SEACOAST BANKING CORP OF FLORIDA
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the Quarterly Period ended September 30, 2006

For the transition period from ________________ to ____________________

Commission file number 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA
(Exact Name of Registrant as Specified in Its Charter)

Florida	59-2260678
(State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer 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)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated Filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

<u>Common Stock, $.10 Par Value 18,980,329 shares</u>

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SEACOAST BANKING CORPORATION OF FLORIDA

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SPECIAL CAUTIONARY NOTICE

REGARDING FORWARD-LOOKING STATEMENTS

This discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements about future financial and operating results, cost savings, enhanced revenues, economic and seasonal conditions in our markets, and improvements to reported earnings that may be realized from cost controls and for integration of banks that we have acquired, as well as statements with respect to Seacoast s objectives, expectations and intentions and other statements that are not historical facts. Actual results may differ from those set forth in the forward-looking statements.

Certain of the statements made herein under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations," including our evaluations, estimates and judgments about current and anticipated real estate market conditions and our ongoing evaluation of the risks in our real estate loan portfolio are forward-looking statements within the meaning of, and subject to the protections of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). For more information about these forward looking statements and the risks, please see "Special Cautionary Notice Regarding Forward Looking Statements" and "Risk Factors , including --Our profitability and liquidity may be affected by changes in interest rates and economic conditions" and "--Regulatory Risks of Commercial Real Estate ending Growth and Concentrations" in our Annual Report on Form 10-K, which are incorporated herein by reference.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance or achievements of Seacoast to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. You should not expect us to update any forward-looking statements.

You can identify these forward-looking statements through our use of words such as may, will, anticipate, assum should, support , indicate, would, believe, contemplate, expect, estimate, continue, further , p intend or other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation: the effects of future economic and market conditions, including seasonality; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities; interest rate risks, sensitivities and the shape of the yield curve; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market areas and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet; and the failure of assumptions underlying the establishment of reserves for possible loan losses. The risks of mergers and acquisitions, include, without limitation: unexpected transaction costs, including the costs of integrating operations; the risks that the businesses will not be integrated successfully or that such integration may be more difficult, time-consuming or costly than expected; the potential failure to fully or timely realize expected revenues and revenue synergies, including as the result of revenues following the merger being lower than expected; the risk of deposit and customer attrition; any changes in deposit mix; unexpected operating and other costs, which may differ or change from expectations; the risks of customer and employee loss and business disruption, including, without limitation, as the result of difficulties in maintaining relationships with employees; increased competitive pressures and solicitations of customers by competitors; as well as the difficulties and risks inherent with entering new markets.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary notice, including, without limitation, those risks and uncertainties described in our annual report on Form 10-K for the year ended December 31, 2005 under Special Cautionary Notice Regarding Forward-Looking Statements, and otherwise in our SEC reports and filings. Such reports are available upon request from Seacoast, or from the Securities and Exchange Commission, including through the SEC s Internet website at *http://www.sec.gov*.

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Part I. Item 1. FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	September 30,	December 31,
(Dollars in thousands, except share amounts)	2006	2005
ASSETS		
Cash and due from banks	$ 80,249	$ 67,373
Federal funds sold and interest bearing deposits	14,096	153,120
Total cash and cash equivalents	94,345	220,493
Securities:		
Held for sale (at fair value)	345,971	392,952
Held for investment (fair values:		
$134,659 at September 30, 2006 and		
$147,130 at December 31, 2005)	137,197	150,072
TOTAL SECURITIES	483,168	543,024
Loans available for sale	3,516	2,440
Loans	1,656,061	1,289,995
Less: Allowance for loan losses	(12,693)	(9,006)
NET LOANS	1,643,368	1,280,989
Bank premises and equipment, net	36,400	22,218
Goodwill and other intangible assets	56,394	33,901
Other assets	34,106	29,109
	$2,351,297	$2,132,174
LIABILITIES		
Deposits	$1,957,893	$1,784,219
Federal funds purchased and securities sold		
under agreements to repurchase, maturing		

within 30 days	104,179	96,786
Borrowed funds	26,516	45,485
Subordinated debt	41,238	41,238
Other liabilities	12,911	11,726
	2,142,737	1,979,454

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CONDENSED CONSOLIDATED BALANCE SHEETS (continued) (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	September 30,	December 31,
(Dollars in thousands, except share amounts)	2006	2005
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share, authorized 4,000,000 shares, none issued or outstanding	0	0
Common stock, par value $0.10 per share, authorized 35,000,000 shares, issued 18,988,914 and outstanding 18,775,558 shares and 204,771 restricted shares at September 30, 2006, issued 17,103,650 and outstanding 16,900,198 shares and 184,117 restricted shares at December 31, 2005	1,899	1,710
Other shareholders equity	206,661	151,010
TOTAL SHAREHOLDERS' EQUITY	208,560	152,720
	$2,351,297	$2,132,174

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2006	2005	2006	2005
Interest and fees on loans	$ 30,730	$ 19,560	$ 82,717	$ 51,394
Interest and dividends on securities	5,463	5,608	17,089	16,321
Interest on federal funds sold	521	899	2,874	2,093
TOTAL INTEREST INCOME	36,714	26,067	102,680	69,808
Interest on deposits	11,254	5,717	28,728	14,459
Interest on borrowed money	2,412	1,285	6,693	3,201
TOTAL INTEREST EXPENSE	13,666	7,002	35,421	17,660
NET INTEREST INCOME	23,048	19,065	67,259	52,148
Provision for loan losses	475	280	1,035	987
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,573	18,785	66,224	51,161
Noninterest income				
Securities gains (losses), net	2	34	(84)	78
Other income	5,571	5,279	17,394	15,428
TOTAL NONINTEREST INCOME	5,573	5,313	17,310	15,506
TOTAL NONINTEREST EXPENSES	18,887	15,408	54,872	43,362
INCOME BEFORE INCOME TAXES	9,259	8,690	28,662	23,305
Provision for income taxes	3,390	3,125	10,493	8,379
NET INCOME	$ 5,869	$ 5,565	$ 18,169	$ 14,926
PER SHARE COMMON STOCK:				
Net income diluted	$ 0.31	$ 0.32	$ 0.98	$ 0.90
Net income basic	0.31	0.33	1.00	0.92

Cash dividends declared	0.15	0.15	0.45	0.43
Average shares outstanding - diluted	19,141,484	17,253,536	18,517,508	16,556,452
Average shares outstanding basic	18,767,257	16,856,109	18,142,813	16,175,803

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

	Nine Months Ended September 30,	
(Dollars in thousands)	2006	2005
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Interest received	$ 100,017	$ 69,792
Fees and commissions received	17,359	15,655
Interest paid	(35,150)	(17,372)
Cash paid to suppliers and employees	(53,021)	(41,584)
Income taxes paid	(11,184)	(9,378)
Origination of loans designated available for sale	(155,596)	(192,668)
Sale of loans designated available for sale	154,520	186,882
Net change in other assets	850	(1,016)
Net cash provided by operating activities	17,795	10,311
Cash flows from investing activities		
Maturities of securities held for sale	99,142	123,570
Maturities of securities held for investment	18,444	41,353
Proceeds from sale of securities held for sale	103,665	50,899
Purchases of securities held for sale	(89,976)	(110,833)
Net new loans and principal repayments	(166,314)	(209,231)
Proceeds from sale of Federal Home Loan Bank and Federal Reserve Bank stock	2,890	0
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(2,757)	(810)

Additions to bank premises and equipment	(5,746)	(2,381)
Proceeds from sale of other real estate owned	151	0
Purchase of Big Lake and Century, net of cash acquired	48,731	121,046
Purchase of branch, net of cash acquired	0	13,538
Net cash provided by investing activities	8,230	27,151
Cash flows from financing activities		
Net increase (decrease) in deposits	(127,209)	84,412
Net increase (decrease) in federal funds purchased		
and repurchase agreements	1,258	(7,677)
Increase (decrease) in borrowings and subordinated debt	(19,000)	26,619
Stock based employee benefit plans	983	819
Dividends paid	(8,205)	(7,067)
Net cash provided by (used in) financing activities	(152,173)	97,106
Net increase (decrease) in cash and cash equivalents	(126,148)	134,568
Cash and cash equivalents at beginning of year	220,493	89,679
Cash and cash equivalents at end of period	$ 94,345	$ 224,247

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands)	Nine Months Ended September 30, 2006	2005
Reconciliation of Net Income to Cash Provided by Operating Activities		
Net Income	$ 18,169	$ 14,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,061	1,589
Amortization of premiums and discounts on securities	43	1,171
Other amortization and accretion	(45)	250
Change in loans available for sale, net	(1,076)	(5,786)
Provision for loan losses	1,035	987
Losses (gains) on sale of securities	84	(78)
Loss on fair value interest rate swap	0	267
Gain on sale of loans	(36)	(90)
Loss on disposition of fixed assets	178	0
Gain on sale of other real estate owned	(12)	0
Change in interest receivable	(1,893)	(973)
Change in interest payable	271	288
Change in prepaid expenses	(2,338)	(480)
Change in accrued taxes	(107)	(590)
Change in other assets	849	(1,016)
Change in other liabilities	612	(154)

Net cash provided by operating activities	$ 17,795	$ 10,311
Supplemental disclosure of non-cash investing activities:		
Fair value adjustment to securities	$ 1,713	$ (1,491)
Purchase of Big Lake, new shares issued	43,594	0
Purchase of Century, treasury stock issued	0	33,448
Transfer of loans to other real estate owned	139	0

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEACOAST BANKING CORPORATION OF FLORIDA AND SUBSIDIARIES

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements 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. Operating results for the nine-month period ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

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.

Recently Issued Accounting Pronouncements

FASB INTERPRETATION NO. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES. The FASB has issued an Interpretation (FIN 48) that will clarify the criteria for recognizing tax benefits under FASB Statement No. 109, *Accounting for Income Taxes.* The Interpretation will require additional financial statement disclosures about certain tax positions. The Interpretation is effective for fiscal years beginning after December 15, 2006. When adopted, the Company believes this interpretation will not materially impact its consolidated financial position, results of operations or liquidity.

FAIR VALUE MEASUREMENTS. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The Statement applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This is an exit-price definition of fair value. Although entry prices may be similar to exit prices in some situations, fair value under Statement 157 is based on an exit price that would result from market participants behavior. This statement is effective for years beginning after November 15, 2007, and interim periods with those fiscal years. The adoption of this standard is not expected to have a material effect on the Company s financial condition, results of operations, or liquidity.

THE EFFECT OF PRIOR YEAR ERRORS ON CURRENT YEAR MATERIALITY EVALUATIONS. Staff Accounting Bulletin (SAB) No. 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. The SAB requires registrants to quantify misstatements using both the balance sheet and income-statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The SAB does not change the staff s previous guidance in SAB 99 on evaluating the materiality of misstatements. When the effect of initial adoption is determined to be material, the SAB allows registrants to record that effect as a cumulative-effect adjustment to beginning-of-year retained earnings. The requirements are effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is still evaluating the possible effect of the adoption of this guidance but it is not expected to have a material effect on financial condition, the results of operations, or liquidity.

FSP AUG AIR-1, ACCOUNTING FOR PLANNED MAJOR MAINTENANCE ACTIVITIES. This staff position will prohibit Companies from accruing as a liability in annual and interim periods the future costs of periodic major overhauls and maintenance of plant and equipment. Other previously acceptable methods of accounting for planned major overhauls and maintenance will continue to be permitted. The prohibition against accruing future major maintenance costs will affect companies that currently accrue such costs over several fiscal years and companies that accrue such costs over interim-reporting periods within the annual period in which the costs are expected to be incurred. The prohibition applies to entities in all industries for fiscal years beginning after December 15, 2006, and must be retrospectively applied. The adoption of this staff position is not expected to have a material effect on financial condition, the results of operations, or liquidity.

NOTE B - ACQUISITION

On April 1, 2006, the Company acquired 100% of the outstanding preferred and common shares of Big Lake Financial Corporation, a single bank holding company. The following table shows the excess purchase price over carrying value of net assets acquired, estimated purchase price allocations and goodwill:

	(Dollars in thousands)
Purchase price	$ 44,989
Carrying value of net assets acquired	(23,612)
Excess of purchase price over carrying value of net assets acquired	21,377
Purchase accounting adjustments:	
Securities	1,381
Core deposit intangible	(6,787)
Loans	2,706

Bank premises	(3,967)
Deferred taxes	1,146
Other liabilities	128
Pre-acquisition goodwill and core deposit intangible	732
Goodwill	$ 16,716

The purchase was one hundred percent stock-based (with the exception of cash paid for fractional shares of common stock) and resulted in the issuance of 1,775,000 shares of the Company s common stock. Big Lake Financial Corporation s bank subsidiary, Big Lake National Bank, with nine locations in seven counties, operated as a separate subsidiary of Seacoast until June 5, 2006 when Big Lake National Bank was merged with Seacoast National Bank, a banking subsidiary of Seacoast Banking Corporation of Florida (Seacoast).

The following unaudited pro forma consolidated financial information presents the combined results of operations of the Company as if the acquisition had occurred as of January 1, 2006 and January 1, 2005:

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(Dollars in thousands)	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net interest income	$ 70,680	$ 61,374
Provision for loan losses	1,085	1,184
Net interest income after provision for loan losses	69,595	60,190
Noninterest income		

	18,025	17,497
Noninterest expenses	59,042	51,008
Income before income taxes	28,578	26,679
Provision for income taxes	10,460	9,591
Net income	$ 18,118	$ 17,088
Per share common stock:		

Net income diluted	$ 0.95	$ 0.93
Net income basic	0.97	0.95
Average shares outstanding diluted	19,102,673	18,331,452
Average shares outstanding basic	18,727,978	17,950,803

The estimated fair value of acquired assets and liabilities, including identifiable intangible assets recorded, are preliminary and subject to refinement as plans are finalized and additional information becomes available. Any subsequent adjustments to the fair values of assets and liabilities acquired, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill.

NOTE C CONTINGENCIES

The Company and its subsidiaries are subject, in the ordinary course, to litigation incident to the businesses in which they are engaged. Management presently believes that none of the legal proceedings to which it is a party are likely to have a material adverse effect on the Company s consolidated financial position, or operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

On July 1, 2006, we renewed our property insurance and due to the damages by named storms in the past two years were only able to obtain wind coverage for named storms with a deductible of $5 million and for all other storms a deductible of 5% of insured value. We continue to maintain business interruption insurance. As a result of the hurricanes that struck our markets in 2005, we incurred wind related damage of approximately $700,000 to our facilities, which is well within the new deductible, and which we would be required to pay if we suffered similar losses in the future. At July 1, 2006, the insured value of all of the Company s properties approximated $50 million. Insurance coverage of properties securing our loans may be subject to similar increases in deductibles or other terms that decrease the available insurance coverage and that may result in more risk to our borrowers and our real estate-secured loans. Inflation, changes in building codes and ordinances, environmental considerations and other factors may also make it more expensive, in light of the reduced insurance available, for us or our borrowers to replace or repair wind damage to our respective properties.

NOTE D - COMPREHENSIVE INCOME

At September 30, 2006 and 2005, comprehensive income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2006	2005	2006	2005
Net income	$ 5,869	$ 5,565	$18,169	$14,926
Unrealized gain (loss) on cash flow hedge (net of tax)	0	(2)	0	55
Unrealized losses on securities held for sale (net of tax)	2,333	(858)	1,036	(866)
Net reclassification adjustment	0	0	113	0
Comprehensive income	$ 8,202	$ 4,705	$ 19,318	$14,115

NOTE E BASIC AND DILUTED EARNINGS PER COMMON SHARE

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Basic:				
Net income	$ 5,869	$ 5,565	$ 18,169	$ 14,926
Average shares outstanding	18,767,257	16,856,109	18,142,813	16,175,803
Basic EPS	$ 0.31	$ 0.33	$ 1.00	$ 0.92
Diluted:				
Net income	$ 5,869	$ 5,565	$ 18,169	$ 14,926
Average shares outstanding	18,767,257	16,856,109	18,142,813	16,175,803
Net effect of dilutive stock options	374,227	397,427	374,695	380,649
TOTAL	19,141,484	17,253,536	18,517,508	16,556,452
Diluted EPS	$ 0.31	$ 0.32	$ 0.98	$ 0.90

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NOTE F TERM LOAN / LINE OF CREDIT

On February 16, 2006, the Company reduced the amount available to be borrowed under its unsecured revolving line of credit from $15.0 million to $8.0 million and entered into a $12.0 million term loan with a maturity of three years from the inception date. The revolving unsecured line of credit was (and is) renewable annually. The addition of the term loan provides a stable, more long-term source of funding for the parent company. The rate for the unsecured revolving line of credit adjusts quarterly based on the 3-month London InterBank Offered Rate (LIBOR) plus 130 basis points. No advances have been drawn on the unsecured revolving line of credit since February 16, 2006; the rate on advances during the first quarter of 2006 (prior to February 16, 2006) was 5.83 percent. The rate on the term loan also adjusts quarterly, based on the 3-month LIBOR plus 133 basis points; the rate during the first, second and third quarter of 2006 was 6.05 percent, 6.28 percent and 6.80 percent, respectively; the rate for the fourth quarter of 2006 is 6.67 percent.

Proceeds from the $12.0 million term loan were for the payment of all of the outstanding balance on the unsecured line of credit, to maintain capital and for general corporate purposes.

NOTE G STOCK COMPENSATION

The Company adopted Statement of Financial Accounting Standards No. 123R during the first quarter of 2006 using the modified retrospective application method. Therefore, the beginning balances of additional paid-in capital and retained earnings have been adjusted to reflect the adoption. The adjustments did not have a material effect on the Company s financial condition, the results of operation or liquidity.

The Company s stock option and stock appreciation rights plans were approved by the Company s shareholders on April 25, 1991, April 25, 1996, and April 20, 2000. The number of shares of common stock that may be granted pursuant to the 1991 and 1996 plans shall not exceed 990,000 shares for each plan and pursuant to the 2000 plan shall not exceed 1,320,000 shares. The Company has granted options and stock appreciation rights on 826,000, 933,000 and 464,000 shares for the 1991, 1996 and 2000 plans, respectively, through September 30, 2006. Under the 2000 plan the Company granted stock settled appreciation rights (SSARs) of 116,000 shares and issued 21,000 shares of restricted stock awards during 2006, granted options on 56,000 shares and issued 28,000 shares of restricted stock awards during 2005 and granted options on 99,000 shares and issued 52,000 shares of restricted stock awards during 2004. Under the plans, the option or SSARs exercise price equals the common stock s market price on the date of the grant. All options issued prior to December 31, 2002 have a vesting period of four years and a contractual life of ten years. All options or SSARs issued after that have a vesting period of five years and a contractual life of ten years; in addition, 50,000 options may accelerate their vesting upon obtainment of minimum earnings growth. To the extent the Company has treasury shares available, stock options exercised or stock grants awarded may be issued from treasury shares or, if treasury shares are lacking, the Company can issue new shares. The Company has a single share repurchase program in place, approved on September 18, 2001, authorizing the repurchase of up to 825,000 shares; the maximum number of shares that may yet be purchased under this program is 334,000. The Company does not intend to repurchase any significant amount of shares at this time.

Stock option fair value is measured on the date of grant using the Black-Scholes option pricing model with market assumptions. Option pricing models require the use of highly subjective assumptions, including expected price volatility, which when changed can materially affect fair value estimates. Accordingly, the model does not necessarily provide a reliable single measure of the fair value of the Company s stock options or SSARs. The more significant assumptions used in estimating the fair value of stock options and SSARs include risk-free interest rates ranging from 5.10 percent to 5.18 percent in 2006, 3.90 percent to 4.50 percent in 2005, 4.22 percent in 2004 and 4.25 percent in 2003; dividend yields of 2.19 percent to 2.25 percent in 2006, 2.36 percent in 2005, 2.52 percent in 2004 and 2.92 percent in 2003; weighted average expected lives of the stock options of 5 years and 7 years in 2006, 7 years in 2005 and 5 years in 2004 and 2003; and volatility of the Company s common stock of 18 percent in 2006 and 2005, and 13 percent in 2004 and 2003. Additionally, the estimated fair value of stock options and SSARs is reduced by an estimate of forfeiture experience which ranged from 12 percent to 22 percent for 2006, and was 13 percent for 2005, 2004 and 2003.

On approximately one-half of the restricted stock awards the restriction expiration is dependent upon the Company achieving minimum earnings per share growth during a five-year vesting period. The following table presents a summary of stock option and SSARs activity for the nine months ended September 30, 2006:

	Number of Shares	Option or SSAR Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
January 1, 2006	737,000	$6.59 $22.92	$13.22	
Granted	116,000	26.72 - 27.36	26.74	
Exercised	(92,000)	6.59 17.08	7.32	
Sept. 30, 2006	761,000	6.59 27.36	16.01	$10,802,000

Cash received for stock options exercised during the first nine months of 2006 totaled $681,000; the intrinsic value of options exercised totaled $1,834,000 based on market price at the date of exercise. No tax benefits were realized from the exercise of the stock options and no cash was utilized to settle equity instruments granted under stock option awards.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2006:

Options / SSARs Outstanding		Options / SSARs Exercisable (Vested)			
Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Number of Shares Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
761,000	5.66	405,000	11.12	3.27	$7,729,000

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Since December 31, 2005, SSARs for 116,000 shares have been granted and stock options for 11,000 shares have vested; no stock options or SSARS have been forfeited. Non-vested stock options and SSARs for 356,000 shares were outstanding at September 30, 2006 and are as follows:

Number of Non-Vested Stock Options and SSARs	Weighted Average Remaining Contractual Life In Years	Weighted Average Fair Value	Remaining Unrecognized Compensation Cost	Weighted Average Remaining Recognition Period in Years
356,000	8.37	3.66	$936,000	3.81

Since December 31, 2005, restricted stock awards on 21,000 shares have been issued, but no awards have vested or been forfeited. Non-vested restricted stock awards for a total of 205,000 shares were outstanding at September 30, 2006, 21,000 more than at December 31, 2005, and are as follows:

Number of Non-Vested Restricted Stock Award Shares	Remaining Unrecognized Compensation Cost	Weighted Average Remaining Recognition Period in Years
205,000	$1,874,000	3.08

During the first, second and third quarters of 2006, the Company recognized $295,000 pre-tax ($210,000 after-tax), $290,000 pre-tax ($202,000 after-tax) and $312,000 pre-tax ($216,000 after-tax), respectively, of non-cash compensation expense.

No cash was utilized to settle equity instruments granted under restricted stock awards. No compensation cost has been capitalized and no modifications have occurred with regard to the contractual terms for stock options, SSARs or restricted stock awards.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER 2006

The following discussion and analysis is designed to provide a better understanding of the significant factors related to the Company's results of operations and financial condition. Such discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the notes attached thereto included in this report.

ACQUISITION / MERGERS

On April 1, 2006, the Company acquired Big Lake Financial Corporation (Big Lake , a holding company) and its single banking subsidiary, Big Lake National Bank, a commercial bank located in central Florida serving the counties of DeSoto, Glades, Hardee, Hendry, Highlands, Okeechobee and St. Lucie. Loans and deposits totaling approximately $204 million and $301 million, respectively, at March 31, 2006 were acquired. On June 5, 2006, the Company merged Big Lake National Bank into Seacoast National Bank, one of its other bank subsidiaries.

On August 11, 2006, the Company merged its subsidiary bank Century National Bank (Century) into Seacoast National Bank. Century had been operating as a separate banking subsidiary since its acquisition on April 30, 2005.

With the completion of these integrations, the Company is again operating with a single bank subsidiary, Seacoast National Bank.

RECENT DEVELOPMENTS

Recently, National City Corporation (NCC) announced the acquisition of two of the Company s primary competitors in its South Florida Coastal markets. This is NCC s (headquartered in Cleveland, Ohio) first acquisition in the state of Florida and it plans to integrate the Florida based companies in 2007 after appropriate approvals have been received. The acquisition may provide Seacoast and the other remaining banking companies an opportunity to gain additional business as a result of customer and employee loss due to difficulties with the integration. However, NCC may also prove to be a more able competitor for Seacoast.