

SEACOAST BANKING CORP OF FLORIDA  
Form 10-Q  
August 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2018  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-13660

Seacoast Banking Corporation of Florida  
(Exact Name of Registrant as Specified in its Charter)

Florida 59-2260678  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization Identification No.)  
815 COLORADO AVENUE, STUART FL 34994  
(Address of Principal Executive Offices) (Zip Code)  
(772) 287-4000  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large Accelerated Accelerated Non-Accelerated Small Reporting  
Filer  Filer  Filer  Company

Emerging Growth  
Company "

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

Common Stock, \$0.10 Par Value – 47,163,109 shares as of June 30, 2018

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INDEX

SEACOAST BANKING CORPORATION OF FLORIDA

	PAGE #
Part I <u>FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed consolidated balance sheets - June 30, 2018 and December 31, 2017</u>	<u>3</u>
<u>Condensed consolidated statements of income – Three and six months ended June 30, 2018 and 2017</u>	<u>4</u>
<u>Condensed consolidated statements of comprehensive income – Three and six months ended June 30, 2018 and 2017</u>	<u>5</u>
<u>Consolidated statements of cash flows – Six months ended June 30, 2018 and 2017</u>	<u>6</u>
<u>Notes to condensed consolidated financial statements</u>	<u>8-28</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35-59</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>59</u>
<u>Item 4. Controls and Procedures</u>	<u>60</u>
Part II <u>OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>60</u>
<u>Item 1A. Risk Factors</u>	<u>60</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
<u>Item 3. Defaults upon Senior Securities</u>	<u>61</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>61</u>
<u>Item 5. Other Information</u>	<u>61</u>
<u>Item 6. Exhibits</u>	<u>64</u>
<u>SIGNATURES</u>	<u>64</u>

Table of Contents

## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

## Seacoast Banking Corporation of Florida and Subsidiaries

	June 30, 2018	December 31, 2017
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and due from banks	\$ 123,927	\$ 104,039
Interest bearing deposits with other banks	7,594	5,465
Total cash and cash equivalents	131,521	109,504
Time deposits with other banks	10,562	12,553
Debt securities:		
Available for sale (at fair value)	954,906	949,460
Held to maturity (fair value: \$370,787 at June 30, 2018 and \$414,470 at December 31, 2017)	382,137	416,863
Total debt securities	1,337,043	1,366,323
Loans held for sale (at fair value)	14,707	24,306
Loans	3,974,016	3,817,377
Less: Allowance for loan losses	(28,924 )	(27,122 )
Loans, net of allowance for loan losses	3,945,092	3,790,255
Bank premises and equipment, net	63,991	66,883
Other real estate owned	8,417	7,640
Goodwill	148,555	147,578
Other intangible assets, net	17,319	19,099
Bank owned life insurance	121,602	123,981
Net deferred tax assets	26,021	25,417
Other assets	97,851	116,590
<b>TOTAL ASSETS</b>	<b>\$5,922,681</b>	<b>\$ 5,810,129</b>
<b>LIABILITIES</b>		
Deposits	\$4,697,440	\$ 4,592,720
Securities sold under agreements to repurchase	200,050	216,094
Federal Home Loan Bank (FHLB) borrowings	205,000	211,000
Subordinated debt	70,664	70,521
Other liabilities	33,364	30,130
<b>TOTAL LIABILITIES</b>	<b>5,206,518</b>	<b>5,120,465</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, par value \$0.10 per share, authorized 120,000,000 shares, issued 47,297,474 and outstanding 47,163,109 shares at June 30, 2018, and authorized 60,000,000, issued 47,032,259 and outstanding 46,917,735 shares at December 31, 2017	4,716	4,693

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Other shareholders' equity	711,447	684,971
TOTAL SHAREHOLDERS' EQUITY	716,163	689,664
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$5,922,681	\$ 5,810,129

See notes to condensed consolidated financial statements.

3

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Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Interest and fees on loans	\$46,519	\$ 38,209	\$91,776	\$ 70,100
Interest and dividends on securities	9,605	8,585	19,209	16,959
Interest on interest bearing deposits and other investments	585	604	1,201	1,114
TOTAL INTEREST INCOME	56,709	47,398	112,186	88,173
Interest on deposits	1,988	854	3,526	1,478
Interest on time certificates	2,629	814	4,808	1,380
Interest on borrowed money	1,885	1,574	3,883	2,994
TOTAL INTEREST EXPENSE	6,502	3,242	12,217	5,852
NET INTEREST INCOME	50,207	44,156	99,969	82,321
Provision for loan losses	2,529	1,401	3,614	2,705
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	47,678	42,755	96,355	79,616
Noninterest income				
Other income	12,769	10,467	25,167	20,372
Securities (losses)/gains, net	(48 )	21	(150 )	21
TOTAL NONINTEREST INCOME (Note H)	12,721	10,488	25,017	20,393
TOTAL NONINTEREST EXPENSES (Note H)	38,246	41,625	75,410	76,371
INCOME BEFORE INCOME TAXES	22,153	11,618	45,962	23,638
Provision for income taxes	5,189	3,942	10,971	8,036
NET INCOME	\$16,964	\$ 7,676	\$34,991	\$ 15,602
SHARE DATA				
Net income per share - diluted	\$0.35	\$ 0.18	\$0.73	\$ 0.38
Net income per share - basic	0.36	0.18	0.74	0.38
Cash dividends declared	0.00	0.00	0.00	0.00
Average shares outstanding - diluted	47,974,118	43,556,285	47,827,646	41,538,769
Average shares outstanding - basic	47,164,909	42,841,152	47,058,958	40,851,273

See notes to condensed consolidated financial statements.

Table of ContentsCONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
NET INCOME	\$16,964	\$7,676	\$34,991	\$15,602
Other comprehensive income (loss):				
Unrealized (losses) gains on securities available for sale	(5,995 )	5,601	(17,016 )	8,776
Amortization of unrealized losses on securities transferred to held to maturity, net	218	122	334	244
Reclassification adjustment for gains included in net income	0	(21 )	0	(21 )
Income tax effect on other comprehensive (loss) income	1,543	(2,199 )	4,439	(3,467 )
Total other comprehensive (loss) income	(4,234 )	3,503	(12,243 )	5,532
COMPREHENSIVE INCOME	\$12,730	\$11,179	\$22,748	\$21,134

See notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$34,991	\$15,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,134	2,677
Amortization of premiums and discounts on securities, net	1,732	1,838
Other amortization and accretion, net	225	(429 )
Stock based compensation	3,622	2,540
Origination of loans designated for sale	(159,991)	(117,379)
Sale of loans designated for sale	173,385	113,527
Provision for loan losses	3,614	2,705
Deferred income taxes	4,559	7,338
Gains on sale of securities	0	(21 )
Gains on sale of loans	(5,277 )	(3,078 )
Losses (gains) on sale and write-downs of other real estate owned	298	(212 )
Losses on disposition of fixed assets	231	2,316
Changes in operating assets and liabilities, net of effects from acquired companies:		
Net decrease in other assets	19,230	1,347
Net increase (decrease) in other liabilities	3,184	(2,634 )
Net cash provided by operating activities	82,937	26,137
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities and repayments of debt securities available for sale	77,860	125,115
Maturities and repayments of debt securities held to maturity	34,360	42,883
Proceeds from sale of debt securities available for sale	0	3,820
Purchases of debt securities available for sale	(101,354)	(142,062)
Purchases of debt securities held to maturity	0	(49,963 )
Maturities of time deposits with other banks	1,991	847
Net new loans and principal repayments	(161,038)	(198,080)
Proceeds from the sale of other real estate owned	5,184	3,324
Proceeds from sale of FHLB and Federal Reserve Bank Stock	20,570	14,832
Purchase of FHLB and Federal Reserve Stock	(23,055 )	(15,012 )
Purchase of VISA Class B stock	0	(6,180 )
Redemption of bank owned life insurance	4,232	0
Net cash from bank acquisition	0	30,233
Additions to bank premises and equipment	(2,475 )	(2,979 )
Net cash used in investing activities	(143,725)	(193,222)

See notes to condensed consolidated financial statements.





Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended	
	June 30,	
	2018	2017
	(In thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	\$104,720	\$166,863
Net decrease in federal funds purchased and repurchase agreements	(16,044 )	(36,644 )
Net decrease in FHLB borrowings	(6,000 )	(20,000 )
Issuance of common stock, net of related expense	0	55,641
Stock based employee benefit plans	129	(222 )
Dividends paid	0	0
Net cash provided by financing activities	82,805	165,638
Net increase (decrease) in cash and cash equivalents	22,017	(1,447 )
Cash and cash equivalents at beginning of period	109,504	109,644
Cash and cash equivalents at end of period	\$131,521	\$108,197
Supplemental disclosure of non cash investing activities:		
Transfers from loans to other real estate owned	4,207	448
Transfers from bank premises to other real estate owned	2,052	1,212

See notes to condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
Seacoast Banking Corporation of Florida and Subsidiaries

Note A – Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Seacoast Banking Corporation of Florida and its subsidiaries (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period amounts have been reclassified to conform to the current period presentation.

Operating results for the six-month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Certain prior period amounts have been reclassified to conform to the current period presentation.

Adoption of new accounting pronouncements

On January 1, 2018, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-9, "Revenue from Contracts with Customers," and all the related amendments (collectively, "ASC 606") using the modified retrospective approach applied to all contracts in place at that date. Adoption had no material impact on the Company's consolidated financial statements including no change to the amount or timing of revenue recognized for contracts within the scope of the new standard. Activity in the scope of the new standard includes:

**Service Charges on Deposits:** Seacoast National Bank ("Seacoast Bank") offers a variety of deposit-related services to its customers through several delivery channels including branch offices, ATMs, telephone, mobile, and internet banking. Transaction-based fees are recognized when services, each of which represents a performance obligation, are satisfied. Service fees may be assessed monthly, quarterly, or annually; however, the account agreements to which these fees relate can be cancelled at any time by Seacoast and/or the customer. Therefore, the contract term is considered a single day (a day-to-day contract).

**Trust Fees:** The Company earns trust fees from fiduciary services provided to trust customers which include custody of assets, recordkeeping, collection and distribution of funds. Fees are earned over time and accrued monthly as the Company provides services, and are generally assessed based on the market value of the trust assets under management at a particular date or over a particular period.

**Brokerage Commissions and Fees:** The Company earns commissions and fees from investment brokerage services provided to its customers through an arrangement with a third-party service provider. Commissions received from the third-party service provider are recorded monthly and are based upon customer activity. Fees are earned over time and accrued monthly as services are provided. The Company acts as an agent in this arrangement and therefore presents the brokerage commissions and fees net of related costs.

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Interchange Income: Fees earned on card transactions depend upon the volume of activity, as well as the fees permitted by the payment network. Such fees are recognized by the Company upon fulfilling its performance obligation to approve the card transaction.

On January 1, 2018, we adopted ASU 2016-1, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” Upon adoption, we reclassified \$0.1 million of accumulated unrealized loss pertaining to an equity investment previously classified as available for sale from Accumulated Other Comprehensive Income to Retained Earnings.

#### Use of Estimates

The preparation of these condensed consolidated financial statements required the use of certain estimates by management in determining the Company’s assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Table of Contents

Specific areas, among others, requiring the application of management's estimates include determination of the allowance for loan losses, the valuation of investment securities available for sale, fair value of impaired loans, contingent liabilities, fair value of other real estate owned, and the valuation of deferred tax assets. Actual results could differ from those estimates.

9

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Table of Contents

Note B – Recently Issued Accounting Standards, Not Yet Adopted

The following provides a brief description of accounting standards that have been issued but are not yet adopted that could have a material effect on the Company's financial statements:

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases at the commencement date:

1.

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis.

2.

A right-of-use specified asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Description

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. In July 2018, the FASB issued ASU 2018-11, which provides an additional optional transition method. The additional transition method allows entities to initially apply the new lease standard at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which the entity adopts the new lease standard would continue to be in accordance with current GAAP (Topic 840), including disclosures.

Date of Adoption This amendment is effective for public business entities for reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted.

Effect on the Consolidated Financial Statements

The Company is in the process of evaluating its existing leases, which are primarily operating leases of branch properties and equipment, to determine the amounts to be recognized as right-of-use assets and lease liabilities. The Company will adopt the new standard effective January 1, 2019. The effect of adoption on the Company's consolidated statements of income is not expected to be material.

ASU 2016-13, Financial Instruments –Credit Losses (Topic 326)

In June 2016, the FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees and other similar instruments.

Description

Date of Adoption This amendment is effective for public business entities for reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is

permitted only as of annual reporting periods after December 15, 2018, including interim reporting periods within that period.

The Company's transition oversight committee is in the process of evaluating and implementing changes to credit loss estimation models and related processes. Updates to business processes and the documentation of accounting policy decisions are ongoing. The Company may recognize an increase in the allowance for loan losses upon adoption, recorded as a one-time effect cumulative adjustment to retained earnings. However, the magnitude of the impact on the Company's consolidated financial statements has not yet been determined. The Company will adopt this accounting standard effective January 1, 2020.

Effect on the  
Consolidated  
Financial  
Statements

Table of Contents

ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill

Description	In January 2017, the FASB amended the existing guidance to simplify the goodwill impairment measurement test by eliminating Step 2. The amendment requires the Company to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the fair value. Additionally, an entity should consider the tax effects from any tax deductible goodwill on the carrying amount when measuring the impairment loss.
Date of Adoption	This amendment is effective for public business entities for reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted on annual goodwill impairment tests performed after January 1, 2017.
Effect on the Consolidated Financial Statements	The impact to the consolidated financial statements from the adoption of this pronouncement is not expected to be material.

ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased callable Debt Securities

Description	In March 2017, the FASB issued guidance which requires entities to amortize premiums on certain purchased callable debt securities to their earliest call date. The accounting for purchased callable debt securities held at a discount did not change. Amortizing the premium to the earliest call date generally aligns interest income recognition with the economics of instruments. This guidance requires a modified retrospective approach under which a cumulative adjustment will be made to retained earnings as of the beginning of the period in which it is adopted.
Date of Adoption	The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those periods.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Description	In August 2017, the FASB provided guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments also simplify the application of the hedge accounting guidance.
Date of Adoption	The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those periods.
Effect on the Consolidated Financial Statements	The impact to the Company's consolidated financial statements from the adoption of this pronouncement is not expected to be material.

Note C – Earnings per Share

For the three and six months ended June 30, 2018, options to purchase 479,000 and 378,000 shares, respectively, were antidilutive and not included in the computation of diluted earnings per share, compared to 269,000 and 149,000, respectively, for the three and six months ended June 30, 2017. The dilutive impact of restricted stock and stock options is calculated under the treasury method.





Table of Contents

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic earnings per share				
Net income	\$16,964	\$ 7,676	\$34,991	\$ 15,602
Average common stock outstanding	47,164,900	42,841,152	47,058,958	40,851,273
Net income per share	\$0.36	\$ 0.18	\$0.74	\$ 0.38
Diluted earnings per share				
Net income	\$16,964	\$ 7,676	\$34,991	\$ 15,602
Average common stock outstanding	47,164,900	42,841,152	47,058,958	40,851,273
Add: Dilutive effect of employee restricted stock and stock options	809,209	715,133	768,688	687,496
Average diluted stock outstanding	47,974,109	43,556,285	47,827,646	41,538,769
Net income per share	\$0.35	\$ 0.18	\$0.73	\$ 0.38

On February 21, 2017, the Company completed a public offering of 2,702,500 shares of common stock, generating net proceeds to the Company of \$55.7 million. In addition, CapGen Capital Group III LP (“CapGen”), in conjunction with the Company’s offering, sold 6,210,000 shares of the Company’s common stock, with no net proceeds to the Company.

## Note D – Securities

The gross amortized cost, gross unrealized gains and losses and gross fair value of securities available for sale and held to maturity at June 30, 2018 and December 31, 2017<sup>(1)</sup> are summarized as follows:

June 30, 2018

Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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