteristics of financial instruments may change to a different degree than modeled. In addition, the model does not reflect actions that management may employ to manage its interest rate risk exposure. The Company's current liquidity profile, capital position, and growth prospects, offer a level of flexibility for management to take actions that could offset some of the negative effects of unfavorable movements in interest rates. Management believes the current exposure to changes in interest rates is not significant in relation to the earnings and capital strength of the Company.

In addition to the simulation analysis, management uses an interest rate gap measure. *Table 9-Interest Rate Risk Analysis* below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of December 31, 2013. The Company's one-year interest rate gap was a negative $288.7 million or 5.77% of total assets at December 31, 2013, compared with a negative $72.4 million or 1.50% of total assets at December 31, 2012. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Table 9 - Interest Rate Risk Analysis

Condensed Static Gap - December 31, 2013	Repricing Interval				
(in thousands)	Total	0-3 months	3-6 months	6-12 months	12 months
Interest-earning assets*	$4,607,762	$973,706	$241,477	$390,351	$1,605,534
Interest-bearing liabilities	3,592,741	1,505,159	159,420	229,628	1,894,207
Net gap position		(531,453)	82,057	160,723	(288,673)
Net gap position as a percentage of total assets		(10.62)%	1.64 %	3.21 %	(5.77)%

**Balances of available-for-sale securities are shown at amortized cost*

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Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data consist of the consolidated financial statements as indexed and presented below and the Unaudited Quarterly Financial Data presented in Part II, Item 8. of this Report

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Management’s Statement of Responsibility

Management is responsible for preparation of the consolidated financial statements and related financial information contained in all sections of this annual report, including the determination of amounts that must necessarily be based on judgments and estimates. It is the belief of management that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Management establishes and monitors the Company’s system of internal accounting controls to meet its responsibility for reliable financial statements. The system is designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed in accordance with management’s authorization and are properly recorded.

The Audit/Examining Committee of the board of directors, composed solely of outside directors, meets periodically and privately with management, internal auditors, and independent registered public accounting firm, KPMG LLP, to review matters relating to the quality of financial reporting, internal accounting control, and the nature, extent, and results of audit efforts. The independent registered public accounting firm and internal auditors have unlimited access to the Audit/Examining Committee to discuss all such matters. The consolidated financial statements have been audited by KPMG, LLP for the purpose of expressing an opinion on the consolidated financial statements. In addition, KPMG, LLP has audited internal control over financial reporting, as of December 31, 2013.

/s/ Stephen S. Romaine	/s/ Francis M. Fetsko	Date: March 14, 2014
Stephen S. Romaine	Francis M. Fetsko	
Chief Executive Officer	Chief Financial Officer	
	Chief Operating Officer	

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Tompkins Financial Corporation:

We have audited the accompanying consolidated statements of condition of Tompkins Financial Corporation and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tompkins Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tompkins Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2014 expressed an

unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/KPMG

Syracuse, New York

March 14, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Tompkins Financial Corporation:

We have audited Tompkins Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of

unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of Tompkins Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013, and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG

Syracuse, New York

March 14, 2014

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share and per share data) ASSETS	As of 12/31/2013	As of 12/31/2012
Cash and noninterest bearing balances due from banks	$82,163	$117,448
Interest bearing balances due from banks	721	1,482
Cash and Cash Equivalents	$82,884	$118,930
Trading securities, at fair value	10,991	16,450
Available-for-sale securities, at fair value (amortized cost of $1,368,736 at December 31, 2013 and $1,349,416 at December 31, 2012)	1,354,811	1,393,340
Held-to-maturity securities, fair value of $19,625 at December 31, 2013, and $25,163 at December 31, 2012	18,980	24,062
Originated loans and leases, net of unearned income and deferred costs and fees	2,527,244	2,133,106
Acquired loans and leases, covered	25,868	37,600
Acquired loans and leases, non-covered	641,172	783,904
Less: Allowance for loan and lease losses	27,970	24,643
Net Loans and Leases	$3,166,314	$2,929,967
FDIC Indemnification Asset	4,790	4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock	25,041	19,388
Bank premises and equipment, net	55,932	54,581
Corporate owned life insurance	69,335	65,102
Goodwill	92,140	92,305
Other intangible assets, net	16,298	18,643
Accrued interest and other assets	105,523	100,044
Total Assets	$5,003,039	$4,837,197
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,190,616	2,144,367
Time	865,702	973,883
Noninterest bearing	890,898	831,919
Total Deposits	$3,947,216	$3,950,169
Federal funds purchased and securities sold under agreements to repurchase	167,724	213,973
Other borrowings, including certain amounts at fair value of $11,292 at December 31, 2013 and $11,847 at December 31, 2012	331,531	111,848
Trust preferred debentures	37,169	43,668
Other liabilities	61,460	76,179
Total Liabilities	$4,545,100	$4,395,837
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,785,007 at December 31, 2013; and 14,426,711 at December 31, 2012	1,479	1,443
Additional paid-in capital	346,096	334,649
Retained earnings	137,102	108,709
Accumulated other comprehensive loss	(25,119)	(2,106)
Treasury stock, at cost – 105,449 shares at December 31, 2013, and 100,054 shares at December 31, 2012	(3,071)	(2,787)

Total Tompkins Financial Corporation Shareholders' Equity	**456,487**	439,908
Noncontrolling interests	1,452	1,452
Total Equity	$457,939	$441,360
Total Liabilities and Equity	$5,003,039	$4,837,197

See notes to consolidated financial statements

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Consolidated Statements of Income

(in thousands, except per share data)	Year ended December 31, 2013	2012	2011
INTEREST AND DIVIDEND INCOME			
Loans	$151,711	$124,662	$103,998
Due from banks	10	32	12
Federal funds sold	0	2	7
Trading securities	589	744	873
Available-for-sale securities	31,360	31,232	30,103
Held-to-maturity securities	685	860	1,185
Federal Home Loan Bank stock and Federal Reserve Bank stock	749	824	910
Total Interest and Dividend Income	185,104	158,356	137,088
INTEREST EXPENSE			
Time certificates of deposits of $100,000 or more	4,832	3,322	3,292
Other deposits	7,933	8,910	9,795
Federal funds purchased and securities sold under agreements to repurchase	3,749	4,451	4,872
Trust preferred debentures	2,599	2,094	1,580
Other borrowings	4,862	5,436	6,143
Total Interest Expense	23,975	24,213	25,682
Net Interest Income	161,129	134,143	111,406
Less: Provision for loan and lease losses	6,161	8,837	8,945
Net Interest Income After Provision for Loan and Lease Losses	154,968	125,306	102,461
NONINTEREST INCOME			
Insurance commissions and fees	27,916	19,421	13,542
Investment services income	15,109	14,340	14,287
Service charges on deposit accounts	8,495	7,441	8,491
Card services income	7,216	6,030	5,060
Mark-to-market (loss) gain on trading securities	(538)	(332)	62
Mark-to-market gain (loss) on liabilities held at fair value	555	246	(464)
Net other-than-temporary impairment losses1	0	(196)	(65)
Other income	10,546	7,534	6,705
Net gain on securities transactions	599	324	396
Total Noninterest Income	69,898	54,808	48,014
NONINTEREST EXPENSES			
Salaries and wages	67,200	51,700	44,140
Pension and other employee benefits	22,164	18,075	14,275
Net occupancy expense of premises	11,757	8,969	7,117
Furniture and fixture expense	5,701	4,996	4,463
FDIC insurance	3,214	2,685	2,527
Amortization of intangible assets	2,197	1,264	589
Merger and integration related expenses	228	15,584	174
Other operating expenses	40,641	34,335	25,267
Total Noninterest Expenses	153,102	137,608	98,552
Income Before Income Tax Expense	71,764	42,506	51,923
Income Tax Expense	20,777	11,090	16,373
Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	50,987	31,416	35,550
Less: Net income attributable to noncontrolling interests	131	131	131
Net Income Attributable to Tompkins Financial Corporation	$50,856	$31,285	$35,419
Basic Earnings Per Share	$3.48	$2.44	$3.21
Diluted Earnings Per Share	$3.46	$2.43	$3.20

[1] *In 2013, there were no other-than-temporary impairment ("OTTI") charges recognized in noninterest income. In 2012, OTTI on securities available-for-sale totaling $196,000 was recognized in noninterest income. There were no additional non-credit OTTI losses on these securities in 2012. In 2011, OTTI on securities available-for-sale totaling $178,000 was recognized which included $113,000 in non-credit impairment losses recognized in accumulated other comprehensive income and $65,000 of OTTI losses recognized in noninterest income.*

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
(in thousands)	2013	2012	2011
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$50,987	$31,416	$35,550
Other comprehensive income (loss), net of tax:			
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	(34,354)	3,214	9,937
Reclassification adjustment for net realized gain on sale included in available-for-sale securities	(359)	(194)	(238)
Reclassification adjustment for credit impairment on available-for-sale securities	0	118	39
Employee benefit plans:			
Net retirement plan gain (loss)	10,088	(3,037)	(12,595)
Net retirement plan prior service (credit)	0	0	(476)
Amortization of net retirement plan actuarial gain	1,547	1,395	880
Amortization of net retirement plan prior service cost (credit)	35	35	(4)
Amortization of net retirement plan transition liability	30	40	40
Other comprehensive (loss) gain	(23,013)	1,571	(2,417)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	27,974	32,987	33,133
Less: Other comprehensive income attributable to noncontrolling interests	(131)	(131)	(131)
Total comprehensive income attributable to Tompkins Financial Corporation	$27,843	$32,856	$33,002

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Consolidated Statements of Cash Flows

(in thousands)	Year ended December 31, 2013	2012	2011
OPERATING ACTIVITIES			
Net income attributable to Tompkins Financial Corporation	$50,856	$31,285	$35,419
Adjustments to reconcile net income, attributable to Tompkins Financial Corporation, to net cash provided by operating activities:			
Provision for loan and lease losses	6,161	8,837	8,945
Depreciation and amortization of premises, equipment, and software	5,706	5,326	4,758
Accretion related to purchase accounting	(12,152)	(6,157)	0
Amortization of intangible assets	2,197	1,264	589
Earnings from corporate owned life insurance, net	(2,021)	(1,715)	(1,504)
Net amortization on securities	13,317	12,313	9,376
Other-than-temporary impairment loss	0	196	65
Mark-to-market loss (gain) on trading securities	538	332	(62)
Mark-to-market loss (gain) loss on liabilities held at fair value	(555)	(246)	464
Deferred income tax expense (benefit)	8,018	6,930	(2,100)
Net gain on sale of securities transactions	(599)	(324)	(396)
Net loss (gain) on sale of loans	133	(885)	(496)
Proceeds from sale of loans	13,483	38,438	27,074
Loans originated for sale	(13,384)	(37,462)	(25,498)
Gain on redemption of trust preferred	(1,410)	0	0
Gain on IRA conversion	(1,285)	0	0
Net loss (gain) on sale of bank premises and equipment	191	55	(8)
Stock-based compensation expense	1,382	1,310	1,261
Decrease in interest receivable	929	(122)	(907)
Decrease (increase) in interest payable	(945)	(783)	(449)
Proceeds from maturities, calls and principal paydowns of trading securities	4,893	2,775	3,244
Contribution to pension plan	(8,000)	(7,000)	(2,750)
Decrease in FDIC prepaid insurance	5,386	2,468	2,190
Other, net	10,867	4,941	12,776
Net Cash Provided by Operating Activities	83,706	61,776	71,991
INVESTING ACTIVITIES			
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	250,911	306,795	385,599
Proceeds from sales of available-for-sale securities	115,796	217,971	59,666
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	13,315	14,649	38,314
Purchases of available-for-sale securities	(398,811)	(405,078)	(541,976)
Purchases of held-to-maturity securities	(8,236)	(12,043)	(10,002)
Net increase in loans and leases	(240,160)	(95,303)	(81,755)
Proceeds from sale of commercial loans	5,160	0	0
Net (increase) decrease in Federal Home Loan Bank and Federal Reserve Bank Stock	(5,558)	4,338	2,915
Proceeds from sale of bank premises and equipment	130	59	48
Purchases of bank premises and equipment	(6,545)	(7,070)	(3,310)
Purchased of corporate owned life insurance	(2,212)	0	(1,500)
Net cash provided by (used in) acquisitions	0	4,289	(243)
Other, net	(2,172)	(1,348)	(372)
Net Cash Provided by (Used In) Investing Activities	(278,382)	27,259	(152,616)
FINANCING ACTIVITIES			
Net increase in demand, money market, and savings deposits	105,228	211,731	219,199

Net decrease in time deposits	(103,882)	(107,361)	(54,508)
Net decrease in securities sold under agreements to repurchase and Federal funds purchased	(45,117)	(74,807)	(14,519)
Increase in other borrowings	309,974	20,000	98,980
Redemption of trust preferred debentures	(5,191)	0	0
Repayment of other borrowings	(89,736)	(93,981)	(157,562)
Net shares issued related to restricted stock awards	40	(20)	(13)
Cash dividends	(22,463)	(19,021)	(15,420)
Shares issued for dividend reinvestment plan	4,046	1,936	2,435
Shares issued for employee stock ownership plan	717	1,037	1,053
Common stock issued in capital raise	0	37,978	0
Net proceeds from exercise of stock options	4,683	2,494	866
Tax benefit from stock option exercises	331	342	16
Net Cash Provided by (Used In) Financing Activities	158,630	(19,672)	80,527
Net (Decrease) Increase in Cash and Cash Equivalents	(36,046)	69,363	(98)
Cash and cash equivalents at beginning of year	118,930	49,567	49,665
Total Cash & Cash Equivalents at End of Year	82,884	118,930	49,567

See notes to consolidated financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION

(in thousands)	Year ended December 31, 2013	2012	2011
Cash paid during the year for - Interest	$27,935	$24,996	$26,131
Cash paid, net of refunds, during the year for - Income taxes	14,844	15,809	11,003
Non-cash investing and financing activities:			
Fair value for non-cash assets other than goodwill acquired in purchase acquisitions	0	1,361,790	64
Fair value of liabilities assumed in purchase acquisitions	0	1,331,196	31
Goodwill related to acquisitions	0	48,407	2,309
Fair value of shares issued for acquisitions	0	82,198	2,535
Transfer of loans to other real estate owned	5,971	1,485	872

See notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earning	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at December 31, 2010	$ 1,093	$ 198,114	$ 76,446	$ (1,260)	$ (2,437)	$ 1,452	$ 273,408
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			35,419			131	35,550
Other comprehensive loss				(2,417)			(2,417)
Total Comprehensive Income							33,133
Cash dividends ($1.40 per share)			(15,420)				(15,420)
Net exercise of stock options and related tax benefit (26,757 shares, net)	2	880					882
Stock-based compensation expense[1]		1,261					1,261
Shares issued for dividend reinvestment plan (61,262 shares)	6	2,429					2,435
Shares issued for employee stock ownership plan (25,139 shares)	3	1,050					1,053
Directors deferred compensation plan (3,080 shares)		151			(151)		0
Restricted stock activity (36,735 shares, net)	4	(17)					(13)
Stock issued for purchase acquisition (75,188 shares)	8	2,527					2,535
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2011	$ 1,116	$ 206,395	$ 96,445	$ (3,677)	$ (2,588)	$ 1,452	$ 299,143
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			31,285			131	31,416

Other comprehensive income				1,571			1,571
Total Comprehensive Income							32,987
Cash dividends ($1.46 per share)			(19,021)				(19,021)
Net exercise of stock options and related tax benefit (96,873 shares, net)	10	2,826					2,836
Stock-based compensation expense		1,310					1,310
Shares issued for dividend reinvestment plan (48,763 shares)	5	1,931					1,936
Shares issued for employee stock ownership plan (25,655 shares)	2	1,035					1,037
Directors deferred compensation plan (4,949 shares)		199			(199)		0
Restricted stock activity (3,985 shares)		(20)					(20)
Stock issued in capital raise (1,006,250 shares)	101	37,877					37,978
Stock issued for purchase acquisition (2,093,689 shares)	209	83,096					83,305
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2012	$ 1,443	$ 334,649	$ 108,709	$ (2,106)	$ (2,787)	$ 1,452	$ 441,360

See notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earning	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at December 31, 2012	$ 1,443	$ 334,649	$ 108,709	$ (2,106)	$ (2,787)	$ 1,452	$ 441,360
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			50,856			131	50,987
Other comprehensive income				(23,013)			(23,013)
Total Comprehensive Income							27,974
Cash dividends ($1.54 per share)			(22,463)				(22,463)
Net exercise of stock options and related tax benefit (144,732 shares, net)	14	5,000					5,014
Stock-based compensation expense		1,382					1,382
Shares issued for dividend reinvestment plan (92,068 shares)	9	4,037					4,046
Shares issued for employee stock ownership plan (17,290 shares)	2	715					717
Directors deferred compensation plan (5,395 shares)		284			(284)		0
Restricted stock activity (104,206 shares)	11	29					40
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2013	$ 1,479	$ 346,096	$ 137,102	$ (25,119)	$ (3,071)	$ 1,452	$ 457,939

See notes to consolidated financial statements

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: Tompkins Financial Corporation (“Tompkins” or “the Company”) is a registered Financial Holding Company with the Federal Reserve Board pursuant to the Bank Holding Company Act of 1956, as amended, organized under the laws of New York State, and is the parent company of Tompkins Trust Company (the “Trust Company”), The Bank of Castile, Mahopac Bank (formerly known as The Mahopac National Bank), VIST Bank, Tompkins Insurance Agencies, Inc. (“Tompkins Insurance”) and TFA Management, Inc. (“TFA Management”, formerly known as AM&M Financial Services, Inc. (“AM&M”)). Unless the context otherwise requires, the term “Company” refers to Tompkins Financial Corporation and its subsidiaries.

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders’ equity (including comprehensive income or loss) of the Company and all entities in which the Company has a controlling financial interest. All significant intercompany balances and transactions are eliminated in consolidation.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. accounting principles generally accepted. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company’s wholly owned subsidiaries, Tompkins Capital Trust I, Sleepy Hollow Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I are VIE’s for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company’s consolidated financial statements.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclose contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan and lease losses, valuation of intangible assets, deferred income tax assets, other-than-temporary impairment on investments, and obligations related to employee benefits. Amounts in the prior years' consolidated financial statements are reclassified when necessary to conform to the current year's presentation.

The Company has evaluated subsequent events for potential recognition and/or disclosure and determined that no further disclosures were required.

Cash and cash Equivalents: Cash and cash equivalents in the Consolidated Statements of Cash Flows include cash and noninterest bearing balances due from banks, interest-bearing balances due from banks, Federal funds sold, and money market funds. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risk on cash and cash equivalents. Each bank subsidiary is required to maintain reserve balances by the Federal Reserve Bank of New York. At December 31, 2013, and December 31, 2012 the reserve requirements for the Company's banking subsidiaries totaled $11.8 million and $17.2 million, respectively.

Securities: Management determines the appropriate classification of debt and equity securities at the time of purchase. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either available-for-sale or trading. Available-for-sale securities are stated at fair value with the unrealized gains and losses, net of tax, excluded from earnings and reported as a separate component of accumulated comprehensive income or loss, in shareholders' equity. Trading securities are stated at fair value, with unrealized gains or losses included in earnings.

Securities with limited marketability or restricted equity securities, such as Federal Home Loan Bank stock and Federal Reserve Bank stock, are carried at cost.

Premiums and discounts are amortized or accreted over the expected life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on the sale of securities are included in net gain on securities transactions. The cost of securities sold is based on the specific identification method.

At least quarterly, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. An unrealized loss on a debt security is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value, discounted at the security's effective rate, of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying debt security and it is more-likely-than not that the Company would not have to sell the debt security prior to recovery of the unrealized loss, which may be to maturity. If the Company intended to sell any securities with an unrealized loss or it is more-likely-than not that the Company would be required to sell the investment securities, before recovery of their amortized cost basis, then the entire unrealized loss would be recorded in earnings.

Loans and Leases: Loans are reported at their principal outstanding balance, net of deferred loan origination fees and costs, and unearned income. The Company has the ability and intent to hold its loans for the foreseeable future, except for certain residential real estate loans held-for-sale. The Company provides motor vehicle and equipment financing to its customers through direct financing leases. These leases are carried at the aggregate of lease payments receivable, plus estimated residual values, less unearned income. Unearned income on direct financing leases is amortized over the lease terms, resulting in a level rate of return.

Residential real estate loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Fair value is determined on the basis of the rates quoted in the secondary market. Net unrealized losses attributable to changes in market interest rates are recognized through a valuation allowance by charges to income. Loans are generally sold on a non-recourse basis with servicing retained. Any gain or loss on the sale of loans is recognized at the time of sale as the difference between the recorded basis in the loan and the net proceeds from the sale. The Company may use commitments at the time loans are originated or identified for sale to mitigate interest rate risk. The commitments to sell loans and the commitments to originate loans held-for-sale at a set interest rate, if originated, are considered derivatives under ASC Topic 815. The impact of the estimated fair value adjustment was not

significant to the consolidated financial statements.

Interest income on loans is accrued and credited to income based upon the principal amount outstanding. Loan origination fees and costs are deferred and recognized over the life of the loan as an adjustment to yield. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Loans and leases, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. Loans that are past due less than 90 days may also be classified as nonaccrual if repayment in full of principal or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable time period, and there is a sustained period (generally six consecutive months) of repayment performance by the borrower in accordance with the contractual terms of the loan agreement. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on loans on nonaccrual are generally applied to reduce the principal balance of the loan.

The Company applies the provisions of ASC Topic 310-10-35, *Loan Impairment*, to all impaired commercial and commercial real estate loans over $250,000 and to all loans restructured in a troubled debt restructuring. Allowances for loan losses for the remaining loans are recognized in accordance with ASC Topic 450, *Contingencies* (“ASC Topic 450”). Management considers a loan to be impaired if, based on current information, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the observable market price or the fair value of collateral (less costs to sell) if the loan is collateral dependent. Management excludes large groups of smaller balance homogeneous loans such as residential mortgages, consumer loans, and leases, which are collectively evaluated.

Loans are considered modified in a troubled debt restructuring (“TDR”) when, due to a borrower’s financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension for the term of the loan, and granting a period when interest-only payments can be made with the principal payments and interest caught up over the remaining term of the loan or at maturity. Generally, a nonaccrual loan that has been modified in a TDR remains on non-accrual status

for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

In general, the principal balance of a loan is charged off in full or in part when management concludes, based on the available facts and circumstances, that collection of principal in full is improbable. For commercial and commercial real estate loans, this conclusion is generally based upon a review of the borrower's financial condition and cash flow, payment history, economic conditions, and the conditions in the various markets in which the collateral, if any, may be liquidated. In general, consumer loans are charged-off in accordance with regulatory guidelines which provide that such loans be charged-off when the Company becomes aware of the loss, such as from a triggering event that may include new information about a borrower's intent/ability to repay the loan, bankruptcy, fraud or death, among other things, but in no case will the charge-off exceed specified delinquency timeframes. Such delinquency timeframes state that closed-end retail loans (loans with pre-defined maturity dates, such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (loans that roll-over at the end of each term, such as home equity lines of credit) that become past due 180 cumulative days should be classified as a loss and charged-off. For residential real estate loans, charge-off decisions are based upon past due status, current assessment of collateral value, and general market conditions in the areas where the properties are located.

ACQUIRED LOANS AND LEASES: Loans acquired in acquisitions, subsequent to the effective date of ASC Topic 805, *Business Combination,* are recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there is no carryover of related allowance for loan and lease losses. Loans acquired with evidence of credit impairment are accounted for under ASC Subtopic 310-30. These loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. In the VIST acquisition, the Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

Acquired loans not exhibiting evidence of credit impairment at the time of acquisition are accounted for under ASC Subtopic 310-20. The Company amortizes/accretes into interest income the premium/discount determined at the date of purchase over the life of the loan on a level yield basis. Subsequent to the acquisition date, the methods used to estimate the appropriate allowance for loan losses are similar to originated loans. These loans are placed on nonaccrual status in accordance with the Company's policy for originated loans.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. The Company determined at acquisition that it could reasonably estimate future cash flows on acquired loans that were past due 90 days or more and on which the Company expects to fully collect the carrying value of the loans net of the allowance for

acquired loan losses. As such, the Company does not consider these loans to be nonaccrual or nonperforming.

Allowance for Loan AND Lease Losses: Management regularly reviews the allowance for loan and lease losses in order to maintain the allowance at a level consistent with the inherent risk of loss in the loan and lease portfolios. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to ensure that an appropriate allowance is maintained. The methodology includes an estimate of exposure for the following: specifically reviewed and graded loans; historical loss experience by product type; past due and nonperforming loans; and other internal and external factors such as local and regional economic conditions, growth trends, collateral values, and credit policy and underwriting standards. The methodology includes a review of loans considered impaired in accordance with ASC Topic 310. In addition, other commercial loans and commercial mortgage loans are evaluated using an internal rating system. An estimated exposure amount is assigned to these internally reviewed credits based upon a review of the borrower's financial condition, payment history, collateral adequacy, business conditions, and historical loss experience. For commercial loans and commercial mortgage loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience as well as past due status. Lastly, additional allowances are maintained based upon management judgment and assessment of other quantitative and qualitative factors such as regional and local economic conditions, portfolio growth trends, new lending products, and new market areas.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, and declines in local property values. In addition, various Federal and State regulatory agencies, as part of their examination process, review the Company's allowance and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination which may not be currently available to management.

For acquired credit impaired loans accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* ("ASC Topic 310-30"), the Company's allowance for loan and lease losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

For acquired non-credit impaired loans accounted for under FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, ("ASC Topic 310-20"), the Company's allowance for loan and lease losses is maintained through provisions for loan losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans, which includes the remaining net purchase discount or premium, and other factors that warrant recognition in determining our allowance for loan losses.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less allowances for depreciation. The provision for depreciation for financial reporting purposes is computed generally by the straight-line method at rates sufficient to write-off the cost of such assets over their estimated useful lives. Buildings are amortized over a period of 10-39 years, and furniture, fixtures, and equipment are amortized over a period of 2-20 years. Leasehold improvements are generally depreciated over the lesser of the lease term or the estimated lives of the improvements. Maintenance and repairs are charged to expense as incurred. Gains or losses on disposition are reflected in earnings.

Other Real Estate Owned: Other real estate owned consists of properties formerly pledged as collateral to loans, which have been acquired by the Company through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Upon transfer of a loan to foreclosure status, an appraisal is generally obtained and any excess of the loan balance over the fair value, less estimated costs to sell, is charged against the allowance for loan/lease losses. Expenses and subsequent adjustments to the fair value are treated as other operating expense.

Goodwill: Goodwill represents the excess of purchase price over the fair value of assets acquired in a transaction using purchase accounting. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. The Company tests goodwill annually as of December 31. The Company has the option to perform a qualitative assessment of goodwill, which considers company-specific and economic characteristics that might impact its carrying value. If based on this qualitative assessment, it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative test (Step 1) is performed, which compares the the fair value of the reporting unit to the carrying amount of the reporting unit in order to identify potential impairment. If the estimated fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. However, if the carrying amount of the reporting unit were to exceed its estimated fair value, a second step (Step 2) would be performed that would compare the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting units.

Other Intangible assets: Other intangible assets include core deposit intangibles, customer related intangibles, covenants not to compete, and mortgage servicing rights. Core deposit intangibles represent a premium paid to acquire a base of

stable, low cost deposits in the acquisition of a bank, or a bank branch, using purchase accounting. The amortization period for core deposit intangible ranges from 5 years to 10 years, using an accelerated method. The covenants not to compete are amortized on a straight-line basis over 3 to 6 years, while customer related intangibles are amortized on an accelerated basis over a range of 6 to 15 years. The amortization period is monitored to determine if circumstances require such periods to be revised. The Company periodically reviews its intangible assets for changes in circumstances that may indicate the carrying amount of the asset is impaired. The Company tests its intangible assets for impairment on an annual basis or more frequently if conditions indicate that an impairment loss has more likely than not been incurred.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase (repurchase agreements) are agreements in which the Company transfers the underlying securities to a third-party custodian's account that explicitly recognizes the Company's interest in the securities. The agreements are accounted for as secured financing transactions provided the Company maintains effective control over the transferred securities and meets other criteria as specified in FASB ASC Topic 860, *Transfers and Servicing* ("ASC Topic 860"). The Company's agreements are accounted for as secured financings; accordingly, the transaction proceeds are reflected as liabilities and the securities underlying the agreements continue to be carried in the Company's securities portfolio.

Treasury Stock: The cost of treasury stock is shown on the Consolidated Statements of Condition as a separate component of shareholders' equity, and is a reduction to total shareholders' equity. Shares are released from treasury at fair value, identified on an average cost basis.

Trust and Investment Services: Assets held in fiduciary or agency capacities for customers are not included in the accompanying Consolidated Statements of Condition, since such items are not assets of the Company. Fees associated with providing trust and investment services are included in noninterest income.

Earnings Per Share: Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year, exclusive of shares represented by the unvested portion of restricted stock and restricted stock units. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year plus the dilutive effect of the unvested portion of restricted stock and restricted stock units and stock issuable upon conversion of common stock equivalents (primarily stock options) or certain other contingencies. The Company currently uses authoritative accounting guidance under ASC Topic 260, *Earnings Per Share*, which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company issues stock-based compensation awards that included restricted stock awards that contain such rights.

Segment Reporting: The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC Topic 280, "Segment Reporting". The three segments are: (i) banking ("Banking"), (ii) insurance ("Tompkins Insurance Agencies, Inc.") and (iii) wealth management ("Tompkins Financial Advisors"). The Company's insurance services and wealth management services are managed separately from the Bank. Additional information on the segments is presented in Note 23- "Segment and Related Information."

Comprehensive Income: For the Company, comprehensive income represents net income plus the net change in unrealized gains or losses on securities available-for-sale for the period (net of taxes), and the actuarial gain or loss and amortization of unrealized amounts in the Company's defined-benefit retirement and pension plan, supplemental employee retirement plan, and post-retirement life and healthcare benefit plan (net of taxes), and is presented in the Consolidated Statements of Comprehensive Income and Consolidated Statements of Changes in Shareholders' Equity. Accumulated other comprehensive income (loss) represents the net unrealized gains or losses on securities available-for-sale (net of tax) and unrecognized net actuarial gain or loss, unrecognized prior service costs, and unrecognized net initial obligation (net of tax) in the Company's defined-benefit retirement and pension plan, supplemental employee retirement plan, and post-retirement life and healthcare benefit plan.

PENSION AND OTHER EMPLOYEE BENEFITS: The Company maintains noncontributory defined-benefit and defined contribution plans, which cover substantially all employees of the Company. In addition, the Company also

maintains supplemental employee retirement plans for certain executives and a post-retirement life and healthcare plan. These plans are discussed in detail in Note 13 “Employee Benefit Plans”. The Company incurs certain employment-related expenses associated with these plans. In order to measure the expense associated with these plans, various assumptions are made including the discount rate used to value certain liabilities, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. A third-party actuarial firm is used to assist management in measuring the expense and liability associated with the plans. The Company uses a December 31 measurement date for its plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

The expenses associated with these plans are charged to current operating expenses. The Company recognizes an asset for a plan’s overfunded status or a liability for a plan’s underfunded status in the Company’s consolidated statements of condition, and recognizes changes in the funded status of these plans in comprehensive income, net of applicable taxes, in the year in which the change occurred.

STOCK BASED COMPENSATION: Under FASB ASC Topic 718, *Compensation - Stock Compensation* (“ASC Topic 718”), compensation costs recognized include the compensation cost for all share-based payments based upon the grant date fair value estimated in accordance with ASC Topic 718. Compensation cost is recorded on a straight-line basis over the vesting period of the awards. The Company’s stock-based employee compensation plan is described in Note 14 “Stock Plans and Stock Based Compensation”, of this Report.

FAIR VALUE MEASUREMENTS: The Company accounts for the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”), for financial assets and financial liabilities. ASC Topic 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. See Note 20 “Fair Value Measurements”.

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company’s

creditworthiness, among others.

RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2011-11, "Balance *Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities."* ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU No. 2013-01, "*Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*," clarifies that ordinary trade receivables are not within the scope of ASU 2011-11. ASU 2011-11, as amended by ASU 2013-01, became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2012-02, "*Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment*." ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2012-06, "Business *Combinations (Topic 805) – Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*." ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Under ASU 2012-06, when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for

the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2013-02, "*Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*." ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements other than providing the additional required disclosure in Note 17 – "Other Comprehensive Income (Loss)".

ASU 2013-10*, "Derivatives and Hedging (Topic 815) – Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes."* ASU 2013-10 permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). ASU 2013-10 became effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2013-12*, "Definition of a Public Business Entity - An Addition to the Master Glossary."* ASU 2013-12 amends the Master Glossary of the FASB Accounting Standards Codification to include one definition of public business entity for future use in U.S. GAAP and identifies the types of business entities that are excluded from the scope of the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. ASU 2013-12 did not have a significant impact on the Company's financial statements.

Note 2 Mergers and Acquisitions

On August 1, 2012, Tompkins completed its acquisition of VIST Financial Corp. ("VIST Financial"), a financial holding company headquartered in Wyomissing,

Pennsylvania, and parent to VIST Bank, VIST Insurance, LLC (“VIST Insurance”), and VIST Capital Management, LLC (“VIST Capital Management”). On the acquisition date, VIST Financial had $1.4 billion in total assets, which included $889.3 million in loans, and $1.2 billion in deposits. On the acquisition date, VIST Financial was merged into Tompkins. VIST Bank, a Pennsylvania state-chartered commercial bank, became a wholly-owned subsidiary of Tompkins and will continue to operate as a separate subsidiary bank of Tompkins. VIST Insurance was merged into Tompkins Insurance Agencies, Inc., and VIST Capital Management became part of Tompkins Financial Advisors. The acquisition expands the Company’s presence into the southeastern region of Pennsylvania.

The acquisition was a stock transaction. Under the terms of the merger agreement, each share of VIST Financial common stock was cancelled and converted into the right to receive 0.3127 shares of Tompkins common stock, with any fractional share entitlement paid in cash, resulting in the Company issuing 2,093,689 shares at a fair value of $82.2 million. The Company also paid $1.2 million to retire outstanding VIST Financial employee stock options; while other VIST Financial employee stock options were converted into options to purchase Tompkins' common stock, with an aggregate fair value of $1.1 million. In addition, immediately prior to the completion of the merger, Tompkins purchased from the United States Department of the Treasury the issued and outstanding shares of VIST Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as well as the warrant to purchase shares of VIST Financial common stock issued in connection with the issuance of the preferred stock (the "TARP Purchase") and any accrued and unpaid dividends for an aggregate purchase price of $26.5 million. The securities purchased in the TARP Purchase were cancelled in connection with the consummation of the merger.

The acquisition was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values as of acquisition date. VIST Financial's assets and liabilities were recorded at their preliminary estimated fair values as of August 1, 2012, the acquisition date, and VIST Financial's results of operations have been included in the Company's Consolidated Statements of Income since that date.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based upon management's best estimates using information available at the date of the acquisition, including the use of third party valuation specialist. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The following table summarizes the estimated fair value of the acquired assets and liabilities.

Consideration Paid	August 1, 2012
(in thousands)	
Tompkins common stock issued	$82,198
Cash payment for fractional shares	13
Cash payments for VIST Financial employee stock options	1,236
Fair value of VIST Financial employee stock options, converted to Tompkins' common stock options	1,107
Cash payment for VIST Financial TARP, warrants and accrued and unpaid dividends	26,454
	$111,008

Recognized amounts of identifiable assets acquired and liabilities assumed at estimated fair value	
Cash and cash equivalents	$32,985
Available-for-sale securities	376,298
FHLB stock	4,751
Loans and leases	889,336
Premises and equipment	7,343
Identifiable intangible assets	16,017
Accrued interest receivable and other assets	68,045
Deposits	(1,185,235)
Borrowings	(138,263)
Other liabilities	(7,698)
Total identifiable assets	$63,579
Goodwill	$47,429

Loans and leases acquired in the VIST Financial acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there was no carryover of related allowance for loan and lease losses. The fair values of loans acquired from VIST Financial were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

The following is a summary of the loans acquired in the VIST Financial acquisition as of the closing date.

(in thousands)	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$ 159,325	$ 1,058,708	$ 1,218,033
Contractual cash flows not expected to be collected (non-accretable difference)	57,545	0	57,545
Expected cash flows at acquisition	101,780	1,058,708	1,160,488
Interest component of expected cash flows (accretable difference)	10,008	261,144	271,152
Fair value of acquired loans	$ 91,772	$ 797,564	$ 889,336

The core deposit intangible and customer related intangibles totaled $10.7 million and $5.3 million, respectively and are being amortized over their estimated useful lives of approximately 10 years and 15 years, respectively, using an accelerated method. The second quarter of 2013 included an adjustment of $165,000 to goodwill due to the completion of the final income tax return related to the VIST acquisition. The goodwill is not being amortized but will be evaluated at least annually for impairment. The goodwill, core deposit intangibles, and customer related intangibles are not deductible for taxes.

The fair values of deposit liabilities with no stated maturities such as checking, money market, and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

The fair value of borrowings, which were mainly repurchase agreements with a large money center bank, was determined by discounted cash flow, as well as obtaining quotes from the money center bank. The Company also assumed trust preferred debentures. The fair value of these instruments was estimated by using the income approach whereby the expected cash flows over remaining estimated life are discounted using the Company’s credit spread over the current fully indexed yield based on an expectation of future interest rates derived from observed market interest rate curve and volatilities.

Direct costs related to the acquisition were expensed as incurred. During the twelve months ended December 31, 2013 and 2012, the Company incurred $228,000 and $15.6 million, respectively of merger and acquisition integration-related expenses, which have been separately stated in the Company's Consolidated Statements of Income.

Note 3 Securities

Available-for-Sale Securities

The following tables summarize available-for-sale securities held by the Company at December 31, 2013 and 2012:

	Available-for-Sale Securities			
December 31, 2013	**Amortized Cost**	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. Government sponsored entities	$558,130	$ 7,720	$ 9,505	$556,345
Obligations of U.S. states and political subdivisions	68,216	1,193	1,447	67,962
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	147,766	2,554	3,642	146,678
U.S. Government sponsored entities	587,843	8,122	18,493	577,472
Non-U.S. Government agencies or sponsored entities	306	5	0	311
U.S. corporate debt securities	5,000	8	375	4,633
Total debt securities	1,367,261	19,602	33,462	1,353,401
Equity securities	1,475	0	65	1,410
Total available-for-sale securities	$1,368,736	$ 19,602	$ 33,527	$1,354,811

	Available-for-Sale Securities			
December 31, 2012	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
U.S. Treasury securities	$1,001	$ 3	$ 0	$1,004
Obligations of U.S. Government sponsored entities	570,871	22,909	2	593,778
Obligations of U.S. states and political subdivisions	76,803	2,326	73	79,056
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	162,853	5,362	548	167,667
U.S. Government sponsored entities	526,364	15,759	1,768	540,355
Non-U.S. Government agencies or sponsored entities	4,457	40	143	4,354
U.S. corporate debt securities	5,009	87	13	5,083
Total debt securities	1,347,358	46,486	2,547	1,391,297
Equity securities	2,058	0	15	2,043
Total available-for-sale securities	$1,349,416	$ 46,486	$ 2,562	$1,393,340

[1] Net of other-than-temporary impairment losses recognized in earnings

Held-to-Maturity Securities

The following tables summarize held-to-maturity securities held by the Company at December 31, 2013 and 2012:

December 31, 2013	Held-to-Maturity Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$ 18,980	$ 645	$ 0	$ 19,625
Total held-to-maturity debt securities	$ 18,980	$ 645	$ 0	$ 19,625

Held-to-Maturity Securities

December 31, 2012	Held-to-Maturity Securities Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$24,062	$ 1,101	$ 0	$25,163
Total held-to-maturity debt securities	$24,062	$ 1,101	$ 0	$25,163

The following table sets forth information with regard to sales transactions of securities available-for-sale:

	Year ended December 31,		
(in thousands)	2013	2012	2011
Proceeds from sales	$115,796	$217,971	$59,666
Gross realized gains	762	1,268	510
Gross realized losses	(163)	(944)	(114)
Net gains on sales of available-for-sale securities	$599	$324	$396

There were no sales of held-to-maturity securities in 2013, 2012 and 2011.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2013:

December 31, 2013 Available-for-Sale Securities	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$337,967	$ 9,467	$1,761	$ 38	$339,728	$ 9,505
Obligations of U.S. states and political subdivisions	21,821	821	6,173	626	27,994	1,447
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	70,052	2,701	14,874	941	84,926	3,642
U.S. Government sponsored entities	293,945	14,061	76,070	4,432	370,015	18,493
U.S. corporate debt securities	0	0	2,125	375	2,125	375
Equity Securities	0	0	935	65	935	65

Total available-for-sale securities	$723,785	$ 27,050	$101,938	$ 6,477	$825,723	$ 33,527

There were no unrealized losses on held-to-maturity securities at December 31, 2013.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2012:

December 31, 2012						
Available-for-Sale Securities	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$1,147	$ 2	$0	$ 0	$1,147	$ 2
Obligations of U.S. states and political subdivisions	10,307	73	0	0	10,307	73
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	40,022	548	0	0	40,022	548
U.S. Government sponsored entities	128,365	1,768	0	0	128,365	1,768
Non-U.S. Government agencies or sponsored entities	833	143	0	0	833	143
U.S. corporate debt securities	2,487	13	0	0	2,487	13
Equity securities	985	15	0	0	985	15
Total available-for-sale securities	$184,146	$ 2,562	$0	$ 0	$184,146	$ 2,562

There were no unrealized losses on held-to-maturity securities at December 31, 2012.

The gross unrealized losses reported for residential mortgage-backed securities relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, U.S. government agencies such as Government National Mortgage Association, and non-agencies. The total gross unrealized losses, shown in the tables above, were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities.

The Company does not intend to sell the investment securities that are in an unrealized loss position until recovery of unrealized losses (which may be until maturity), and it is not more-likely-than not that the Company will be required to sell the investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of December 31, 2013, and December 31, 2012, management believes the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if the fair value is less than its amortized cost basis (including any previous OTTI charges) at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. An unrealized loss on a debt security is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value, discounted at the security's effective rate, of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying debt security and it is more-likely-than not that the Company would not have to sell the debt security prior to recovery of the unrealized loss, which may be to maturity. If the Company intended to sell any securities with an unrealized loss or it is more-likely-than not that the Company would be required to sell the investment securities, before recovery of their amortized cost basis, then the entire unrealized loss would be recorded in earnings.

The Company considers the following factors in determining whether a credit loss exists.

1. The length of time and the extent to which the fair value has been less than the amortized cost basis;

2. The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;

3. Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

4. The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

5. Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

During 2013, the Company sold three non-U.S. Government agencies or sponsored entities mortgage backed securities for a gain of approximately $94,000. Prior to 2013, these non-U.S. Government agencies or sponsored entities mortgage backed securities were determined to be other-than-temporarily impaired and the Company did recognize net credit impairment charges to earnings of $441,000 over the life of these securities. Also during 2013, one non-U.S. Government agencies or sponsored entities mortgage backed security was repaid in full. The Company did not recognize any net credit impairment charge to earnings for this security in 2013.

The following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

	As of December 31,		
(in thousands)	2013	2012	2011
Credit losses at beginning of the period	$441	$245	$180
Credit losses related to securities for which an other-than-temporary impairment was recognized	0	196	65
Sales of securities for which an other-than-temporary impairment was previously recognized	(441)	0	0
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$0	$441	$245

The amortized cost and estimated fair value of debt securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are shown separately since they are not due at a single maturity date.

December 31, 2013 *(in thousands)*	**Amortized Cost**	Fair Value
Available-for-sale securities:		
Due in one year or less	$25,596	$26,017
Due after one year through five years	263,553	271,303
Due after five years through ten years	313,245	304,414
Due after ten years	28,952	27,206
Total	631,346	628,940
Mortgage-backed securities	735,915	724,461
Total available-for-sale debt securities	$1,367,261	$1,353,401

December 31, 2012 *(in thousands)*	**Amortized Cost[1]**	Fair Value
Available-for-sale securities:		
Due in one year or less	$39,552	$39,990
Due after one year through five years	355,296	370,933
Due after five years through ten years	255,795	264,966
Due after ten years	3,041	3,032
Total	653,684	678,921
Mortgage-backed securities	693,674	712,376
Total available-for-sale debt securities	$1,347,358	$1,391,297

[1] Net of other-than-temporary impairment losses recognized in earnings.

December 31, 2013 *(in thousands)*	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 10,952	$11,021
Due after one year through five years	5,636	6,004
Due after five years through ten years	1,878	2,051
Due after ten years	514	549
Total held-to-maturity debt securities	$ 18,980	$19,625

December 31, 2012 *(in thousands)*	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 13,070	$13,154
Due after one year through five years	7,974	8,535
Due after five years through ten years	2,283	2,619
Due after ten years	735	855
Total held-to-maturity debt securities	$ 24,062	$25,163

Trading Securities The following summarizes trading securities, at estimated fair value, as of:

(in thousands)	December 31, 2013	December 31, 2012
Obligations of U.S. Government sponsored entities	$ 8,275	$ 11,860
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	2,716	4,590
Total trading securities	$ 10,991	$ 16,450

The decrease in trading securities reflects principal repayments and maturities received during 2013. The pre-tax mark-to-market losses on trading securities in 2013 were $538,000 and $332,000 in 2012, compared to pre-tax net mark-to-market gains of $62,000 in 2011.

The Company pledges securities as collateral for public deposits and other borrowings, and sells securities under agreements to repurchase. See "Note 10 - Federal Funds Purchased and Securities Sold Under Agreements to Repurchase" for further discussion. Securities carried of $1.0 billion and $1.0 billion at December 31, 2013 and 2012, respectively, were either pledged or sold under agreements to repurchase.

Except for U.S. government securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of shareholders' equity at December 31, 2013.

The Company has equity investments in small business investment companies ("SBIC") established for the purpose of providing financing to small businesses in market areas served by the Company. As of December 31, 2013 and 2012, these investments totaled $2.4 million and $3.4 million, respectively, and was included in other assets on the Company's Consolidated Statements of Condition. The investment is accounted for under the equity method of accounting. As of December 31, 2013, the Company reviewed this investment and determined that there was no impairment.

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Central Bankers Bank ("ACBB") stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock and ACBB stock totaled $17.2 million, $7.7 million and $95,000 at December 31, 2013, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. On December 31, 2013, the entire $2.1 million of the Company's Federal Reserve Bank stock was redeemed.

Note 4 Loans and Leases

Loans and Leases at December 31, 2013 and December 31, 2012 were as follows:

	December 31, 2013			December 31, 2012		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$74,788	$0	$74,788	$77,777	$0	$77,777
Commercial and industrial other	562,439	128,503	690,942	446,876	167,427	614,303
Subtotal commercial and industrial	637,227	128,503	765,730	524,653	167,427	692,080
Commercial real estate						
Construction	46,441	39,353	85,794	41,605	43,074	84,679
Agriculture	52,627	3,135	55,762	48,309	3,247	51,556
Commercial real estate other	903,320	366,438	1,269,759	722,273	445,359	1,167,632
Subtotal commercial real estate	1,002,388	408,926	1,411,314	812,187	491,680	1,303,867
Residential real estate						
Home equity	171,809	67,183	238,992	159,720	81,657	241,377
Mortgages	658,966	35,336	694,302	573,861	41,618	615,479
Subtotal residential real estate	830,775	102,519	933,294	733,581	123,275	856,856

Consumer and other						
Indirect	21,202	5	21,207	26,679	24	26,703
Consumer and other	32,312	1,219	33,531	32,251	1,498	33,749
Subtotal consumer and other	53,514	1,224	54,738	58,930	1,522	60,452
Leases	5,563	0	5,563	4,618	0	4,618
Covered loans	0	25,868	25,868	0	37,600	37,600
Total loans and leases	2,529,467	667,040	3,196,507	2,133,969	821,504	2,955,473
Less: unearned income and deferred costs and fees	(2,223)	0	(2,223)	(863)	0	(863)
Total loans and leases, net of unearned income and deferred costs and fees	$2,527,244	$667,040	$3,194,284	$2,133,106	$821,504	$2,954,610

The outstanding principal balance and the related carrying amount of the Company's loans acquired in the VIST Acquisition are as follows at December 31:

(in thousands)	2013	2012
Acquired Credit Impaired Loans		
Outstanding principal balance	$70,727	$114,516
Carrying amount	46,809	80,223
Acquired Non-Credit Impaired Loans		
Outstanding principal balance	666,089	750,380
Carrying amount	620,231	741,281
Total Acquired Loans		
Outstanding principal balance	736,816	864,896
Carrying amount	667,040	821,504

The following tables present changes in accretable yield on loans acquired from VIST Bank that were considered credit impaired.

(in thousands)	
Balance at August 1, 2012	$0
VIST Acquisition	10,008
Accretion	(3,836)
Disposals (loans paid in full)	(96)
Reclassifications to/from nonaccretable difference	1,261
Balance at December 31, 2012	$7,337

(in thousands)	
Balance at January 1, 2013	$7,337
Accretion	(8,896)
Disposals (loans paid in full)	(212)
Reclassifications to/from nonaccretable difference[1]	7,933
Other changes in expected cash flows[2]	4,792
Balance at December 31, 2013	$10,954

[1] Results in increased interest income as a prospective yield adjustment over the remaining life of the loans, as well as increased interest income from loan sales, modification and prepayments.

[2] Represents changes in cash flows expected to be collected due to factors other than credit (e.g. changes in prepayment assumptions and/or changes in interest rates on variable rate loans).

During 2013 we increased our estimate of future cash flows on acquired loans to reflect our current outlook for prepayment speeds on these balances and increases in interest rates on variable rate loans. The decreases in prepayment speed assumptions and increases in interest rate assumptions increased our accretable discount by $4.8 million. This change did not materially impact our current quarter interest income or net interest margin.

At December 31, 2013, acquired loans included $25.9 million of covered loans. VIST Financial had previously acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with a loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See Note 6 – “FDIC Indemnification Asset Related to Covered Loans” for further discussion of the loss sharing agreements and related FDIC indemnification asset.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. The Company reviewed the lending policies of Tompkins and VIST Financial, and adopted a uniform policy for the Company. There were no significant changes to the Company’s existing policies, underwriting standards and loan review. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

Residential real estate loans

The Company's policy is to underwrite residential real estate loans in accordance with secondary market guidelines in effect at the time of origination, including loan-to-value ("LTV") and documentation requirements. LTV's exceeding 80% for fixed rate loans and 85% for adjustable rate loans require private mortgage insurance to reduce the exposure to 78%. The Company verifies applicants' income, obtains credit reports and independent real estate appraisals in the underwriting process to ensure adequate collateral coverage and that loans are extended to individuals with good credit and income sufficient to repay the loan. The Company originates both fixed rate and adjustable rate residential real estate loans. Over the past two years, the vast majority of residential loan originations have been fixed rate loans, most of which have been sold in the secondary market on a non-recourse basis with related servicing rights retained. Adjustable rate residential real estate loans may be underwritten based upon an initial rate which is below the fully indexed rate; however, the initial rate is generally less than 100 basis points below the fully indexed rate. As such, the Company does not believe that this practice creates any significant credit risk.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loan sales are subject to customary representations and warranties, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these general representations and warranties. While in the past, in rare circumstances, the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans is insignificant. The Company has never had to repurchase a loan sold with recourse.

Prior to August 2012, loans were generally sold to Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA"). With the acquisition to VIST on August 1, 2012, the Company also sells loans to other third parties, including money center banks. During 2013, 2012, and 2011, the Company sold residential mortgage loans totaling $13.2 million, $37.5 million, and $26.6 million, respectively, and realized net gains on these sales of $301,000, $885,000, and $496,000, respectively. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreement. When residential mortgage loans are sold to FHLMC or SONYMA, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2013, 2012, and 2011, the Company recorded mortgage-servicing assets of $85,000, $123,000, and $176,000, respectively.

Amortization of mortgage servicing assets amounted to $232,000 in 2013, $330,000 in 2012, and $257,000 in 2011. At December 31, 2013 and 2012, the Company serviced residential mortgage loans aggregating $162.1 million and $189.9 million, including loans securitized and held as available-for-sale securities. Mortgage servicing rights, at amortized basis, totaled $1.0 million at December 31, 2013 and $1.2 million at December 31, 2012. These mortgage servicing rights were evaluated for impairment at year end 2013 and 2012 and no impairment was recognized. Loans held for sale, which are included in residential real estate totaled $304,000 and $102,000 at December 31, 2013 and 2012, respectively.

As members of the FHLB, the Company's subsidiary banks may use unencumbered mortgage related assets to secure borrowings from the FHLB. At December 31, 2013 and 2012, the Company had $80.0 million and $90.0 million, respectively, of term advances from the FHLB that were secured by residential mortgage loans.

Commercial and industrial loans

The Company's policy sets forth guidelines for debt service coverage ratios, LTV's and documentation standards. Commercial and industrial loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral and personal or government guarantees. The Company's policy establishes debt service coverage ratio limits that require a borrower's cash flow to be sufficient to cover principal and interest payments on all new and existing debt. Commercial and industrial loans are generally secured by the assets being financed or other business assets such as accounts receivable or inventory. Many of the loans in the commercial portfolio have variable interest rates tied to Prime Rate, FHLBNY borrowing rates, or U.S. Treasury indices.

Commercial real estate

The Company's policy sets forth guidelines for debt service coverage ratios, LTV's and documentation standards. Commercial real estate loans are primarily made based on identified cash flows of the borrower with consideration given to underlying real estate collateral and personal or government guarantees. The Company's policy establishes a maximum LTV of 75% and debt service coverage ratio limits that require a borrower's cash flow to be sufficient to cover principal and interest payments on all new and existing debt. Commercial real estate loans may be fixed or variable rate loans with interest rates tied to Prime Rate, FHLBNY borrowing rates, or U.S. Treasury indices.

Agriculture loans

Agriculturally-related loans include loans to dairy farms and vegetable crop farms. Agriculturally-related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment, or commodities/crops. The Company's policy establishes a maximum LTV of 75% for real estate secured loans and debt service coverage ratio limits that require a borrower's cash flow to be sufficient to cover principal and interest payments on all new and existing debt. The policy also establishes maximum LTV ratios for non-real estate collateral, such as livestock, commodities/crops, equipment and accounts receivable. Agriculturally-related loans may be fixed or variable rate loans with interest tied to Prime Rate, FHLBNY borrowing rates, or U.S. Treasury indices.

Consumer and other loans

The consumer loan portfolio includes personal installment loans, direct and indirect automobile financing, and overdraft lines of credit. The majority of the consumer portfolio consists of indirect and direct automobile loans. Consumer loans are generally short-term and have fixed rates of interest that are set giving consideration to current market interest rates, the financial strength of the borrower, and internal profitability targets. The policy establishes maximum debt to income ratios and includes guidelines for verification of applicants' income and receipt of credit reports.

Leases

Leases are primarily made to commercial customers and the origination criteria typically includes the value of the underlying assets being financed, the useful life of the assets being financed, and identified cash flows of the borrower. Most leases carry a fixed rate of interest that is set giving consideration to current market interest rates, the financial strength of the borrower, and internal profitability targets.

Loan and Lease Customers

The Company's loan and lease customers are located primarily in the upstate New York communities served by its three subsidiary banks and in the Pennsylvania communities served by recently acquired VIST Bank. The Trust Company operates fourteen banking offices in the counties of Tompkins, Cayuga, Cortland,

and Schuyler, New York. The Bank of Castile operates fourteen banking offices in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. Mahopac National Bank is located in Putnam County, New York, and operates five offices in that county, three offices in neighboring Dutchess County, New York, and six offices in Westchester County, New York. VIST Bank operates 20 offices in Southeastern Pennsylvania. Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

Directors and officers of the Company and its affiliated companies were customers of, and had other transactions with, the Company's banking subsidiaries in the ordinary course of business. Such loans and commitments were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Company, and did not involve more than normal risk of collectability or present other unfavorable features.

Loans to Related Parties

Loan transactions with related parties at December 31 are summarized as follows:

(in thousands)	2013	2012
Balance at beginning of year	$33,390	$25,727
New Directors/Executive Officers	100	2,508
New loans and advancements	3,876	6,219
Loan Payments	(6,784)	(1,064)
Balance at end of year	$30,582	$33,390

Nonaccrual Loans and Leases

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Loans are placed on nonaccrual status either due to the delinquency status of principal and/or interest (generally when past due 90 or more days) or a judgment by management that the full repayment of principal and interest is unlikely. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on loans on nonaccrual are generally applied to reduce the principal balance of the loan. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. When management determines that the collection of principal in full is improbable, management will charge-off a partial amount or full amount of the loan balance. Management considers specific facts and circumstances relative to

each individual credit in making such a determination. For residential and consumer loans, management uses specific regulatory guidance and thresholds for determining charge-offs.

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Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. The Company has determined that it can reasonably estimate future cash flows on our current portfolio of acquired loans that are past due 90 days or more and on which the Company is accruing interest and expect to fully collect the carrying value of the loans net of the allowance for acquired loan losses.

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of December 31, 2013 and 2012.

December 31, 2013

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	**90 days and accruing**[1]	Nonaccrual
Originated Loans and Leases						
Commercial and industrial						
Agriculture	$0	$0	$74,788	$74,788	$ 0	$ 0
Commercial and industrial other	211	1,187	561,041	562,439	0	1,260
Subtotal commercial and industrial	211	1,187	635,829	637,227	0	1,260
Commercial real estate						
Construction	216	7,657	38,568	46,441	0	9,873
Agriculture	180	0	52,447	52,627	0	46
Commercial real estate other	1,104	6,976	895,240	903,320	161	9,522
Subtotal commercial real estate	1,500	14,633	986,255	1,002,388	161	19,441
Residential real estate						
Home equity	784	1,248	169,777	171,809	62	1,477
Mortgages	2,439	5,946	650,581	658,966	384	7,443
Subtotal residential real estate	3,223	7,194	820,358	830,775	446	8,920
Consumer and other						
Indirect	768	152	20,282	21,202	0	216
Consumer and other	60	0	32,252	32,312	0	38
Subtotal consumer and other	828	152	52,534	53,514	0	254
Leases	0	0	5,563	5,563	0	0
Total loans and leases	5,762	23,166	2,500,539	2,529,467	607	29,875
Less: unearned income and deferred costs and fees	0	0	0	(2,223)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$5,762	$23,166	$2,500,539	$2,527,244	$ 607	$ 29,875
Acquired Loans and Leases						
Commercial and industrial						
	554	1,651	126,298	128,503	1,231	419
Commercial and industrial other						
Subtotal commercial and industrial	554	1,651	126,298	128,503	1,231	419
Commercial real estate						
Construction	0	2,148	37,205	39,353	1,676	473
Agriculture	0	0	3,135	3,135	0	0
Commercial real estate other	403	3,585	362,450	366,438	709	3,450
Subtotal commercial real estate	403	5,733	402,790	408,926	2,385	3,923
Residential real estate						
Home equity	213	934	66,036	67,183	347	1,844
Mortgages	345	1,264	33,727	35,336	594	2,322
Subtotal residential real estate	558	2,198	99,763	102,519	941	4,166
Consumer and other						
Indirect	0	0	5	5	0	0
Consumer and other	17	0	1,202	1,219	0	0

Subtotal consumer and other	17	0	1,207	1,224	0	0
Covered loans	0	2,416	23,452	25,868	2,416	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$1,532	$11,998	$653,510	$667,040	$ 6,973	$ 8,508

[1] *Includes acquired loans that were recorded at fair value at the acquisition date.*

December 31, 2012

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	**90 days and accruing**[1]	Nonaccrual
Originated loans and leases						
Commercial and industrial						
Agriculture	$0	$0	$77,777	$77,777	$ 0	$ 28
Commercial and industrial other	2,575	509	443,792	446,876	0	748
Subtotal commercial and industrial	2,575	509	521,569	524,653	0	776
Commercial real estate						
Construction	91	8,469	33,045	41,605	0	10,306
Agriculture	212	0	48,097	48,309	0	22
Commercial real estate other	1,232	9,541	711,500	722,273	0	13,168
Subtotal commercial real estate	1,535	18,010	792,642	812,187	0	23,496
Residential real estate						
Home equity	582	2,348	156,790	159,720	120	1,641
Mortgages	2,303	6,975	564,583	573,861	137	7,182
Subtotal residential real estate	2,885	9,323	721,373	733,581	257	8,823
Consumer and other						
Indirect	869	233	25,577	26,679	0	277
Consumer and other	126	0	32,125	32,251	0	16
Subtotal consumer and other	995	233	57,702	58,930	0	293
Leases	0	0	4,618	4,618	0	0
Total loans and leases	7,990	28,075	2,097,904	2,133,969	257	33,388
Less: unearned income and deferred costs and fees	0	0	0	(863)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$7,990	$28,075	$2,097,904	$2,133,106	$ 257	$ 33,388
Acquired loans and leases						
Commercial and industrial	13	1,646	165,768	167,427	1,082	564
Commercial and industrial other						
Subtotal commercial and industrial	13	1,646	165,768	167,427	1,082	564
Commercial real estate						
Construction	53	6,607	36,414	43,074	6,419	188
Agriculture	0	0	3,247	3,247	0	0
Commercial real estate other	1,139	5,043	439,177	445,359	3,790	1,330
Subtotal commercial real estate	1,192	11,650	478,838	491,680	10,209	1,518
Residential real estate						
Home equity	1,626	1,913	78,118	81,657	865	1,453
Mortgages	1,416	2,968	37,234	41,618	2,282	808
Subtotal residential real estate	3,042	4,881	115,352	123,275	3,147	2,261
Consumer and other						

Indirect	0	0	24	24	0	0
Consumer and other	2	9	1,487	1,498	0	9
Subtotal consumer and other	2	9	1,511	1,522	0	9
Covered loans	1,014	4,272	32,314	37,600	4,272	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$5,263	$22,458	$793,783	$821,504	$ 18,710	$ 4,352

[1] *Includes acquired loans that were recorded at fair value at the acquisition date.*

The difference between the interest income that would have been recorded if nonaccrual loans and leases had paid in accordance with their original terms and the interest income that was recorded for the year ended December 31, 2013, 2012 and 2011 was $1.2 million, $1.7 million and $2.7 million, respectively. The Company had no material commitments to make additional advances to borrowers with nonperforming loans.

Note 5 Allowance for Loan and Lease Losses

Originated Loans and Leases

Management reviews the appropriateness of the allowance for loan and lease losses ("allowance") on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that assumptions could have on the Company's results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and allowance allocations are calculated in accordance with ASC Topic 310, *Receivables* and ASC Topic 450, *Contingencies*.

The Company's methodology for determining and allocating the allowance for loan and lease losses focuses on ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans, values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a regular basis.

At least annually, management reviews all commercial and commercial real estate loans exceeding a certain threshold and assigns a risk rating. The Company uses an internal loan rating system of pass credits, special mention loans, substandard loans, doubtful loans, and loss loans (which are fully charged off). The definitions of "special mention", "substandard", "doubtful" and "loss" are consistent with banking regulatory definitions. Factors considered in assigning loan ratings include: the customer's ability to repay based upon customer's expected future cash flow, operating results, and financial condition; the underlying collateral, if any; and the economic environment and industry in which the customer operates. Special mention loans have potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects and a downgrade to a more severe risk rating. A substandard loan credit has a well-defined weakness which makes payment default or principal exposure likely, but not yet certain. There is a possibility that the Company will sustain some loss if the deficiencies are not corrected. A doubtful loan has a high possibility of loss, but the extent of the loss

is difficult to quantify because of certain important and reasonably specific pending factors.

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated special mention or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or discounted cash flows. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factor is reasonable.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management's evaluation of the allowance as of December 31, 2013, considers the allowance to be appropriate, under different conditions or assumptions, the Company may need to adjust the allowance.

Acquired Loans and Leases

As part of our determination of the fair value of our acquired loans at the time of acquisition, the Company established a credit mark to provide for future losses in our acquired loan portfolio. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration would result in the establishment of an allowance for the acquired loan portfolio.

Acquired loans accounted for under ASC 310-30

For our acquired loans, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC 310-20

We establish our allowance for loan losses through a provision for credit losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans, which includes the remaining net purchase discount or premium, and other factors that warrant recognition in determining our allowance for loan losses.

Changes in the allowance for loan and lease losses at December 31, are summarized as follows:

(in thousands)	2013	2012	2011
Total allowance at beginning of year	$24,643	$27,593	$27,832
Provisions charged to operations	6,161	8,837	8,945
Recoveries on loans and leases	5,347	734	1,048
Charge-offs on loans and leases	(8,181)	(12,521)	(10,232)
Total allowance at end of year	$27,970	$24,643	$27,593

The following tables detail activity in the allowance for originated loan and lease losses by portfolio segment for the twelve months ended December 31, 2013 and 2012, and for acquired loan losses for the twelve months ended December 31, 2013. As of December 31, 2012 there was no allowance for acquired loans and no provision for loan charge offs/recoveries for acquired loans between August 1, 2012 and December 31, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases:						
Beginning balance	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$ 24,643
Charge-offs	(1,605)	(651)	(752)	(1,282)	0	(4,290)
Recoveries	4,162	718	48	419	0	5,347
Provision	(1,684)	208	1,494	982	0	1,000
Ending Balance	$ 8,406	$ 10,459	$ 5,771	$ 2,059	$ 5	$ 26,700

December 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for acquired loans:						
Beginning balance	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Charge-offs	(2,991)	(179)	(696)	(25)	0	(3,891)
Recoveries	0	0	0	0	0	0
Provision	3,159	949	970	83	0	5,161
Ending Balance	$ 168	$ 770	$ 274	$ 58	$ 0	$ 1,270

December 31, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases:						
Beginning balance	$ 8,936	$ 12,662	$ 4,247	$ 1,709	$ 39	$ 27,593
Charge-offs	(5,328)	(3,977)	(2,390)	(826)	0	(12,521)
Recoveries	198	200	30	306	0	734
Provision	3,727	1,299	3,094	751	(34)	8,837
Ending Balance	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$ 24,643

There was no allowance for acquired loans as of December 31, 2012.

At December 31, 2013 and 2012, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

December 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases:						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively evaluated for impairment	8,406	10,459	5,771	2,059	5	26,700
Ending balance	$ 8,406	$ 10,459	$ 5,771	$ 2,059	$ 5	$ 26,700
Allowance for acquired loans: December 31, 2013						
Individually evaluated for impairment	$ 0	$ 250	$ 0	$ 0	$ 0	$ 250
Collectively evaluated for impairment	168	520	274	58	0	1,020
Ending balance	$ 168	$ 770	$ 274	$ 58	$ 0	$ 1,270

December 31, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for originated loans and leases:						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively evaluated for impairment	7,533	10,184	4,981	1,940	5	24,643
Ending balance	$ 7,533	$ 10,184	$ 4,981	$ 1,940	$ 5	$ 24,643

There was no allowance for acquired loans as of December 31, 2012.

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of December 31, 2013 and December 31, 2012 was as follows:

December 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases:						
Individually evaluated for impairment	$ 4,664	$ 16,269	$ 1,223	$ 0	$ 0	$ 22,156
Collectively evaluated for impairment	632,563	986,119	829,552	53,514	5,563	2,507,311
Total	$ 637,227	$ 1,002,388	$ 830,775	$ 53,514	$ 5,563	$ 2,529,467

December 31, 2013

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans:						
Individually evaluated for impairment	$ 2,231	$ 2,429	$ 73	$ 0	$ 0	$ 4,733
Loans acquired with deteriorated credit quality	2,558	10,263	9,355	0	24,633	46,809
Collectively evaluated for impairment	123,714	396,234	93,091	1,224	1,235	615,498
Total	$ 128,503	$ 408,926	$ 102,519	$ 1,224	$ 25,868	$ 667,040

December 31, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Originated loans and leases:						
Individually evaluated for impairment	$ 2,771	21,478	$ 483	$ 0	$ 0	$ 24,732
Collectively evaluated for impairment	521,882	790,709	733,098	58,930	4,618	2,109,237
Total	$ 524,653	$ 812,187	$ 733,581	$ 58,930	$ 4,618	$ 2,133,969

December 31, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Covered Loans	Total
Acquired loans:						
Individually evaluated for impairment	$ 519	1,816	$ 0	$ 0	$ 0	$ 2,335
Loans acquired with deteriorated credit quality	7,144	24,032	17,650	0	36,251	85,077
Collectively evaluated for impairment	159,764	465,832	105,625	1,522	1,349	734,092

Total	$ 167,427	$ 491,680	$ 123,275	$ 1,522	$ 37,600	$ 821,504

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans, and all loans restructured in a troubled debt restructuring (TDR). Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans, and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis. There was no interest income recognized on impaired loans and leases, collected in cash, for 2013, 2012 and 2011.

(in thousands)	12/31/2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	12/31/2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$4,664	$ 5,069	$ 0	$2,771	$ 2,891	$ 0
Commercial real estate						
Construction	6,073	11,683	0	6,763	12,373	0
Commercial real estate other	10,196	13,518	0	14,715	16,940	0
Residential real estate						
Residential real estate other	1,223	1,299	0	483	483	0
Subtotal	$22,156	$ 31,569	$ 0	$24,732	$ 32,687	$ 0
Total	$22,156	$ 31,569	$ 0	$24,732	$ 32,687	$ 0

(in thousands)	12/31/2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	12/31/2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Acquired loans with no related allowance						
Commercial and industrial						
Commercial and industrial other	$2,231	$ 5,081	$ 0	$519	$ 519	$ 0
Commercial real estate						
Commercial real estate other	1,960	1,960	0	1,816	1,816	0
Residential real estate						
Residential real estate other	73	73	0	0	0	0
Subtotal	$4,264	$ 7,114	$ 0	$2,335	$ 2,335	$ 0
Acquired loans with related allowance						
Commercial real estate						
Commercial real estate other	469	719	250	0	0	0
Subtotal	$469	$ 719	$ 250	$0	$ 0	$ 0
Total	$4,733	$ 7,833	$ 250	$2,335	$ 2,335	$ 0

The average recorded investment and interest income recognized on impaired originated loans for the twelve months ended December 31, 2013, 2012 and 2011 was as follows:

	As of December 31,					
	2013		**2012**		**2011**	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance						
Commercial and industrial						
Agriculture	$0	$ 0	$0	$ 0	$145	$ 0
Commercial and industrial other	4,918	0	3,016	0	2,939	0
Commercial real estate						
Construction	6,201	0	7,430	0	3,284	0
Commercial real estate other	10,775	0	15,120	0	12,408	0
Residential real estate						
Home equity	1,223	0	484	0	166	0
Subtotal	$23,117	$ 0	$26,050	$ 0	$18,942	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	0	0	3,140	0	2,938	0
Commercial real estate						
Construction	0	0	0	0	8,462	0
Commercial real estate other	0	0	261	0	2,521	0
Subtotal	$0	$ 0	$3,401	$ 0	$13,921	$ 0
Total	$23,117	$ 0	$29,451	$ 0	$32,863	$ 0

The average recorded investment and interest income recognized on impaired acquired loans for the twelve months ended December 31, 2013, 2012 and 2011 was as follows:

	As of December 31,					
	2013		**2012**		**2011**	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Acquired loans with no related allowance						
Commercial and industrial						
Commercial and industrial other	1,042	0	0	0	0	0
Commercial real estate						
Commercial real estate other	3,999	102	0	0	0	0
Residential real estate						
Home equity	73	0	0	0	0	0

Subtotal	$5,114	$ 102	$ 0	$ 0	$ 0	$ 0
Acquired loans with related allowance						
Commercial and industrial						
Commercial real estate						
Commercial real estate other	724	0	0	0	0	0
Subtotal	$724	$ 0	$ 0	$ 0	$ 0	$ 0
Total	$5,838	$ 102	$ 0	$ 0	$ 0	$ 0

Average balances were not calculated on the acquired loan and lease portfolio during the fourth quarter of 2012.

The average recorded investment in impaired loans was $23.1 million at December 31, 2013 compared to $29.5 million at December 31, 2012.

Loans are considered modified in a TDR when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. When modifications are provided for reasons other than as a result of the financial distress of the borrower, these loans are not classified as TDRs or impaired. These modifications primarily include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments and interest caught up over the remaining term of the loan or at maturity, among others.

The following tables present loans by class modified in 2013 as troubled debt restructurings.

Troubled Debt Restructuring

December 31, 2013	**Twelve months ended**			**Defaulted TDRs[4]**	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	**Post-Modification Outstanding Recorded Investment**
Commercial and industrial					
Commercial and industrial other[1]	4	$ 878	$ 878	1	$ 645
Commercial real estate					
Commercial real estate other[2]	13	$ 1,837	$ 1,837	1	$ 140
Residential real estate					
Mortgages[3]	1	$ 195	$ 195	1	$ 195
Total	18	$ 2,910	$ 2,910	3	$ 980

1 Represents the following concessions: extension of term and reduction in rate (3 loans: $808,000) extension of term (1 loan: $70,000)

2 Represents the following concessions: extension of term and reduction of rate (11 loans: $1.9 million) extension of term (1 loan: $129,000)

3 Represents the following concessions: extension of term and reduction of rate

4 TDRs that defaulted during the last 12 months that were restructured in the prior twelve months

December 31, 2012	**Twelve months ended**					
					Defaulted TDRs[5]	
(in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		Number of Loans	**Post-Modification Outstanding Recorded Investment**
Commercial and industrial						
Commercial and industrial other[1]	4	$ 4,194	$ 4,194		0	$ 0
Commercial real estate						
Construction[2]	1	$ 3,475	$ 3,475		1	$ 3,475
Commercial real estate other[3]	2	$ 3,309	$ 3,309		1	$ 1,458
Residential real estate						
Mortgages[4]	3	$ 302	$ 302		2	$ 208
Total	10	$ 11,280	$ 11,280		4	$ 5,141

1 *Represents the following concessions: payment reduction (2 loans: $12,000) extension of term (2 loans: $4.2 million)*
2 *Represents the following concessions: interest rate reduction*
3 *Represents the following concessions: interest rate reduction (1 loan: $1.5 million) and payment reduction (1 loan: $1.9 million)*
4 *Represents the following concessions: extension of term (2 loans: $239,000) and extension of term and lower rate (1 loan: $62,000)*
5 *TDRs that defaulted during the last 12 months that were restructured in the prior twelve months*

The Company recognized TDRs with a balance of $2.9 million during 2013, compared to $11.3 million in 2012. The Company is not committed to lend additional amounts as of December 31, 2013 to customers with outstanding loans that are classified as TDRs.

A loan that was restructured as a TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the twelve month period ending December 31, 2013 there were three loans restructured that became 90 days or more past due. The three loans included a commercial real estate loan with a recorded balance of $140,000, a commercial and industrial loan with a recorded balance of $645,000, and a residential mortgage loan of $195,000.

The following table presents credit quality indicators (internal risk grade) by class of commercial loans, commercial real estate loans and agricultural loans as of December 31, 2013 and 2012.

December 31, 2013 (in thousands)	Commercial and Industrial	Commercial and Industrial	Commercial Real Estate Other	Commercial Real Estate	Commercial Real Estate Construction	Total

	Other	Agriculture		Agriculture		
Originated loans and leases						
Internal risk grade:						
Pass	$ 531,293	$ 72,997	$ 869,488	$ 52,054	$ 36,396	$ 1,562,228
Special Mention	20,688	100	17,536	123	3,918	42,365
Substandard	10,458	1,691	16,296	450	6,127	35,022
Total	$ 562,439	$ 74,788	$ 903,320	$ 52,627	$ 46,441	$ 1,639,615

December 31, 2013						
(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired loans						
Internal risk grade:						
Pass	$ 116,160	$ 0	$ 5,809	$ 1,150	$ 363,427	$ 486,546
Special Mention	3,821	0	11,516	1,985	0	17,322
Substandard	8,522	0	22,028	0	3,011	33,561
Total	$ 128,503	$ 0	$ 39,353	$ 3,135	$ 366,438	$ 537,429

December 31, 2012

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated loans and leases						
Internal risk grade:						
Pass	$ 410,255	$ 75,456	$ 677,261	$ 46,317	$ 26,126	$ 1,235,415
Special Mention	25,308	2,055	19,782	692	8,505	56,342
Substandard	11,313	266	25,230	1,300	6,974	45,083
Total	$ 446,876	$ 77,777	$ 722,273	$ 48,309	$ 41,605	$ 1,336,840

December 31, 2012

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired loans						
Internal risk grade:						
Pass	$ 139,719	$ 0	$ 415,397	$ 813	$ 27,590	$ 583,519
Special Mention	7,717	0	10,112	2,136	5,416	25,381
Substandard	14,991	0	19,850	298	10,068	45,207
Total	$ 162,427	$ 0	$ 445,359	$ 3,247	$ 43,074	$ 654,107

The following table presents credit quality indicators by class of residential real estate loans and by class of consumer loans as of December 31, 2013 and 2012. Nonperforming loans include nonaccrual, impaired and loans 90 days past due and accruing interest, all other loans are considered performing.

December 31, 2013					
(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated loans and leases					
Performing	$ 170,270	$ 651,139	$ 20,986	$ 32,274	$ 874,668

Nonperforming	1,539	7,827	216	38	9,620
Total	$ 171,809	$ 658,966	$ 21,202	$ 32,312	$ 884,289

December 31, 2013

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 65,339	$ 33,014	$ 5	$ 1,219	$ 99,577
Nonperforming	1,844	2,322	0	0	4,166
Total	$ 67,183	$ 35,336	$ 5	$ 1,219	$ 103,743

December 31, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated loans and leases					
Performing	$ 157,959	$ 566,542	$ 26,402	$ 32,235	$ 783,138
Nonperforming	1,761	7,319	277	16	9,373
Total	$ 159,720	$ 573,861	$ 26,679	$ 32,251	$ 792,511

December 31, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired loans					
Performing	$ 80,204	$ 40,810	$ 24	$ 1,498	$ 122,536
Nonperforming	1,453	808	0	0	2,261
Total	$ 81,657	$ 41,618	$ 24	$ 1,498	$ 124,797

Note 6 FDIC Indemnification Asset Related to Covered Loans

Certain loans acquired in the VIST Financial acquisition were covered loans with loss share agreements with the FDIC. Under the terms of loss sharing agreements, the FDIC will reimburse the Company for 70 percent of net losses on covered single family assets incurred up to $4.0 million, and 70 percent of net losses on covered commercial assets incurred up to $12.0 million. The FDIC will increase its reimbursement of net losses to 80 percent if net losses exceed the $4.0 million and $12 million thresholds, respectively. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries.

The receivable arising from the loss sharing agreements (referred to as the “FDIC indemnification asset” on our consolidated statements of financial condition) is measured separately from covered loans because the agreements are not contractually part of the covered loans and are not transferable should the Company choose to dispose of the covered loans. As of the acquisition date with VIST Financial, the Company recorded an aggregate FDIC indemnification asset of $4.4 million, consisting of the present value of the expected future cash flows the Company expected to receive from the FDIC under loss sharing agreements. The FDIC indemnification asset is reduced as loss sharing payments are received from the FDIC for losses realized on covered loans. Actual or expected losses in excess of the acquisition date estimates will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements. As of December 31, 2013, the FDIC indemnification asset totaled $4.8 million. As of December 31, 2012, the FDIC indemnification asset

totaled $4.4 million.

A decrease in expected losses would generally result in a corresponding decline in the FDIC indemnification asset and the non-accretable difference. Reductions in the FDIC indemnification asset due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable covered loans or (ii) the term of the loss sharing agreements with the FDIC.

Note 7 Goodwill and Other Intangible Assets

(in thousands)	Banking	Insurance	Wealth Management	Total
Balance at January 1, 2012	$23,600	$12,287	$ 8,011	$43,898
Acquisitions	40,934	7,273	215	48,422
Goodwill related to sale of portion of business unit	0	0	(15)	(15)
Balance at December 31, 2012	64,534	19,560	8,211	92,305
Purchase Accounting Adjustments1	(165)	0	0	(165)
Balance at December 31, 2013	$64,369	$19,560	$ 8,211	$92,140

[1] The $165,000 reduction of goodwill in 2013 reflects and adjustment related to the completion of the final tax return related to the VIST acquisition.

Goodwill is assigned to reporting units. The Company reviews its goodwill and intangible assets annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Based on the Company's 2013 review, there was no impairment of its goodwill or intangible assets. The Company's impairment testing is highly sensitive to certain assumptions and estimates used. In the event that economic or credit conditions deteriorate significantly, additional interim impairment tests may be required.

Other Intangible Assets

The following table provides information regarding our amortizing intangible assets

December 31, 2013 *(in thousands)*	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortized intangible assets:			
Core deposit intangible	$ 18,774	$ 9,131	$ 9,643
Customer relationships	8,010	2,740	5,270
Other intangibles	4,957	3,572	1,385
Total intangible assets	$ 31,741	$ 15,443	$ 16,298

December 31, 2012 *(in thousands)*	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortized intangible assets:			
Core deposit intangible	$ 18,774	$ 7,657	$ 11,117
Customer relationships	8,010	2,017	5,993
Other intangibles	4,873	3,340	1,533
Total intangible assets	$ 31,657	$ 13,014	$ 18,643

Amortization expense related to intangible assets totaled $2.2 million in 2013, $1.3 million in 2012 and $589,000 in 2011. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2013 is as follows:

Estimated amortization expense:* *(in thousands)*	
For the year ended December 31, 2014	$2,077
For the year ended December 31, 2015	1,952
For the year ended December 31, 2016	1,863
For the year ended December 31, 2017	1,754
For the year ended December 31, 2018	1,619

*Excludes the amortization of mortgage servicing rights. Amortization of mortgage servicing rights was $232,000 in 2013, $330,000 in 2012 and $257,000 in 2011.

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Note 8 Premises and Equipment

Premises and equipment at December 31 were as follows:

(in thousands)	2013	2012
Land	$9,442	$9,507
Premises and equipment	64,032	60,851
Furniture, fixtures, and equipment	47,223	44,616
Accumulated depreciations and amortization	(64,765)	(60,393)
Total	$55,932	$54,581

Depreciation and amortization expenses in 2013, 2012 and 2011 are included in operating expenses as follows:

(in thousands)	2013	2012	2011
Premises	$1,875	$1,855	$1,605
Furniture, fixtures, and equipment	3,044	2,614	2,338
Total	$4,919	$4,469	$3,943

The following is a summary of the future minimum lease payments under non-cancelable operating leases as of December 31, 2013:

(in thousands)	
2014	$4,737
2015	4,475
2016	4,434
2017	3,831
2018	3,644
Thereafter	22,583
Total	$43,704

The Company leases land, buildings and equipment under operating lease arrangements extending to the year 2090. Total gross rental expense amounted to $4.8 million in 2013, $3.3 million in 2012, and $2.1 million in 2011. Most leases include options to renew for periods ranging from 5 to 20 years. Options to renew are not included in the above future minimum rental commitments.

Note 9 Deposits

The aggregate time deposits of $100,000 or more were $407.7 million at December 31, 2013, and $462.0 million at December 31, 2012. Scheduled maturities of time deposits at December 31, 2013, were as follows:

(in thousands)	Less than $100,000	$100,000 and over	Total
Maturity			
Three months or less	$ 107,277	$ 152,654	$ 259,931
Over three through six months	86,520	60,420	146,940
Over six through twelve months	114,854	69,276	184,130
Total due in 2014	$ 308,651	$ 282,350	$ 591,001
2015	68,886	59,288	128,174
2016	29,195	19,108	48,303
2017	27,445	24,905	52,350
2018	18,050	14,006	32,056
2019 and thereafter	5,782	8,036	13,818
Total	$ 458,009	$ 407,693	$ 865,702

Note 10 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Information regarding securities sold under agreements to repurchase and Federal funds purchased for the years ended December 31, is detailed in the following tables:

Securities Sold Under Agreements to Repurchase (dollar amounts in thousands)	2013	2012	2011
Total outstanding at December 31	$ 167,724	$ 213,973	$ 169,090
Maximum month-end balance	201,933	295,511	243,163
Average balance during the year	177,779	200,893	173,552
Weighted average rate at December 31	1.97 %	2.03 %	2.61 %
Average interest rate paid during the year	2.11 %	2.22 %	2.81 %

Federal Funds Purchased (dollar amounts in thousands)	2013	2012	2011
Average balance during the year	5	0	140
Weighted average rate at December 31	**N/A**	N/A	N/A
Average interest rate paid during the year	0.75 %	0.00 %	0.72 %

Securities sold under agreements to repurchase ("repurchase agreements") are secured borrowings that typically mature within thirty to ninety days, although the Company has entered into repurchase agreements with the Federal Home Loan Bank ("FHLB") with maturities that extend through 2017. The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $55.3 million at December 31, 2013. At December 31, 2013, the Company had $112.4 million in wholesale repurchase agreements, with maturities of over one year. Of this $112.4 million in wholesale repurchase agreements, $80.0 million were with the Federal Home Loan Bank of New York and $32.4 million were with one large financial institution. Repurchase agreements with maturities due within one year are $25.0 million. Repurchase agreements with maturities over one year include $16.1 million in 2015, $61.2 million in 2016, and $10.0 million in 2017.

Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

During 2012, the Company prepaid $85.6 million of wholesale repurchase agreements with a money center bank. The Company incurred a net prepayment penalty of $369,000 which is included in "Other Operating Expenses" on the Company's Consolidated Statements of Income.

Federal funds purchased are short-term borrowings that typically mature within one to ninety days.

Note 11 Other Borrowings

The following table summarized the Company's borrowings as of December 31:

(in thousands)	2013	2012
Overnight FHLB advances	$215,738	$0
Term FHLB advances	101,293	91,847
Other	14,500	20,001
Total other borrowings	$331,531	$111,848

The Company, through its subsidiary banks, had available line-of-credit agreements with correspondent banks permitting borrowings to a maximum of approximately $58.0 million at December 31, 2013 and 2012. There were no outstanding advances against those lines at December 31, 2013 and 2012.

Through its subsidiary banks, the Company has borrowing relationships with the FHLB, which provide secured and unsecured borrowing capacity. At December 31, 2013, the unused borrowing capacity on established lines with the FHLB was $1.1 billion.

As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets and available-for-sale investment securities to secure additional borrowings from the FHLB. At December 31, 2013, total unencumbered residential mortgage loans and available-for-sale investment securities of the Company were $660.5 million. At December 31, 2013, there were $215.7 million in overnight advances with a weighted average rate of 0.35%. In addition, there were $101.3 million in term advances with the FHLB with a weighted average rate of 1.49% compared to $91.8 million in term advances at December 31, 2012 with a weighted average rate of 4.62%. At December 31, 2013, the term advances with the FHLB include $20.0 million which mature within one year and $80.0 million which mature over one year. Maturities of advances due over one year include $30.0 million in 2015 and $50.0 million in 2017.

	Current Balance	Rate	Maturity Date	Call Date	Call Frequency	Call Features
	10,000,000	4.68 %	June 9, 2014	March 9, 2014	Quarterly	FHLB Option
	10,000,000	4.76 %	June 9, 2014	March 9, 2014	Quarterly	FHLB Option
	5,000,000	4.41 %	March 29, 2017	March 30, 2014	Quarterly	LIBOR strike 6.0%
	5,000,000	4.89 %	May 22, 2017	February 22, 2014	Quarterly	LIBOR strike 7.0%
	10,000,000	4.92 %	June 8, 2017	March 9, 2014	Quarterly	FHLB Option
	10,000,000	5.14 %	June 8, 2017	March 9, 2014	Quarterly	LIBOR strike 7.0%
	10,000,000	5.19 %	June 8, 2017	March 9, 2014	Quarterly	FHLB Option
Total	$ 60,000,000					

Other borrowings included a term borrowing with a bank totaling $14.5 million and $20.0 million at December 31, 2013 and 2012, respectively. There were also a Treasury Tax and Loan Note account with the Federal Reserve Bank of New York totaling $100,000 at December 31, 2013 and 2012, and borrowings from unrelated financial institutions totaling $0 and $11,000 at December 31, 2013 and 2012, respectively.

The Company elected to apply the fair value option for a $10.0 million, 10-year fixed convertible FLHB advance at 5.183%, convertible at the end of 3 years with a maturity of June 28, 2017. The $10.0 million advance identified for fair value was selected because its duration was similar to the durations of trading securities. As of December 31, 2013, the aggregate fair value of the $10.0 million FHLB advance was approximately $11.3 million. For the twelve months ended December 31, 2013, the fair value of this advance decreased by $0.6 million. The change in fair value is included on the Company's Consolidated Statements of Income in "Mark-to-Market Gain (Loss) on Liabilities Held at Fair Value."

Note 12 Trust Preferred Debentures

The Company has four unconsolidated subsidiary trusts ("the Trusts"): Tompkins Capital Trust I, Sleepy Hollow Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I. The latter two were acquired in the acquisition of VIST Financial, while Sleepy Hollow Capital Trust I was acquired in a previous acquisition. The Company owns 100% of the common equity of each Trust. The Trusts were formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities to third-party investors and investing the proceeds from the sale in junior subordinated debt securities (subordinated debt) issued by the Company, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in the Company's financial statements. Distributions on the preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rate being earned by the Trusts on the debenture held by the Trusts and are recorded as interest expense in the consolidated financial statements.

The preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The subordinated debt, net of the Company's investment in the Trusts, qualifies as Tier 1 capital under the Board of Governors of the Federal Reserve System (FRB) guidelines. The Company has entered into agreements which, when taken collectively, fully and unconditionally guarantee the obligations under the preferred securities subject to the terms of each of the guarantees.

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The following table provides information relating to the Trusts as of December 31, 2013:

Description	Issuance Date	**Par Amount**	Interest Rate	Maturity Date
Tompkins Capital Trust I	April 2009	$ 20.5 million	7% fixed	April 2039
Sleepy Hollow Capital Trust I	August 2003	$ 4.0 million	3-month LIBOR plus 3.05%	August 2033
Leesport Capital Trust II	September 2002	$ 10.0 million	3-month LIBOR plus 3.45%	September 2032
Madison Statutory Trust I	June 2003	$ 5.0 million	3-month LIBOR plus 3.10%	June 2033

Tompkins Capital Trust I

In 2009, the Company issued $20.5 million aggregate liquidation amount of 7.0% cumulative trust preferred securities through a newly-formed subsidiary, Tompkins Capital Trust I, a Delaware statutory trust, whose common stock is 100% owned by the Company. The Trust Preferred Securities were offered and sold in reliance upon the exemption from registration provided by Rule 506 of Regulation D of the Securities Act of 1933, as amended (the “Securities Act”). The proceeds from the issuance of the Trust Preferred Securities, together with the Company’s capital contribution of $636,000 to the trust, were used to acquire the Company’s Subordinated Debentures that are due concurrently with the Trust Preferred Securities. The net proceeds of the offering are being used to support business growth and for general corporate purposes.

The Trust Preferred Securities and the Company’s debentures are dated April 10, 2009, have a 30 year maturity, and carry a fixed rate of interest of 7.0%. The Trust Preferred Securities have a liquidation amount of $1,000 per security. The Company has retained the right to redeem the Trust Preferred Securities at par (plus accrued but unpaid interest) at a date which is no earlier than 5 years from the date of issuance. Commencing in 2019, and during specified annual windows thereafter, holders may convert the Trust Preferred Securities into shares of the Company’s common stock at a conversion price equal to the greater of (i) $41.35, or (ii) the average closing price of the Company’s common stock during the first three months of the year in which the conversion will be completed.

The Company has guaranteed the distributions with respect to, and amounts payable upon liquidation or redemption of, the Trust Preferred Securities on a

subordinated basis as and to the extent set forth in the Preferred Securities Guarantee Agreement entered into on April 10, 2009, between the Company and Wilmington Trust Company, as Preferred Guarantee Trustee (the "Guarantee").

Sleepy Hollow Capital Trust I

In August 2003, Sleepy Hollow Capital Trust I issued $4.0 million of floating rate (three-month LIBOR plus 305 basis points) trust preferred securities, which represent beneficial interests in the assets of the trust. The trust preferred securities will mature on August 30, 2033. Distributions on the trust preferred securities are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. Sleepy Hollow Capital Trust I also issued $0.1 million of common equity securities to the Company. The proceeds of the offering were used to acquire the Company's Subordinated Debentures that are due concurrently with the Trust Preferred Securities.

Leesport Capital Trust II

Leesport Capital Trust II, a Delaware statutory business trust, was formed on September 26, 2002 and issued $10.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.45%. These debentures are the sole assets of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The obligations under the debentures constitute a full and unconditional guarantee by VIST Financial of the obligations of the Trust under the capital securities. These securities must be redeemed in September 2032, but may be redeemed on or after November 7, 2007 or earlier in the event that the interest expense becomes non-deductible for federal income tax purposes or if the treatment of these securities is no longer qualified as Tier 1 capital for the Company. The Company assumed the rights and obligations of VIST Financial pertaining to the Leesport Capital Trust II through the Company's acquisition of VIST Financial in August 2012.

Madison Statutory Trust I

Madison Statutory Trust, a Connecticut statutory business trust, was formed on June 26, 2003 and issued $5.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.10%. Pursuant to the purchase of Madison Bancshares Group, Ltd on October 1, 2004, VIST Financial assumed Madison Statutory Trust I and owns all common equity of the Trust. Madison Statutory Trust I These debentures are the sole assets of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The obligations under the debentures constitute a full and unconditional guarantee by VIST Financial of the obligations of the Trust under the capital securities. These securities must be redeemed in June 2033, but may be redeemed on or after September 26, 2008 or earlier in the event that the interest expense becomes non-deductible for federal income tax purposes or if the treatment of these securities is no longer qualified as Tier 1 capital for the Company. The Company assumed the rights and obligations of VIST Financial pertaining to the Madison Statutory Trust I through the Company's acquisition of VIST Financial in August 2012.

Note 13 Employee Benefit Plans

The Company maintains 2 noncontributory defined-benefit plans and one non-contributory defined-contribution retirement plan which cover substantially all employees of the Company.

The benefits under the noncontributory defined-benefit plans (the "DB Pension Plans") are based on years of service and percentages of the employees' average final compensation. Assets of the Company's DB Pension Plans are invested in common and preferred stock, U. S. Government securities, corporate bonds and notes, and mutual funds. At December 31, 2013 and 2012, the plan assets included 42,192 shares of Tompkins' common stock that had a fair value of $2.2 million and $1.7 million, respectively.

Effective January 1, 2010, the Company stopped admitting new employees to its noncontributory DB Pension Plan. As a result, the defined contribution plan ("DC Retirement Plan") was created for employees hired on or after January 1, 2010 who had reached the age of 21 and completed one year of service. Also included in the DC Retirement Plan are employees who were hired prior to January 1, 2010 who made a one-time election in 2010 to freeze their benefit in the DB Pension Plan and begin future participation in the DC Retirement Plan instead. For participants

in the DC Retirement Plan, the Company makes contributions to an account set up in the participant's name. The amount equals a percentage of base pay and varies based on the participant's age plus service as of the previous January 1st. The DC Retirement Plan offers the participant a wide range of investment alternatives from which to choose. Expenses related to the DC Retirement Plan totaled $850,000 in 2013, $544,000 in 2012 and $513,000 in 2011.

The Company maintains supplemental employee retirement plans (the "SERP") for certain executives. All benefits provided under the SERP are unfunded and the Company makes payments to plan participants.

The Company also maintains a post-retirement life and healthcare benefit plan (the "Life and Healthcare Plan"), which was amended in 2005. For employees commencing employment after January 1, 2005, the Company does not contribute towards the Life and Healthcare Plan. Retirees and employees who were eligible to retire when the Life and Healthcare Plan was amended were unaffected. Generally, all other employees were eligible for Health Savings Accounts ("HSA") with an initial balance equal to the amount of the Company's estimated then current liability. Contributions to the plan are limited to an annual contribution of 4% of the total HSA balances. Employees, upon retirement, will be able to utilize their HSA for qualified health costs and deductibles.

The Company engages independent, external actuaries to compute the amounts of liabilities and expenses relating to these plans, subject to the assumptions that the Company selects. The benefit obligation for these plans represents the liability of the Company for current and former employees, and is affected primarily by the following: service cost (benefits attributed to employee service during the period); interest cost (interest on the liability due to the passage of time); actuarial gains/losses (experience during the year different from that assumed and changes in plan assumptions); and benefits paid to participants.

The following table sets forth the changes in the projected benefit obligation for the DB Pension Plans and SERP and the accumulated post-retirement benefit obligation for the Life and Healthcare Plan; and the respective plan assets, and the plans' funded status and amounts recognized in the Company's Consolidated Statements of Condition at December 31, 2013 and 2012 (the measurement dates of the plans).

	Pension Plans		Life and Healthcare Plan		SERP Plan	
(in thousands)	2013	2012	2013	2012	2013	2012
Change in benefit obligation:						
Benefit obligation at beginning of year	$70,652	$63,754	$9,324	$8,510	$17,791	$15,727
Service cost	2,915	2,720	265	169	479	363
Interest Cost	2,688	2,721	345	363	737	716
Plan participants' contributions	0	0	247	253	0	0
Business Combination	0	0	0	0	1,378	0
Actuarial (gain) loss	(8,203)	3,770	(1,168)	644	(2,754)	1,308
Benefits paid	(2,431)	(2,313)	(565)	(615)	(349)	(323)
Benefit obligation at end of year	$65,621	$70,652	$8,448	$9,324	$17,282	$17,791
Change in plan assets:						
Fair value of plan assets at beginning of year	$56,668	$47,542	$0	$0	$0	$0
Actual (loss) return on plan assets	8,696	4,439	0	0	0	0
Plan participants' contributions	0	0	247	253	0	0
Employer contributions	8,000	7,000	318	362	349	323
Benefits paid	(2,431)	(2,313)	(565)	(615)	(349)	(323)
Fair value of plan assets at end of year	$70,933	$56,668	$0	$0	$0	$0
Funded (Unfunded) status	$5,312	$(13,984)	$(8,448)	$(9,324)	$(17,282)	$(17,791)

The accumulated benefit obligation for the DB Pension Plans for 2013 and 2012 was $65.6 million and $70.7 million, respectively. The accumulated benefit obligation for the life and healthcare plan for 2013 and 2012 was $8.4 million and $9.3 million, respectively. The accumulated benefit obligation for the SERP for 2013 and 2012 was $17.3 million and $17.8 million, respectively. The funded status of the DB Pension plan has been recognized in other assets in the Consolidated Statement of Condition at December 31, 2013 in the amount of $5.3 million. The unfunded status of the life and healthcare and SERP plans has been recognized in other liabilities in the Consolidated Statement of Condition at December 31, 2013, in the amounts of $8.4 million, and $17.3 million, respectively. The unfunded status of the DB Pension, life and healthcare and SERP plans has been recognized in other liabilities in the Consolidated Statement of Condition at December 31, 2012, in the amounts of $14.0 million, $9.3 million, and $17.8 million, respectively.

There was a business combination entry for the SERP during 2013. This represents the addition of the VIST Financial SERP liability to the Tompkins SERP.

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Net periodic benefit cost and other comprehensive income includes the following components:

(in thousands)	**Pension Plans**			**Life and Healthcare Plan**			**SERP Plan**		
Components of net periodic benefit cost	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Service cost	$2,915	$2,720	$2,220	$265	$169	$117	$479	$363	$201
Interest cost	2,688	2,721	2,715	345	363	380	737	716	619
Expected return on plan assets	(4,009)	(3,778)	(3,713)	0	0	0	0	0	0
Amortization of prior service (credit) cost	(123)	(123)	(123)	16	16	16	166	166	101
Recognized net actuarial loss	2,023	1,882	1,324	96	74	13	460	368	130
Amortization of transition liability	0	0	0	50	67	67	0	0	0
Net periodic benefit cost	$3,494	3,422	$2,423	$772	$689	593	$1,842	1,613	$1,051
Other changes in plan assets and benefit obligations recognized in other comprehensive income									
Net actuarial (gain) loss	$(12,890)	3,109	16,417	(1,169)	644	1,091	(2,754)	1,308	3,485
Recognized actuarial loss	(2,023)	(1,882)	(1,324)	(96)	(74)	(13)	(460)	(368)	(130)
Prior service cost	0	0	0	0	0	0	0	0	793
Recognized prior service cost (credit)	123	123	123	(16)	(16)	(16)	(166)	(166)	(101)
Recognized net initial obligation	0	0	0	(50)	(67)	(67)	0	0	0
Recognized in other comprehensive income	$(14,790)	1,350	$15,216	$(1,331)	$487	995	$(3,380)	774	$4,047
Total recognized in net periodic benefit cost and other comprehensive income	$(11,296)	4,772	$17,639	$(559)	$1,176	1,588	$(1,538)	2,387	$5,098

Pre-tax amounts recognized as a component of accumulated other comprehensive income as of year-end that have not been recognized as a component of the Company's combined net periodic benefit cost of the Company's defined-benefit pension plan, post-retirement healthcare benefit plan and SERP are presented in the following table.

(in thousands)	Pension Plans			Life and Healthcare Plan			SERP Plan		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Net actuarial loss (gain)	$22,269	$37,182	$35,955	$1,183	$2,448	$1,878	$3,789	$7,003	$6,063
Prior service cost (credit)	(347)	(470)	(593)	281	297	312	760	926	1,092
Unrecognized net initial obligation	0	0	0	0	50	117	0	0	0
Total	$21,922	36,712	$35,362	$1,464	$2,795	2,307	$4,549	7,929	$7,155

The pre-tax amounts included in accumulated other comprehensive income that are expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2014 are shown below.

(in thousands)	Pension Plans	Life and Healthcare Plan	SERP Plan
Actuarial loss	$ 806	$ 21	$ 184
Prior service cost	(123)	16	112
Total	$ 683	$ 37	$ 296

Weighted-average assumptions used in accounting for the plans were as follows:

(in thousands)	**Pension Plans**			**Life and Healthcare Plan**			**SERP Plan**		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Discount Rates									
Benefit Cost for Plan Year	3.85%	4.39%	5.50%	3.80%	4.30%	5.30%	4.20%	4.60%	5.70%
Benefit Obligation at End of Plan Year	4.76%	3.85%	4.38%	4.70%	3.80%	4.30%	5.00%	4.20%	4.60%
Expected long-term return on plan assets	7.25%	7.50%	7.50%	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase									
Benefit Cost for Plan Year	5.00%	5.50%	5.50%	5.00%	5.50%	5.50%	5.00%	5.00%	5.00%
Benefit Obligation at End of Plan Year	5.00%	5.00%	5.50%	5.00%	5.00%	5.50%	5.00%	5.00%	5.00%

Tompkins Trust Company offers post-retirement life and healthcare benefits, although as previously mentioned, has discontinued adding participants to the plan effective January 1, 2005. The weighted average annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) is 6.75% beginning in 2013, and is assumed to decrease gradually to 5.0% in 2020 and beyond. A 1% increase in the assumed health care cost trend rate, would increase service and interest costs by approximately $20,500 and increase the Company's benefit obligation by approximately $184,000. A 1% decrease in the assumed health care cost trend rate, would decrease service and interest costs by approximately $17,500 and decrease the Company's benefit obligation by approximately $166,000.

To develop the expected long-term rate of return on assets assumption for the Pension Plan, the Company considered the historical returns and the future expectations for returns for each asset class, as well as target asset allocations of the pension portfolio. Based on this analysis, the Company selected 7.25% as the long-term rate of return on asset assumption.

The discount rates used to determine the Company's DB Pension Plan and other post-retirement benefit obligations as of December 31, 2013, and December 31, 2012, were determined by matching estimated benefit cash flows to a yield curve derived from Citigroup's regular bond yield and above-median bond yield curves at December 31, 2013 and December 31, 2012.

Cash Flows

Plan assets are amounts that have been segregated and restricted to provide benefits, and include amounts contributed by the Company and amounts earned from investing contributions, less benefits paid. The Company funds the cost of the SERP and the post-retirement medical and life insurance benefits on a pay-as-you-go basis.

The benefits as of December 31, 2013, expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter were as follows:

(in thousands)	Pension Plans	Life and Healthcare Plan	SERP Plan
2014	$3,115	$ 483	$455
2015	2,801	505	424
2016	3,055	564	427
2017	3,154	588	690
2018	3,335	538	685
2019-2023	20,534	2,682	3,555
Total	$35,994	$ 5,360	$6,236

Plan Assets

The Company's DB Pension Plan's weighted-average asset allocations at December 31, 2013 and 2012, respectively, by asset category are as follows:

	2013	2012
Equity securities	65 %	58 %
Debt securities	27 %	33 %
Other	8 %	9 %
Total Allocation	100 %	100 %

It is the policy of the Trustees to invest the Pension Trust Fund (the "Fund") for total return. The Trustees seek the maximum return consistent with the interests of the participants and beneficiaries and prudent investment management. The management of the Fund's assets is in compliance with the guidelines established in the Company's Pension Plan and Trust Investment Policy, which is reviewed and approved annually by the Tompkins Board of Directors, and the Pension Investment Review Committee.

The intention is for the Fund to be prudently diversified. The Fund's investments will be invested among the fixed income, equity and cash equivalent sectors. The pension committee will designate minimum and maximum positions in any of the sectors. In no case shall more than 10% of the Fund assets consist of qualified securities or real estate of the Company. Unless otherwise approved by the Trustees, the following investments are prohibited:

1. Restricted stock, private placements, short positions, calls, puts, or margin transactions;
2. Commodities, oil and gas properties, real estate properties, or
3. Any investment that would constitute a prohibited transaction as described in the Employee Retirement Income Security Act of 1974 ("ERISA"), section 407, 29 U.S.C. 1106.

In general, the investment in debt securities is limited to readily marketable debt securities having a Standard & Poor's rating of "A" or Moody's rating of "A", securities of, or guaranteed by the United States Government or its agencies, or obligations of banks or their holding companies that are rated in the three highest ratings assigned by Fitch Investor Service, Inc. In addition, investments in equity securities must be listed on the NYSE or traded on the national Over The Counter market or listed on the NASDAQ. Cash equivalents generally may be United States Treasury obligations, commercial paper having a Standard & Poor's rating of "A-1" or Moody's National Credit Officer rating of "P-1"or higher.

The major categories of assets in the Company's Pension Plan as of year-end are presented in the following table. Assets are segregated by the level of valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 20-Fair Value Measurements).

Fair Value Measurements
December 31, 2013

(in thousands)	Fair Value 2013	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	$5,923	$5,923	$0	$ 0
U.S. Treasury securities	4,748	4,748	0	0
U.S. Government sponsored entities securities	988	0	988	0
Corporate bonds and notes	6,525	0	6,525	0
Common stocks	14,716	14,716	0	0
Mutual funds	37,283	37,283	0	0
Preferred stocks	750	0	750	0
Total Fair Value of Plan Assets	$70,933	$62,670	$8,263	$ 0

Fair Value Measurements
December 31, 2012

(in thousands)	Fair Value 2012	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	$4,938	$4,938	$0	$ 0
U.S. Treasury securities	2,449	2,449	0	0
U.S. Government sponsored entities securities	1,014	0	1,014	0
Corporate bonds and notes	7,636	0	7,636	0
Common stocks	13,099	13,099	0	0
Mutual funds	26,782	26,782	0	0
Preferred stocks	750	0	750	0
Total Fair Value of Plan Assets	$56,668	$47,268	$9,400	$ 0

The Company determines the fair value for its pension plan assets using an independent pricing service. The pricing service uses a variety of techniques to determine fair value, including market maker bids, quotes and pricing models. Inputs to the model include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. Based on the inputs used by our independent pricing services, the Company identifies the appropriate level within the fair value hierarchy to report these fair values. U.S. Treasury securities, common stocks and mutual funds are considered Level 1 based on quoted prices in active markets.

The Company has an Employee Stock Ownership Plan (ESOP) and a 401(k) Investment and Stock Ownership Plan (ISOP) covering substantially all employees of the Company. The ESOP allows for Company contributions in the form of common stock of the Company. Annually, the Tompkins Board of Directors determines a profit-sharing payout to its employees in accordance with a performance-based formula. A percentage of the approved amount is paid in Company common stock into the ESOP. Contributions are limited to a maximum amount as stipulated in the ESOP. The remaining percentage is either paid out in cash or deferred into the ISOP at the direction of the employee. Compensation expense related to the ESOP and ISOP totaled $3.5 million in 2013, $1.9 million in 2012, and $2.5 million in 2011.

Under the ISOP, employees may contribute a percentage of their eligible compensation with a Company match of such contributions up to a maximum match of 4%. Participation in the 401(k) Plan is contingent upon certain age and service requirements. The Company’s expense associated with these matching provisions was $2.2 million in 2013, $1.7 million in 2012, and $1.4 million in 2011.

Life insurance benefits are provided to certain officers of the Company. In connection with these policies, the Company reflects life insurance assets on its Consolidated Statements of Condition of $69.3 million at December 31, 2013, and $65.1 million at December 31, 2012. The insurance is carried at its cash surrender value on the Consolidated Statements of Condition. Increases in the cash surrender value of the insurance are reflected as noninterest income, net of any related mortality expense.

The Company provides split dollar life insurance benefits to certain employees. The plan is unfunded and the estimated liability of the plan of $1.2 million and $935,000 is recorded in other liabilities in the Consolidated Statements of Condition at December 31, 2013 and 2012, respectively. Compensation expense related to the split dollar life insurance was approximately $42,000 in 2013 and $72,000 in 2012.

Note 14 Stock Plans and Stock Based Compensation

Under the Tompkins Financial Corporation 2009 Equity Plan (”2009 Equity Plan”), the Company may grant incentive stock options, stock appreciation rights, shares of restricted stock and restricted stock units covering up to 902,000 stock, common shares to certain officers, employees, and nonemployee directors. Stock options and stock appreciation rights are granted at an exercise price equal to the stock’s fair value at the date of grant, may not have a term in excess of ten years, and have vesting periods that range between one and seven years from the grant date. Restricted stock awards have vesting periods that range between one and seven years from grant date, and have grant fair values that equal the closing price of the Company’s common stock on grant date. Prior to the adoption of the 2009 Equity Plan, the Company had similar stock option plans, which remain in effect solely with respect to unexercised options issued under these plans.

The Company granted 110,075 equity awards to its employees in 2013. The awards consisted of 106,325 shares of restricted stock, 62,420 stock appreciation rights, and 3,750 shares of stock. The Company granted 71,420 incentive stock options in third quarter 2012. These options were granted to VIST employees to replace outstanding and vested employee stock options at the time of acquisition. The Company granted 155,725 equity awards to its employees in the third quarter of 2011. The third quarter 2011 awards included 37,725 shares of restricted stock and 118,000 stock appreciations rights.

The following table presents the activity related to stock options and stock appreciation rights and stock appreciation rights under all plans for the twelve months ended December 31, 2013.

	Number of Shares/Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2013	898,868	$ 37.66		
Granted	62,420	$ 40.60		
Exercised	(218,734)	$ 36.74		
Forfeited	(19,730)	$ 39.51		
Outstanding at December 31, 2013	722,824	$ 38.14	4.77	$9,576,274
Exercisable at December 31, 2013	457,532	$ 37.45	3.51	$6,376,769

Total stock-based compensation expense for stock options was $833,000 in 2013, $1.1 million in 2012, and $1.1 million in 2011. As of December 31, 2013, unrecognized compensation cost related to unvested stock options totaled $2.1 million. The cost is expected to be recognized over a weighted average period of 3.9 years. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

(in thousands)	2013	2012	2011
Proceeds from stock option exercises	$4,683	$2,494	$886
Tax benefits related to stock option exercises	331	342	16
Intrinsic value of stock option exercises	1,922	1,368	196

The Company uses the Black-Scholes option-valuation model to determine the fair value of each incentive stock options and stock appreciation rights at the date of grant. The valuation model estimates fair value based on the assumptions listed in the table below. The risk-free rate is the interest rate available on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected term of the share option at the time of grant. The expected dividend yield is based on the

dividend trends and the market price of the Company's stock price at grant. Volatility is largely based on historical volatility of the Company's stock price. Expected term is based upon historical experience of employee exercises and terminations as the vesting term of the grants. For the options granted in 2012, which were solely options granted to VIST employees to replace options outstanding and vested at acquisition, the expected term considered that the option grants were fully vested and in-the-money. The fair values of the grants are expensed over the vesting periods.

	2013	**2012**	**2011**
Weighted per share average fair value at grant date	$9.50	$15.50	$9.26
Risk-free interest rate	0.78 %	0.26 %	1.28 %
Expected dividend yield	4.00 %	3.80 %	4.10 %
Volatility	38.46 %	28.34 %	39.19 %
Expected life (years)	5.50	2.00	6.50

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Options Outstanding				**Options Exercisable**	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$13.00-20.00	3,859	5.96	$ 16.47	3,859	$ 16.47
$20.01-29.30	19,328	7.02	$ 21.63	19,328	$ 21.63
$29.31-35.70	4,381	3.78	$ 30.96	4,381	$ 30.96
$35.71-36.00	49,723	0.33	$ 35.77	49,723	$ 35.77
$36.01-37.50	279,073	5.27	$ 37.18	159,528	$ 37.25
$37.51-41.00	205,885	4.41	$ 39.33	138,516	$ 38.75
$41.01-50.00	160,575	5.46	$ 41.74	82,197	$ 41.73
	722,824	4.77	$ 38.14	457,532	$ 37.45

The following table presents activity related to restricted stock awards for the twelve months ended December 31, 2013.

	Number of Shares	Weighted Average Exercise Price
Unvested at January 1, 2013	43,053	$ 37.89
Granted	106,325	40.60
Vested	(7,793)	38.21
Forfeited	(2,890)	39.36
Unvested at December 31, 2013	138,695	$ 39.92

The Company granted 106,325 restricted stock awards in 2013 at an average grant date fair value of $40.60. The Company did not grant any restricted stock awards in 2012. In 2011, the Company granted 37,725 restricted stock awards at a grant date fair value of $37.00. The grant date fair values were the closing prices of the Company's common stock on the grant dates. The Company recognized stock-based compensation related to restricted stock awards of $550,000 in 2013, $246,000 in 2012 and $149,000 in 2011. Unrecognized compensation costs related to restricted stock awards totaled $4.1 million at December 31, 2013 and will be recognized over 5.9 years on a weighted average basis.

Note 15 Other Noninterest Income and Expense

Other income and operating expense totals are presented in the table below. Components of these totals exceeding 1% of the aggregate of total other noninterest income and total other noninterest expenses for any of the years

presented below are stated separately.

(in thousands)	Year ended December 31, 2013	2012	2011
NONINTEREST INCOME			
Other service charges	$3,802	$3,050	$2,288
Increase in cash surrender value of corporate owned life insurance	2,021	1,715	1,504
Net (loss) gain on sale of loans	(133)	885	496
Other miscellaneous income	4,856	1,884	2,417
Total other noninterest income	$10,546	$7,534	$6,705
NONINTEREST EXPENSES			
Marketing expense	$4,958	$4,064	$3,903
Professional fees	5,651	4,112	2,835
Technology expense	6,056	5,252	4,707
Cardholder expense	3,433	2,361	2,048
Other miscellaneous expenses	20,543	18,546	11,774
Total other noninterest expenses	$40,641	$34,335	$25,267

Note 16 Income Taxes

The income tax expense (benefit) attributable to income from operations is summarized as follows:

(in thousands)	Current	Deferred	Total
2013			
Federal	$ 11,826	$ 7,138	$ 18,964
State	933	880	1,813
Total	$ 12,759	$ 8,018	$ 20,777
2012			
Federal	$ 4,044	$ 6,602	$ 10,646
State	116	328	444
Total	$ 4,160	$ 6,930	$ 11,090
2011			
Federal	$ 16,506	$ (1,730)	$ 14,776
State	1,967	(370)	1,597
Total	$ 18,473	$ (2,100)	$ 16,373

The primary reasons for the differences between income tax expense and the amount computed by applying the statutory federal income tax rate to earnings are as follows:

	2013	2012	2011
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	1.6	0.6	2.0
Tax exempt income	(3.0)	(3.9)	(2.6)
Bank-owned life insurance income	(1.0)	(1.5)	(1.0)
Federal tax credit	(2.3)	(4.8)	(1.3)
All other	(1.3)	0.8	(0.5)
Total	29.0 %	26.2 %	31.6 %

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

(in thousands)	2013	2012	2011
Deferred tax assets:			
Allowance for loan and lease losses	$10,946	$9,628	$11,066
Interest income on nonperforming loans	1,712	1,749	847
Compensation and benefits	12,448	11,151	9,441
Purchase accounting adjustments	5,746	16,221	0
Intangibles	95	392	0
Liabilities held at fair value	497	706	829
Tax credit carryforward	3,990	3,591	0
Other	2,838	1,590	1,200
Total	$38,272	$45,028	$23,383
Deferred tax liabilities:			
Prepaid pension	$10,154	$8,477	$7,394
Depreciation	2,948	3,151	2,442
Intangibles	0	0	1,999
Other	1,050	1,262	1,060
Total deferred tax liabilities	$14,152	$12,890	$12,895
Net deferred tax asset at year-end	$24,120	$32,138	$10,488
Net deferred tax asset at beginning of year	$32,138	$10,488	$8,388
(Decrease) increase in net deferred tax asset	(8,018)	21,650	2,100
Purchase accounting adjustments, net	0	28,580	0
Deferred tax expense (benefit)	$8,018	$6,930	$(2,100)

This analysis does not include recorded deferred tax assets/(liabilities) of $5.5 million and ($17.6) million as of December 31, 2013 and 2012, respectively, related to net unrealized holdings losses/(gains) in the available-for-sale securities portfolio. In addition, the analysis excludes the recorded deferred tax assets of $11.2 million and $19.0 million, as of December 31, 2013 and 2012, respectively, related to employee benefit plans.

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carry-back period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance is necessary at December 31, 2013 and 2012.

At December 31, 2013 and December 31, 2012, the Company had no ASC 740-10 unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Company recognizes interest and penalties on unrecognized tax benefits in income tax expense in its Consolidated Statements of Income.

The Company is subject to U.S. federal income tax and income tax in various state jurisdictions. All tax years ending after December 31, 2009 are open to examination by the taxing authorities.

Note 17 Other Comprehensive Income

The tax effect allocated to each component of other comprehensive income (loss) were as follows:

December 31, 2013 *(in thousands)*	**Before-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax**
Available-for-sale securities:			
Change in net unrealized loss during the period	$ (57,250)	$ 22,896	$ (34,354)
Reclassification adjustment for net realized gain on sale included in available-for-sale securities	(599)	240	(359)
Net unrealized losses	(57,849)	23,136	(34,713)
Employee benefit plans:			
Net retirement plan gain	16,813	(6,725)	10,088
Amortization of net retirement plan actuarial gain	2,579	(1,032)	1,547
Amortization of net retirement plan prior service cost	59	(24)	35
Amortization of net retirement plan transition liability	50	(20)	30
Employee benefit plans	19,501	(7,801)	11,700
Other comprehensive loss	$ (38,348)	$ 15,335	$ (23,013)

December 31, 2012 *(in thousands)*	**Before-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax**
Available-for-sale securities:			
Change in net unrealized gain during the period	$ 5,359	$ (2,145)	$ 3,214
Reclassification adjustment for net realized gain on sale included in available-for-sale securities	(324)	130	(194)
Reclassification adjustment for credit impairment on available-for-sale securities	196	(78)	118
Net unrealized gains	5,231	(2,093)	3,138
Employee benefit plans:			
Net retirement plan loss	(5,061)	2,024	(3,037)
Amortization of net retirement plan actuarial gain	2,324	(929)	1,395
Amortization of net retirement plan prior service cost	59	(24)	35
Amortization of net retirement plan transition liability	67	(27)	40
Employee benefit plans	(2,611)	1,044	(1,567)
Other comprehensive income	$ 2,620	$ (1,049)	$ 1,571

December 31, 2011 *(in thousands)*	**Before-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax**
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	$ 16,560	$ (6,623)	$ 9,937
Reclassification adjustment for net realized gain on sale included in available-for-sale securities	(396)	158	(238)
Reclassification adjustment for credit impairment on available-for-sale securities	65	(26)	39
Net unrealized gains	16,229	(6,491)	9,738
Employee benefit plans:			
Net retirement plan loss	(20,993)	8,398	(12,595)
Net retirement plan prior service credit	(793)	317	(476)
Amortization of net retirement plan actuarial gain	1,467	(587)	880
Amortization of net retirement plan prior service credit	(6)	2	(4)
Amortization of net retirement plan transition liability	67	(27)	40
Employee benefit plans	(20,258)	8,103	(12,155)
Other comprehensive loss	$ (4,029)	$ 1,612	$ (2,417)

The following table presents the activity in our accumulated other comprehensive income for the periods indicated:

(in thousands)	**Available-for-Sale Securities**	**Employee Benefit Plans**	**Accumulated Other Comprehensive Income (loss)**
Balance at January 1, 2011	$ 13,480	(14,740)	(1,260)
Other comprehensive income (loss)	9,738	(12,155)	(2,417)
Balance at December 31 2011	23,218	(26,895)	(3,677)
Balance at January 1, 2012	23,218	(26,895)	(3,677)
Other comprehensive income (loss)	3,138	(1,567)	1,571
Balance at December 31, 2012	26,356	$ (28,462)	$ (2,106)
Balance at January 1, 2013	26,356	(28,462)	(2,106)
Other comprehensive income (loss)	(34,713)	11,700	(23,013)
Balance at December 31, 2013	$ (8,357)	$ (16,762)	$ (25,119)

December 31, 2013

Details about Accumulated other Comprehensive Income Components *(in thousands)*		**Amount Reclassified from Accumulated Other Comprehensive Income**[1]		Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:				
Unrealized gains and losses on available-for-sale securities	$	599		Net gain on securities transactions
		(240	)	Tax expense
		359		Net of tax
Employee benefit plans:				
Amortization of the following [2]				
Net retirement plan actuarial loss		(2,579	)	
Net retirement plan prior service cost		(59	)	
Net retirement plan transition liability		(50	)	
		(2,688	)	Total before tax
		1,075		Tax benefit
		(1,613	)	Net of tax

December 31, 2012

Details about Accumulated other Comprehensive Income Components *(in thousands)*		**Amount Reclassified from Accumulated Other Comprehensive Income**[1]		Affected Line Item in the Statement Where Net Income is Presented
Available-for-sale securities:				
Unrealized gains and losses on available-for-sale securities	$	324		Net gain on securities transactions
		(130	)	Tax expense
		194		Net of tax
Employee benefit plans:				
Amortization of the following [2]				
Net retirement plan actuarial loss		(2,324	)	
Net retirement plan prior service cost		(59	)	
Net retirement plan transition liability		(67	)	
		(2,450	)	Total before tax
		980		Tax benefit
		(1,470	)	Net of tax

[1] *Amounts in parentheses indicate debits in income statement*

[2] *The accumulated other comprehensive income components are included in the computation of net periodic benefit cost (See Note 11 - "Employee Benefit Plan")*

Note 18 Commitments and Contingent Liabilities

The Company, in the normal course of business, is a party to financial instruments with off-balance-sheet risk to meet the financial needs of its customers. These financial instruments include loan commitments, standby letters of credit, and unused portions of lines of credit. The contract, or notional amount, of these instruments represents the Company's involvement in particular classes of financial instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the Consolidated Statements of Condition.

The Company's maximum potential obligations to extend credit for loan commitments (unfunded loans, unused lines of credit, and standby letters of credit) outstanding on December 31 were as follows:

(in thousands)	2013	**2012**
Loan commitments	$302,262	$223,141
Standby letters of credit	62,582	68,723
Undisbursed portion of lines of credit	395,208	367,221
Total	$760,052	$659,085

Commitments to extend credit (including lines of credit) are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of December 31, 2013, the Company's maximum potential obligation under standby letters of credit was $62.6 million. Management uses the same credit policies in making commitments to extend credit and standby letters of credit as are used for on-balance-sheet lending decisions. Based upon management's evaluation of the counterparty, the Company may require collateral to support commitments to extend credit and standby letters of credit. The credit risk amounts are equal to the contractual amounts, assuming the amounts are fully advanced and collateral or other security is of no value. The Company does not anticipate losses as a result of these transactions. These commitments also have off-balance-sheet interest-rate risk, in that the interest rate at which these commitments were made may not be at market rates on the date the commitments are fulfilled. Since some commitments and standby letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

At December 31, 2013, the Company had rate lock agreements associated with mortgage loans to be sold in the secondary market (certain of which relate to loan applications for which no formal commitment has been made) amounting to approximately $434,000. In order to limit the interest rate risk associated with rate lock agreements, as well as the interest rate risk associated with mortgages held for sale, if any, the Company enters into agreements to sell loans in the secondary market to unrelated investors on a loan-by-loan basis. At December 31, 2013, the Company had approximately $434,000 of commitments to sell mortgages to unrelated investors on a loan-by-loan basis.

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, based upon the review with counsel, the proceedings are not expected to have a material effect on the Company's financial condition or results of operations.

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Note 19 Earnings Per Share

Calculation of basic earnings per share (Basic EPS) and diluted earnings per share (Diluted EPS) is shown below.

	Year ended December 31,		
(in thousands, except share and per share data)	2013	2012	2011
Basic			
Net income available to common shareholders	$50,856	$31,285	$35,419
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(418)	(115)	(120)
Net earnings allocated to common shareholders	50,438	31,170	35,299
Weighted average shares outstanding, including participating securities	14,587,187	12,843,618	11,030,578
Less: average participating securities	(109,570)	(46,445)	(28,472)
Weighted average shares outstanding - Basic	14,477,617	12,797,173	11,002,106
Diluted			
Net earnings allocated to common shareholders	50,438	31,170	35,299
Weighted average shares outstanding - Basic	14,477,617	12,797,173	11,002,106
Dilutive effect of common stock options or restricted stock awards	96,302	38,870	33,278
Weighted average shares outstanding - Diluted	14,573,919	12,836,043	11,035,384
Basic EPS	3.48	2.44	3.21
Diluted EPS	3.46	2.43	3.20

There were approximately 229,868, and 651,092, and 734,263 weighted average stock options for the years ended December 31, 2013, 2012, and 2011, respectively, that were not considered in the calculation of diluted earnings per share since the stock options' exercise prices were greater than the average market price during these periods.

Note 20 Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB ASC Topic 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012 segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements

December 31, 2013

(in thousands)	Fair Value 12/31/2013	(Level 2)

		(Level 1)		(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$ 8,275	$ 0	$ 8,275	$ 0
Mortgage-backed securities - residential	2,716	0	2,716	0
Available-for-sale securities				
Obligations of U.S. Government sponsored entities	556,345	0	556,345	0
Obligations of U.S. states and political subdivisions	67,962	0	67,962	0
Mortgage-backed securities - residential				
U.S. Government agencies	146,678	0	146,678	0
U.S. Government sponsored entities	577,472	0	577,472	0
Non-U.S. Government agencies or sponsored entities	311	0	311	0
U.S. corporate debt securities	4,633	0	4,633	0
Equity securities	1,410	0	0	1,410
Borrowings				
Other borrowings	11,292	0	11,292	0

The change in the fair value of the $1.4 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2013 and December 31, 2013 was immaterial.

Recurring Fair Value Measurements

December 31, 2012

(in thousands)	Fair Value 12/31/12	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$11,860	$ 0	$11,860	$0
Mortgage-backed securities - residential	4,590	0	4,590	0
Available-for-sale securities				
U.S. Treasury securities	1,004	0	1,004	0
Obligations of U.S. Government sponsored entities	593,778	0	593,778	0
Obligations of U.S. states and political subdivisions	79,056	0	79,056	0
Mortgage-backed securities - residential				
U.S. Government agencies	167,667	0	167,667	0
U.S. Government sponsored entities	540,355	0	540,355	0
Non-U.S. Government agencies or sponsored entities	4,354	0	4,354	0
U.S. corporate debt securities	5,083	0	5,083	0
Equity securities	2,043	0	985	1,058
Borrowings				
Other borrowings	11,847	0	11,847	0

The change in the fair value of the $1.0 million of available-for-sale securities valued using significant unobservable inputs (level 3), between January 1, 2012 and December 31, 2012 was immaterial.

The Company determines fair value for its trading securities using independently quoted market prices.

The Company determines fair value for its available-for-sale securities using an independent bond pricing service for identical assets or very similar securities. The pricing service uses a variety of techniques to determine fair value, including market maker bids, quotes and pricing models. Inputs to the model include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company's investment portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation municipal bonds. Pricing for such instruments is fairly generic and is easily obtained. At least annually, the Company will validate

prices supplied by the independent pricing service by comparing to prices obtained from a second third-party source. Based on the inputs used by our independent pricing services, the Company identifies the appropriate level within the fair value hierarchy to report these fair values.

Fair values of borrowings are estimated using Level 2 inputs based upon observable market data. The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the liabilities were assumed by a third party. The Company’s potential credit risk did not have a material impact on the quoted settlement prices used in measuring the fair value of the FHLB borrowings for the twelve months ended December 31, 2013.

Certain assets are measured at fair value on a nonrecurring basis, that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. For the Company, these include loans held for sale, collateral dependent impaired loans, other real estate owned, goodwill and other intangible assets. During 2013, certain collateral dependent impaired loans and other real estate owned at December 31, 2013, were adjusted down to fair value. Collateral values are estimated using Level 2 inputs based upon observable market data. Real estate values are generally valued using independent appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally available in the market.

There were no transfers between Level 2 and Level 3 values during 2013.

(in thousands)	As of	Fair value measurements at reporting date using:			Gain (losses) from fair value changes
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Twelve months ended
Assets:	12/31/2013	(Level 1)	(Level 2)	(Level 3)	12/31/2013
Impaired Loans	$ 6,846	$0	$ 6,846	$ 0	$ (247)
Other real estate owned	3,892	0	3,892	0	(84)

(in thousands)	As of	Fair value measurements at reporting date using:			Gain (losses) from fair value changes
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Twelve months ended
Assets:	12/31/2012	(Level 1)	(Level 2)	(Level 3)	12/31/2012
Impaired Loans	$ 8,918	$0	$ 8,918	$ 0	$ 0
Other real estate owned	4,654	0	4,654	0	(101)

The following table presents the carrying amounts and estimated fair values of the Company’s financial instruments at December 31, 2013 and 2012. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions. The fair value estimates, methods and assumptions set forth below for the Company’s financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and does not always incorporate the exit-price concept of fair value prescribed by ASC Topic 820-10 and should be read in conjunction with the financial statements and notes included in this Report.

Estimated Fair Value of Financial Instruments

December 31, 2013

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$82,884	$82,884	$82,884	$0	$0
Securities - held-to-maturity	18,980	19,625	0	19,625	
FHLB and FRB stock	25,041	25,041	0	25,041	0
Accrued interest receivable	16,586	16,586	0	16,586	0
Loans and leases, net[1]	3,166,314	3,201,837	0	6,846	3,194,991
Financial Liabilities:					
Time deposits	$865,702	$870,857	$0	$870,857	$0
Other deposits	3,081,514	3,081,514	0	3,081,514	0
Securities sold under agreements to repurchase	167,724	173,425	0	173,425	0
Other borrowings	320,239	326,193	0	326,193	0
Trust preferred debentures	37,169	41,673	0	41,673	0
Accrued interest payable	2,121	2,121	0	2,121	0

[1] Lease receivables, although excluded from the scope of ASC Topic 825, are included in the estimated fair value amounts at their carrying value.

Estimated Fair Value of Financial Instruments

December 31, 2012

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$118,930	$118,930	$118,930	$0	$0
Securities - held-to-maturity	24,062	25,163	0	25,163	
FHLB and FRB stock	19,388	19,388	0	19,388	0
Accrued interest receivable	17,516	17,516	0	17,516	0
Loans and leases, net[1]	2,929,967	3,047,833	0	8,918	3,038,915
Financial Liabilities:					
Time deposits	$973,883	$984,435	$0	$984,435	$0
Other deposits	2,976,286	2,976,286	0	2,976,286	0
Securities sold under agreements to repurchase	213,973	222,873	0	222,873	0
Other borrowings	100,001	111,203	0	111,203	0
Trust preferred debentures	43,668	49,421	0	49,421	0
Accrued interest payable	3,067	3,067	0	3,067	0

[1] Lease receivables, although excluded from the scope of ASC Topic 825, are included in the estimated fair value amounts at their carrying value.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

Cash and Cash Equivalents: The carrying amounts reported in the Consolidated Statements of Condition for cash, noninterest-bearing deposits, money market funds, and Federal funds sold approximate the fair value of those assets.

Securities: Fair values for U.S. Treasury securities are based on quoted market prices. Fair values for obligations of U.S. government sponsored entities, mortgage-backed securities-residential, obligations of U.S. states and political subdivisions, and U.S. corporate debt securities are based on quoted market prices, where available, as provided by third party pricing vendors. If quoted market prices were not available, fair values are based on quoted market prices of comparable instruments in active markets and/or based upon matrix pricing methodology, which uses comprehensive interest rate tables to determine market price, movement and yield relationships. For miscellaneous equity securities, carrying value is cost. These securities are reviewed periodically to determine if

there are any events or changes in circumstances that would adversely affect their value.

FHLB stock: The carrying amount of FHLB stock approximates fair value. If the stock is redeemed, the Company will receive an amount equal to the par value of the stock.

Loans and Leases: The fair values of residential loans are estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans are estimated using discounted cash flow analyses, based upon interest rates currently offered for loans and leases with similar terms and credit quality. The fair value of loans held for sale are determined based upon contractual prices for loans with similar characteristics.

ACCRUED INTEREST RECEIVABLE AND ACCRUED INTEREST PAYABLE: The carrying amount of these short term instruments approximate fair value.

Deposits: The fair values disclosed for noninterest bearing accounts and accounts with no stated maturities are equal to the amount payable on demand at the reporting date. The fair value of time deposits is based upon discounted cash flow analyses using rates offered for FHLB advances, which is the Company’s primary alternative source of funds.

Securities Sold Under Agreements to Repurchase: The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values of long-term borrowings are estimated using a discounted cash flow approach, based on current market rates for similar borrowings. For securities sold under agreements to repurchase where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

Other Borrowings: The fair values of other borrowings are estimated using discounted cash flow analysis, discounted at the Company's current incremental borrowing rate for similar borrowing arrangements. For other borrowings where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

TRUST PREFERRED DEBENTURES: The fair value of the trust preferred debentures has been estimated using a discounted cash flow analysis which uses a discount factor of a market spread over current interest rates for similar instruments.

Note 21 Regulations and Supervision

Capital Requirements:

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by Federal bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's business, results of operation and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), banks must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications of the Company and its subsidiary banks are also subject to qualitative judgments by regulators concerning components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of total capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that the Company and its subsidiary banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2013, the most recent notifications from Federal bank regulatory agencies categorized the Tompkins Trust Company, The Bank of Castile, Mahopac Bank, and VIST Bank as "well capitalized" under the regulatory framework for PCA. To be categorized as well capitalized, the Company and its subsidiary banks must maintain total risk-based, Tier 1 risk-based, and Tier 1

leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the capital category of the Company or its subsidiary banks. Actual capital amounts and ratios of the Company and its subsidiary banks are as follows:

(dollar amounts in thousands)	Actual Amount/Ratio	Required to be Adequately Capitalized Amount/Ratio	Required to be Well Capitalized Amount/Ratio
December 31, 2013			
Total Capital (to risk-weighted assets)			
The Company (consolidated)	$ **441,062/13.4** %	**>$** 262,966/>8.0 **%**	**>$** 328,707/>10.0 **%**
Trust Company	$ 126,935/13.3 %	>$ 76,653/>8.0 %	>$ 95,816/>10.0 %
Castile	$ 87,340/11.4 %	>$ 61,435/>8.0 %	>$ 76,794/>10.0 %
Mahopac	$ 97,993/14.6 %	>$ 53,704/>8.0 %	>$ 67,130/>10.0 %
VIST	$ 111,175/12.8 %	>$ 69,548/>8.0 %	>$ 86,936/>10.0 %
Tier I Capital (to risk-weighted assets)			
The Company (consolidated)	$ **412,688/12.6** %	**>$** 131,483/>4.0 **%**	**>$** 197,224/>6.0 **%**
Trust Company	$ 119,508/12.5 %	>$ 38,326/>4.0 %	>$ 57,490/>6.0 %
Castile	$ 80,623/10.5 %	>$ 30,718/>4.0 %	>$ 46,076/>6.0 %
Mahopac	$ 89,572/13.3 %	>$ 26,852/>4.0 %	>$ 40,278/>6.0 %
VIST	$ 107,692/12.4 %	>$ 34,774/>4.0 %	>$ 52,161/>6.0 %
Tier I Capital (to average assets)			
The Company (consolidated)	$ **412,688/8.5** %	**>$** 145,279/>3.0 **%**	**>$** 242,132/>5.0 **%**
Trust Company	$ 119,508/7.6 %	>$ 47,295/>3.0 %	>$ 78,824/>5.0 %
Castile	$ 80,623/7.5 %	>$ 32,159/>3.0 %	>$ 53,599/>5.0 %
Mahopac	$ 89,572/9.3 %	>$ 28,970/>3.0 %	>$ 48,283/>5.0 %
VIST	$ 107,692/8.6 %	>$ 37,383/>3.0 %	>$ 62,304/>5.0 %
December 31, 2012			
Total Capital (to risk-weighted assets)			
The Company (consolidated)	$ **402,281/12.9** %	**>$** 249,830/>8.0 **%**	**>$** 312,288/>10.0 **%**
Trust Company	$ 120,612/12.4 %	>$ 77,631/>8.0 %	>$ 97,039/>10.0 %
Castile	$ 80,341/11.5 %	>$ 55,818/>8.0 %	>$ 69,773/>10.0 %
Mahopac	$ 89,381/14.7 %	>$ 48,625/>8.0 %	>$ 60,782/>10.0 %
VIST	$ 97,870/11.8 %	>$ 66,491/>8.0 %	>$ 83,113/>10.0 %
Tier I Capital (to risk-weighted assets)			
The Company (consolidated)	$ **377,249/12.1** %	**>$** 124,915/>4.0 **%**	**>$** 187,373/>6.0 **%**
Trust Company	$ 113,211/11.7 %	>$ 38,816/>4.0 %	>$ 58,224/>6.0 %
Castile	$ 73,559/10.5 %	>$ 27,909/>4.0 %	>$ 41,864/>6.0 %
Mahopac	$ 81,749/13.5 %	>$ 24,313/>4.0 %	>$ 36,469/>6.0 %
VIST	$ 97,365/11.7 %	>$ 33,245/>4.0 %	>$ 49,868/>6.0 %
Tier I Capital (to average assets)			
The Company (consolidated)	$ **377,249/7.9** %	**>$** 142,867/>3.0 **%**	**>$** 238,111/>5.0 **%**
Trust Company	$ 113,211/7.2 %	>$ 46,922/>3.0 %	>$ 78,203/>5.0 %
Castile	$ 73,559/7.4 %	>$ 30,025/>3.0 %	>$ 50,042/>5.0 %
Mahopac	$ 81,749/9.0 %	>$ 27,122/>3.0 %	>$ 45,203/>5.0 %
VIST	$ 97,365/7.5 %	>$ 39,101/>3.0 %	>$ 65,169/>5.0 %

During the first quarter of 2010, Mahopac's primary regulator, the Office of the Comptroller of the Currency ("OCC"), notified the Company that it was requiring Mahopac to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac has exceeded these minimum requirements since the time of the notification and during the first quarter of 2013, the Company was notified by the OCC that it was no longer requiring Mahopac to maintain the higher capital ratios agreed to in 2010.

In July 2013, the FRB approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Tompkins, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules are effective for Tompkins on January 1, 2015 (subject to a phase-in period).

Dividend Restrictions:

Generally, dividends from the banking subsidiaries to the Company are limited to retained net profits for the current year and the two preceding years, unless specific approval is received from the appropriate bank regulatory authority. At December 31, 2013, the retained net profits of the Company's bank subsidiaries available to pay dividends were $34.6 million.

Charter Conversion:

On December 31, 2013, Mahopac National Bank, one of the Company's four banking subsidiaries and the only nationally chartered bank, became a New York State chartered bank. As a result, all four of the Company's banking subsidiaries are now state chartered banks. Accordingly, the New York Department of Financial Services and the Federal Deposit Insurance Corporation are now the primary regulators of Mahopac Bank and Mahopac Bank will no longer be regulated by the OCC.

Note 22 Condensed Parent Company Only Financial Statements

Condensed financial statements for Tompkins (the Parent Company) as of December 31 are presented below.

Condensed Statements of Condition		
(in thousands)	2013	2012
Assets		
Cash	$7,565	$14,135
Available-for-sale securities, at fair value	225	225
Investment in subsidiaries, at equity	486,475	475,359
Other	14,819	13,814
Total Assets	$509,084	$503,533
Liabilities and Shareholders' Equity		
Borrowings	$14,500	$20,000
Trust preferred debentures issued to non-consolidated subsidiary	33,256	39,760
Other liabilities	4,841	3,865
Tompkins Financial Corporation Shareholders' Equity	456,487	439,908
Total Liabilities and Shareholders' Equity	$509,084	$503,533

Condensed Statements of Income (in thousands)	2013	2012	2011
Dividends from available-for-sale securities	$4	$4	$1
Dividends received from subsidiaries	25,991	39,525	19,025
Other Income	1,627	69	461
Total Operating Income	27,622	39,598	19,487
Interest expense	3,087	2,232	1,790
Other expenses	6,352	21,197	4,820
Total Operating Expenses	9,439	23,429	6,610
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	18,183	16,169	12,877
Income tax benefit	3,959	9,396	3,333
Equity in undistributed earnings of subsidiaries	28,714	5,720	19,209
Net Income	$50,856	$31,285	$35,419

Condensed Statements of Cash Flows

(in thousands)	2013	2012	2011
Operating activities			
Net income	$50,856	$31,285	$35,419
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed earnings of subsidiaries	(28,800)	(5,720)	(19,209)
Other, net	(1,769)	4,075	582
Net Cash Provided by Operating Activities	20,287	29,640	16,792
Investing activities			
Investments in subsidiaries	0	(30,143)	(137)
Other, net	(3,482)	(25,600)	(613)
Net Cash Used in Investing Activities	(3,482)	(55,743)	(750)
Financing activities			
Borrowings, net	(10,691)	9,231	(8,673)
Common stock	0	37,978	0
Cash dividends	(22,463)	(19,021)	(15,420)
Repurchase of common shares	0	0	(17)
Shares issued for dividend reinvestment plans	4,046	1,936	2,435
Shares issued for employee stock ownership plan	717	1,037	1,053
Net proceeds from exercise of stock options	4,683	2,494	866
Tax benefits of stock options exercised	331	342	16
Net Cash (Used in) Provided by Financing Activities	(23,377)	33,997	(19,740)
Net (decrease) increase in cash	(6,572)	7,894	(3,698)
Cash at beginning of year	14,135	6,241	9,939
Cash at End of Year	$7,563	$14,135	$6,241

A Statement of Changes in Shareholders' Equity has not been presented since it is the same as the Consolidated Statement of Changes in shareholders' Equity previously presented.

Note 23 Segment and Related Information

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC 280, "Segment Reporting": (i) banking and financial services ("Banking"), (ii) insurance services ("Tompkins Insurance Agencies, Inc) and (iii) wealth management ("Tompkins Financial Advisors"). The Company's insurance services and wealth management services are managed separately from the Banking segment.

Banking

The bank segment is primarily comprised of its four banking subsidiaries: Tompkins Trust Company; a commercial bank with 14 banking offices operated in Ithaca, NY and surrounding communities, the Bank of Castile; a commercial bank with 16 banking offices conducting operations in the towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State, the Mahopac National Bank; a commercial bank operating 15 full-service banking offices and one limited service office in the counties north of New York City and VIST Bank; a banking organization with 20 banking offices headquartered and operating in Southeastern Pennsylvania.

Banking services consist primarily of attracting deposits from the areas served by the Company's banking subsidiaries and using those deposits to originate a variety of commercial loans, agricultural loans, consumer loans, real estate loans and leases in those same areas. The Company's subsidiary banks provide a variety of retail banking services including checking accounts, savings accounts, time deposits, IRA products, residential mortgage loans, personal loans, home equity loans, credit cards, debit cards and safe deposit services delivered through its branch facilities, ATMs, voice response, mobile banking, Internet banking and remote deposit services. The Company's subsidiary banks also provide a variety of commercial banking services such as lending activities for a variety of business purposes, including real estate financing, construction, equipment financing, accounts receivable financing and commercial leasing. Other commercial services include deposit and cash management services, letters of credit, sweep accounts, credit cards, Internet-based account services, mobile banking and remote deposit services. The banking subsidiaries do not engage in sub-prime lending.

Insurance

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance Agencies, Inc; a 100% wholly-owned subsidiary of the Company, headquartered in Batavia, New York. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers and provides employee benefit consulting to employers in Western and Central New York and Southeastern Pennsylvania, assisting them with their medical, group life insurance and group disability insurance. Through the recent acquisition of VIST Financial, VIST Insurance was consolidated with and into Tompkins Insurance. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Tompkins Trust Company and VIST Bank. In addition to these shared offices, Tompkins Insurance has four stand-alone offices in Western New York, two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

Wealth Management

The Wealth Management segment is organized under the Tompkins Financial Advisors brand name consisting of services and products offered through Tompkins Investment Services ("TIS"), a division of Tompkins Trust Company, and TFA Management, Inc. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. Recently, through the acquisition of VIST Financial Corp., VIST Capital Management, LLC was added into Tompkins Financial Advisors brand; offering a complimentary assortment of full service investment advisory and brokerage services for individual financial planning, investments and corporate and small business pension and retirement planning solutions. Tompkins Financial Advisors has offices in each of the Company's 4 banking subsidiary banks.

The number of reportable segments were increased from two to three segments in the third quarter of 2012. At that time, the Company determined that a change in its reportable business segments was warranted due to the acquisition of VIST Financial effective August 1, 2012. The acquisition included VIST Insurance which approximately doubled annual insurance revenues of Tompkins Insurance when compare to pre-VIST results. Consequently, insurance revenues exceed the quantitative thresholds set forth in ASC 280-10-50-12 for identifying reportable

segments. As such, management determined that it was appropriate to report Insurance and Wealth Management as separate business segments. Previously, these two reportable business segments were reported as a single Financial Services segment. The prior year information contained within this report has been restated to reflect the change in the number of reportable business segments from two to three reportable business segments. The sum of the Insurance and Wealth Management segments is equal to the historic Financial Services Segment.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking and financial services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in Note 1 "Summary of significant accounting policies" in this report.

As of and for the year ended December 31, 2013

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 184,914	$ 8	$ 189	$ (7)	$ 185,104
Interest expense	23,982	0	0	(7)	23,975
Net interest income	160,932	8	189	0	161,129
Provision for loan and lease losses	6,161	0	0	0	6,161
Noninterest income	27,870	27,660	15,889	(1,521)	69,898
Noninterest expense1	119,926	22,431	12,266	(1,521)	153,102
Income before income tax expense	62,715	5,237	3,812	0	71,764
Income tax expense	17,434	2,057	1,286	0	20,777
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	45,281	3,180	2,526	0	50,987
Less: Net income attributable to noncontrolling interests	131	0	0	0	131
Net Income attributable to Tompkins Financial Corporation	$ 45,150	$ 3,180	$ 2,526	$ 0	$ 50,856
Depreciation and amortization	$ 5,360	$ 210	$ 135	$ 0	$ 5,706
Assets	4,965,154	31,639	12,730	(6,484)	5,003,039
Goodwill	64,369	19,560	8,211	0	92,140
Other intangibles, net	10,716	4,988	594	0	16,298
Net loans and leases	3,166,314	0	0	0	3,166,314
Deposits	3,953,428	0	0	(6,212)	3,947,216
Total equity	421,631	25,812	10,496	0	457,939

As of and for the year ended December 31, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany & Merger	Consolidated
Interest income	$ 158,111	$ 7	$ 256	$ (18)	$ 158,356
Interest expense	24,220	11	0	(18)	24,213
Net interest income	133,891	(4)	256	0	134,143
Provision for loan and lease losses	8,837	0	0	0	8,837
Noninterest income	22,368	18,909	15,757	(2,226)	54,808
Noninterest expense1	96,686	15,042	12,440	13,440	137,608
Income before income tax expense	50,736	3,863	3,573	(15,666)	42,506
Income tax expense	12,877	1,512	1,190	(4,489)	11,090
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	37,859	2,351	2,383	(11,177)	31,416
Less: Net income attributable to noncontrolling interests	131	0	0	0	131
Net Income attributable to Tompkins Financial Corporation	$ 37,728	$ 2,351	$ 2,383	$ (11,177)	$ 31,285
Depreciation and amortization	$ 4,984	$ 196	$ 145	$ 0	$ 5,326
Assets	4,799,579	30,772	12,004	(5,158)	4,837,197
Goodwill	64,534	19,560	8,211	0	92,305
Other intangibles, net	12,338	5,638	667	0	18,643

Net loans and leases	2,929,967	0	0	0	2,929,967
Deposits	3,955,022	0	0	(4,853)	3,950,169
Total equity	407,963	24,183	9,214	0	441,360

[1] Merger and acquisition integration related expenses of $15.6 million were deducted from banking segment holding company expenses and reclassified to Intercompany/Merger column to reflect the non-operating costs from VIST Financial acquisition in August 2012 and provide a more accurate representation of segment performance. Income taxes have been adjusted in the banking segment on a weighted average rate.

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As of and for the year ended December 31, 2011

(in thousands)	Banking	Insurance	Wealth Management	Intercompany & Merger	Consolidated
Interest income	$ 136,827	$ 11	$ 261	$ (11)	$ 137,088
Interest expense	25,692	1	0	(11)	25,682
Net interest income	111,135	10	261	0	111,406
Provision for loan and lease losses	8,945	0	0	0	8,945
Noninterest income	21,095	12,714	15,482	(1,277)	48,014
Noninterest expense1	77,480	10,084	12,265	(1,277)	98,552
Income before income tax expense	45,805	2,640	3,478	0	51,923
Income tax expense	14,171	1,032	1,170	0	16,373
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	31,634	1,608	2,308	0	35,550
Less: Net income attributable to noncontrolling interests	131	0	0	0	131
Net Income attributable to Tompkins Financial Corporation	$ 31,503	$ 1,608	$ 2,308	$ 0	$ 35,419
Depreciation and amortization	$ 4,453	$ 179	$ 126	$ 0	$ 4,758
Assets	3,373,893	17,950	12,006	(3,601)	3,400,248
Goodwill	23,600	12,287	8,011	0	43,898
Other intangibles, net	2,458	1,138	500	0	4,096
Net loans and leases	1,954,256	0	0	0	1,954,256
Deposits	2,663,905	0	0	(3,341)	2,660,564
Total equity	276,311	13,659	9,173	0	299,143

Unaudited Quarterly Financial Data

	2013			
(in thousands)	First	Second	Third	Fourth
Interest and dividend income	$ 44,457	$ 45,960	$ 46,379	$ 48,308
Interest expense	6,251	6,134	5,906	5,684
Net interest income	38,206	39,826	40,473	42,624
Provision for loan and lease losses	1,038	2,489	2,049	585
Income before income tax	17,038	16,101	19,398	19,227
Net income	11,510	11,007	14,049	14,290
Net income per common share (basic)	0.80	0.76	0.96	0.97
Net income per common share (diluted)	0.79	0.75	0.95	0.96

Unaudited Quarterly Financial Data

	2012			
(in thousands)	First	Second	Third	Fourth
Interest and dividend income	$ 33,128	$ 33,541	$ 42,919	$ 48,768
Interest expense	5,687	5,431	6,176	6,919
Net interest income	27,441	28,110	36,743	41,849
Provision for loan and lease losses	1,125	1,011	1,042	5,659
Income before income tax	11,606	13,010	4,280	13,610
Net income	7,811	8,826	3,487	11,161
Net income per common share (basic)	0.70	0.72	0.26	0.78
Net income per common share (diluted)	0.70	0.72	0.25	0.77

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2013. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Form 10-K, the Company's disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. As of December 31, 2013, management evaluated the effectiveness of the Company's internal control over financial reporting based on the framework for effective internal control over financial reporting established in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on its evaluation under the COSO framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013. The results of management's assessment was reviewed with the Company's Audit Committee of its Board of Directors. The registered public accounting firm that audited the Company's financial statements included in this report has issued an attestation report on the Company's internal controls over financial reporting, which is included in Part II, Item 8 of this Report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the year ended December 31, 2013, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the material under the captions “Proposal 1 – Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance”; the discussion of the Company’s code of ethics under the caption “Corporate Governance Matters”; the discussion of director nominees by stockholders and the Audit/Examining Committee under the caption “Board of Directors Meetings and Committees” all in the Company’s proxy statement relating to its 2014 annual meeting of shareholders (the “Proxy Statement”), which the /Company intends to file with the Securities and Exchange Commission on or about April 1, 2014; and the material captioned “Executive Officers of the Registrant” in Part I of this Report on Form 10-K.

Item 11. Executive Compensation

The information called for by this item is incorporated herein by reference to the material under the captions, “Executive Compensation”, “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the Proxy Statement.

The material incorporated herein by reference to the material under the caption "Compensation Committee Report" in the Proxy Statement shall not be deemed incorporated by reference into any filing under the Securities Act Exchange Act to be "soliciting material" or to be "filed" with the Commission or subject to Regulation 14A, or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act Exchange Act, except to the extent that the Company specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into such filing.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding stock-based compensation awards outstanding and available for future grant as of December 31, 2013 is presented in the table below.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding Securities in Column (a), (c)
Equity Compensation Plans Approved by Security Holders	861,519	$ 38.43	265,490
Equity Compensation Plans Not Approved by Security Holders	0	0	0

Information regarding security ownership of management and certain beneficial owners is furnished by incorporation by reference to all information under the caption of “Beneficial Ownership of Common Stock” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by this item is incorporated herein by reference to the material under the captions “Affirmative Determination of Director Independence” and “Transactions with Related Persons” in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information called for by this item is incorporated herein by reference to the material under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements and Report of KPMG are included in this Annual Report on Form 10-K:

Report of KPMG LLP, Independent Registered Public Accounting Firm
Consolidated Statements of Condition for the years ended December 31, 2013 and 2012
Consolidated Statements of Income for the years ended December 31, 2013, 2012, and 2011
Consolidated Statement of Comprehensive Income for the years ended December 31, 2013, 2012, and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012, and 2011
Notes to Consolidated Financial Statements
Unaudited Quarterly Financial Data

(a)(2) List of Financial Schedules
Not Applicable.

(a)(3) Exhibits

The exhibits listed on the Exhibit Index of this Annual Report on form 10-K have been previously filed, are filed herewith, or are incorporated herein by reference to other filings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOMPKINS FINANCIAL CORPORATION

By: Stephen S. Romaine
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 14, 2014

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Stephen S. Romaine and Francis M. Fetsko, and each of them, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution, for him or her, and in his or her name, place and stead, in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with Exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	*Date*	*Capacity*	*Signature*	*Date*	*Capacity*
/S/ James J. Byrnes James J. Byrnes	3/14/14	Chairman of the Board Director	/S/Carl E. Haynes Carl E. Haynes	3/14/14	Director
/S/ Stephen S. Romaine Stephen S. Romaine	3/14/14	President and Chief Executive Officer Director	/S/Susan A. Henry Susan A. Henry	3/14/14	Director
/S/James W. Fulmer James W. Fulmer	3/14/14	Vice Chairman, Director	/S/Patricia A. Johnson Patricia A. Johnson	3/14/14	Director
/S/Francis M. Fetsko Francis M. Fetsko	3/14/14	Executive Vice President and Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	/S/Frank C. Milewski Frank C. Milewski	3/14/14	Director
			/S/Sandra A. Parker Sandra A. Parker	3/14/14	Director
/S/John E. Alexander John E. Alexander	3/14/14	Director	/S/Thomas R. Rochon Thomas R. Rochon	3/14/14	Director

/S/Paul J. Battaglia Paul J. Battaglia	3/14/14	Director	/S/Michael H. Spain Michael H. Spain	3/14/14	Director
/S/Daniel J. Fessenden Daniel J. Fessenden	3/14/14	Director	/S/William D. Spain, Jr. William D. Spain, Jr.	3/14/14	Director
/S/Reeder D. Gates Reeder D. Gates	3/14/14	Director	/S/Alfred J. Weber Alfred J. Weber	3/14/14	Director
/S/ James R. Hardie James R. Hardie	3/14/14	Director	/S/Craig Yunker Craig Yunker	3/14/14	Director

(a)(3) Exhibits

Item No.	Description
2.1	Agreement and Plan of Reorganization, dated as of March 14, 1995, among the Bank, the Company and the Interim Bank, incorporated herein by reference to Exhibit 2 to the Company's Registration Statement on From 8-A (No. 0-38625), filed with the Commission on January 22, 1996.
2.2	Agreement and Plan of Reorganization, dated as of July 30, 1999, between the Company and Letchworth, incorporated herein by reference to Annex A to the Company's Registration Statement on Form S-4 (Registration No. 333-90411), filed with the Commission on November 5, 1999.
2.3	Agreement and Plan of Merger, dated January 25, 2012, by and among the Company, TMP Mergeco, Inc. and VIST Financial Corp., incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on January 26, 2012.
2.4	First Amendment to the Agreement and Plan of Merger, dated July 31, 2012, by and among the Company, TMP Mergeco, Inc. and VIST Financial Corp., incorporated herein by reference to Exhibit 10.1 to the Company's Amended Quarterly Report on Form 10-Q/A, filed with the Commission on September 7, 2012.
3.1	Amended and Restated Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3(i) to the Company's Form 10-Q, filed with the Commission on August 11, 2008.
3.2	Second Amended and Restated Bylaws of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on January 31, 2011.
4.1	Form of Specimen Common Stock Certificate of the Company, incorporated herein by reference to Exhibit 4 to the Company's Registration Statement on Form 8-A (No. 0-27514), filed with the Commission on December 29, 1995.
4.2	Indenture (Tompkins Capital Trust I), dated as of April 10, 2009, incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Commission on April 16, 2009.
4.3	Form of Subordinated Debenture (Tompkins Capital Trust I), included as Exhibit A to Exhibit 4.2 and incorporated herein by reference.
4.4	Amended and Restated Trust Agreement (Tompkins Capital Trust I), dated as of April 10, 2009, incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the Commission on April 16, 2009.
4.5	Form of Convertible Preferred Security Certificate of Tompkins Capital Trust I, included as Exhibit D to Exhibit 4.4 and incorporated herein by reference.
4.6	Preferred Securities Guarantee Agreement, dated as of April 10, 2009, incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on From 8-K, filed with the Commission on April 16, 2009.
4.7	Agreement as to Expenses and Liabilities, dated as of April 10, 2009, incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K, filed with the

	Commission on April 16, 2009.
10.1*	Supplemental Executive Retirement Agreement between Scott L. Gruber and Tompkins Financial Corporation dated April 30, 2013, filed herewith.
10.2*	Amended and Restated Retainer Plan for Eligible Directors of Tompkins Financial Corporation and Its Wholly-owned Subsidiaries.
10.3*	Form of Director Deferred Compensation Agreement, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form 8-A (No. 0-27514), filed with the Commission on December 29, 1995.
10.4*	Deferred Compensation Plan for Senior Officers, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form 8-A (No. 0-27514), filed with the Commission on December 29, 1995.
10.5*	Supplemental Executive Retirement Agreement with James J. Byrnes, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form 8-A (No. 0-27514), filed with the Commission on December 29, 1995.
10.6*	Severance Agreement with James J. Byrnes, incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form 8-A (No. 0-27514), filed with the Commission on December 29, 1995.
10.7*	Lease Agreement dated August 20, 1993, between Tompkins County Trust Company and Comex Plaza Associates, relating to leased property at the Rothschild Building, Ithaca, NY, incorporated herein by reference to Exhibit 10.8 to the Company's Form 10-K, filed with the Commission on March 26, 1996.

10.8*	Employment Agreement, dated September 12, 1989, by and between Registrant and James W. Fulmer, incorporated by reference to the Registrant's Amendment No. 1 to Form S-18 Registration Statement (Reg. No. 33-3114-NY), filed with the Commission on October 31, 1989 and wherein such Exhibit is designated as Exhibit 10(a).
10.9*	2001 Stock Option Plan, incorporated herein by reference to Exhibit 99 to the Company's Registration Statement on Form S-8 (No. 333-75822), filed with the Commission on December 12, 2001.
10.11*	Summary of Compensation Arrangements for Named Executive Officers and Directors, filed herewith.
10.12*	Supplemental Executive Retirement Agreement between James W. Fulmer and Tompkins Trustco, Inc., dated December 28, 2005, incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K, filed with the Commission on March 16, 2006.
10.14*	Supplemental Executive Retirement Agreement between Stephen S. Romaine and Tompkins Trustco, Inc., dated December 28, 2005, incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K, filed with the Commission on March 16, 2006.
10.15*	Supplemental Executive Retirement Agreement between Francis M. Fetsko and Tompkins Trustco, Inc., dated December 28, 2005, incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K, filed with the Commission on March 16, 2006.
10.16*	Supplemental Executive Retirement Agreement between David S. Boyce and Tompkins Trustco, Inc., dated December 28, 2005, incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K, filed with the Commission on March 16, 2006.
10.17*	Supplemental Executive Retirement Agreement between Robert B. Bantle and Tompkins Trustco, Inc., dated December 28, 2005, incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Commission on March 16, 2006.
10.18*	Form of Officer Group Term Life Replacement Plan (the "Plan") among Tompkins Trust Company and the Participants in the Plan, incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K, filed with the Commission on March 16, 2006.
10.20*	Amendment to the Tompkins Trustco, Inc. Supplemental Retirement Agreement with James J. Byrnes, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2006.
10.21*	Tompkins Trustco, Inc. Officer Group Term Life Replacement Plan, as amended on June 26, 2006, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report Form 10-Q, filed with the Commission on August 9, 2006.
10.22*	2009 Equity Plan, incorporated herein by reference to Exhibit 99 to the Company's Registration Statement on Form S-8 (No. 333-160738), filed with the Commission on July 22, 2009.
10.23*	Supplemental Executive Retirement Agreement between the Company and Gregory J. Hartz, dated May 12, 2011, incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K, filed with the Commission on March 9, 2012.
10.24*	Employment Agreement, dated as of September 19, 2005 among Leesport Financial Corp., Leesport Bank and Robert D. Davis, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 7, 2012.

10.25*	First Amendment to Employment Agreement dated October 10, 2008, by and among Leesport Financial Corp. n/k/a VIST Financial Corp., Leesport Bank n/k/a VIST Bank and Robert D. Davis, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on August 7, 2012.
10.26*	Second Amendment to Employment Agreement dated July 24, 2012, by and among VIST Bank, VIST Financial Corp., the Company, and Robert D. Davis, incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Commission on August 7, 2012.
10.27*	Form of Award under 2009 Equity Plan, incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K, filed with the Commission on March 18, 2013.
14	Tompkins Financial Corporation Code of Ethics For Chief Executive Officer and Senior Financial Officers dated April 25, 2006, incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K, filed with the Commission on March 15, 2007.
21	Subsidiaries of Registrant (filed herewith)
23	Consent of Independent Registered Public Accounting Firm (filed herewith)
24	Power of Attorney, included on signature page of this Report on Form 10-K.
31.1	Certification of the Chief Executive Officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2	Certification of the Chief Financial Officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(filed herewith).
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101*	The following materials from the company's Annual report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensibel Business reporting Language): (i) Condensed Consolidated Statements of Condition as of December 31, 2013; (ii) Condensed Consolidated Statements of Income as of December 31, 2013; (iii) Condensed consolidated Statements of Comprehensive Income as of December 31, 2013; (iv) Condensed Consolidated Statements of Cash Flows as of December 31, 2013; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity as of December 31, 2013; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

P.O. Box 460, Ithaca, New York 14851

(607) 273-3210

www.tompkinsfinancial.com