TriState Capital Holdings, Inc.
Form 10-Q
May 02, 2014
Table of Contents

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

FORM 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period ended March 31, 2014
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number: 001-35913

TRISTATE CAPITAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	20-4929029
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Oxford Centre
301 Grant Street, Suite 2700
Pittsburgh, Pennsylvania 15219
(Address of principal executive offices)
(Zip Code)
(412) 304-0304
(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. S Yes £ No

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

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

Large accelerated filer	£		Accelerated filer	S
Non-accelerated filer	£	(Do not check if a smaller reporting company)	Smaller reporting company	£

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

As of April 30, 2014, there were 28,690,279 shares of the registrant's common stock, no par value, outstanding.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARY

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)	March 31, 2014	December 31, 2013
ASSETS		
Cash	$1,283	$947
Interest-earning deposits with other institutions	284,825	139,799
Federal funds sold	5,341	5,812
Cash and cash equivalents	291,449	146,558
Investment securities available-for-sale, at fair value (cost: $177,421 and $204,907, respectively)	176,047	202,581
Investment securities held-to-maturity, at cost (fair value: $25,045 and $24,457, respectively)	25,233	25,263
Total investment securities	201,280	227,844
Loans held-for-investment	1,930,491	1,860,775
Allowance for loan losses	(18,752)	(18,996)
Loans receivable, net	1,911,739	1,841,779
Accrued interest receivable	6,036	6,180
Investment management fees receivable	6,735	—
Federal Home Loan Bank stock	2,336	2,336
Goodwill and other intangibles, net	54,275	—
Office properties and equipment, net	4,225	4,275
Bank owned life insurance	42,196	41,882
Deferred tax asset, net	11,107	10,595
Prepaid expenses and other assets	10,317	9,060
Total assets	$2,541,695	$2,290,509
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$2,192,963	$1,961,705
Borrowings	20,000	20,000
Accrued interest payable on deposits and borrowings	529	521
Other accrued expenses and other liabilities	28,821	14,338
Total liabilities	2,242,313	1,996,564
Shareholders' Equity:		
Common stock, no par value; 45,000,000 shares authorized; 28,690,279 shares issued and outstanding	280,531	280,531
Additional paid-in capital	8,670	8,471
Retained earnings	11,303	6,687
Accumulated other comprehensive income (loss), net	(1,122)	(1,744)
Total shareholders' equity	299,382	293,945

Total liabilities and shareholders’ equity	$2,541,695	$2,290,509

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2014	2013
Interest income:		
Loans	$17,324	$16,338
Investments	833	907
Interest-earning deposits	151	154
Total interest income	18,308	17,399
Interest expense:		
Deposits	2,425	3,034
Borrowings	21	21
Total interest expense	2,446	3,055
Net interest income before provision for loan losses	15,862	14,344
Provision for loan losses	608	2,132
Net interest income after provision for loan losses	15,254	12,212
Non-interest income		
Investment management fees	2,454	—
Service charges	130	113
Net gain on the sale of investment securities available-for-sale	1,014	784
Swap fees	154	54
Commitment and other fees	494	541
Other income	234	296
Total non-interest income	4,480	1,788
Non-interest expense		
Compensation and employee benefits	8,238	6,276
Premises and occupancy costs	905	780
Professional fees	900	703
FDIC insurance expense	408	365
General insurance expense	253	137
State capital shares tax	314	320
Travel and entertainment expense	435	285
Data processing expense	223	177
Intangible amortization expense	130	—
Other operating expenses	986	585
Total non-interest expense	12,792	9,628
Income before tax	6,942	4,372
Income tax expense	2,326	1,517
Net income	$4,616	$2,855
Earnings per common share:		
Basic	$0.16	$0.13
Diluted	$0.16	$0.13

See accompanying notes to unaudited condensed consolidated financial statements.

4

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(Dollars in thousands)	2014	2013
Net income	$4,616	$2,855
Other comprehensive income (loss):		
Increase (decrease) in unrealized holding gains (losses) net of tax of ($710) and $82, respectively	1,273	(149)
Reclassification adjustment for gains included in net income, net of tax of $363 and $280, respectively	(651)	(504)
Other comprehensive income (loss)	622	(653)
Total comprehensive income	$5,238	$2,202

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)	Preferred Stock (Series C)	Common Stock	Additional Paid-in-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance, December 31, 2012	$46,011	$168,351	$ 7,871	$(6,180)	$1,671	$217,724
Net income	—	—	—	2,855	—	2,855
Other comprehensive income (loss)	—	—	—	—	(653)	(653)
Stock-based compensation expense	—	—	171	—	—	171
Balance, March 31, 2013	$46,011	$168,351	$ 8,042	$(3,325)	$1,018	$220,097
Balance, December 31, 2013	$—	$280,531	$ 8,471	$6,687	$(1,744)	$293,945
Net income	—	—	—	4,616	—	4,616
Other comprehensive income (loss)	—	—	—	—	622	622
Stock-based compensation expense	—	—	199	—	—	199
Balance, March 31, 2014	$—	$280,531	$ 8,670	$11,303	$(1,122)	$299,382

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(Dollars in thousands)	2014	2013
Cash Flows from Operating Activities:		
Net income	$4,616	$2,855
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and intangible amortization expense	423	250
Provision for loan losses	608	2,132
Stock based compensation expense	199	171
Net gain on the sale of investment securities available-for-sale	(1,014)	(784)
Income from investment securities trading	—	(124)
Purchase of investment securities trading	—	(24,752)
Proceeds from the sale of investment securities trading	—	24,876
Net amortization of premiums and discounts	474	708
Increase in investment management fees receivable	(1,431)	—
Decrease (increase) in accrued interest receivable	143	(382)
Increase (decrease) in accrued interest payable	8	(18)
Bank owned life insurance income	(314)	(156)
Decrease in income taxes payable	(160)	(106)
Increase in prepaid income taxes	(1,106)	(1,102)
Other, net	(2,475)	322
Net cash provided by (used in) operating activities	(29)	3,890
Cash Flows from Investing Activities:		
Purchase of investment securities available-for-sale	—	(62,449)
Proceeds from the sale of investment securities available-for-sale	24,424	58,038
Principal repayments and maturities of investment securities available-for-sale	3,649	10,743
Net increase in loans held-for-investment	(71,657)	(55,700)
Proceeds from loan sales	1,089	2,785
Additions to office properties and equipment	(154)	(389)
Acquisition, net of acquired cash	(43,689)	—
Net cash used in investing activities	(86,338)	(46,972)
Cash Flows from Financing Activities:		
Net increase (decrease) in deposit accounts	231,258	(16,494)
Net cash provided by (used in) financing activities	231,258	(16,494)
Net change in cash and cash equivalents during the period	144,891	(59,576)
Cash and cash equivalents at beginning of the period	146,558	200,080
Cash and cash equivalents at end of the period	$291,449	$140,504
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$2,439	$3,073
Income taxes	$3,592	$2,725
Non-cash activity:		
Unsettled purchase of investment securities available-for-sale	$—	$14,549
Contingent consideration	$15,465	$—

See accompanying notes to unaudited condensed consolidated financial statements.

7

Table of Contents

TRISTATE CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATION
TriState Capital Holdings, Inc. (the "Company") is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended. The Company's has two wholly-owned subsidiaries: TriState Capital Bank (the "Bank"), a Pennsylvania-chartered state bank, and Chartwell Investment Partners, Inc. ("Chartwell"), a registered investment advisory company. Chartwell Investment Partners, Inc. was established through the acquisition of Chartwell Investment Partners, LP, which was effective March 5, 2014. The Bank was established to serve the commercial banking and private banking needs of middle-market businesses and high-net-worth individuals. Chartwell provides investment management services to institutional, sub-advisory, and separately managed account clients.

Regulatory approval was received and the Bank commenced operations on January 22, 2007. The Company and the Bank are subject to regulatory examination by the Federal Deposit Insurance Corporation ("FDIC"), the Pennsylvania Department of Banking and Securities, and the Federal Reserve. Chartwell is a registered investment advisor regulated by the Securities and Exchange Commission ("SEC").

The Bank conducts business through its main office located in Pittsburgh, Pennsylvania, as well as its four additional representative offices in Cleveland, Ohio; Philadelphia, Pennsylvania; Princeton, New Jersey; and New York, New York. Chartwell conducts business through its office located in Berwyn, Pennsylvania.

On May 14, 2013, the Company completed the issuance and sale of 6,355,000 shares of its common stock, no par value, in its initial public offering of Common Stock, including 855,000 shares sold pursuant to the exercise in full by its underwriters of their option to purchase additional shares from the Company, at a price to the public of $11.50 per share. The shares were offered pursuant to the Company's Registration Statement on Form S-1. The Company received net proceeds of $66.0 million from the initial public offering, after deducting underwriting discounts and commissions and direct offering expenses.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of related revenue and expense during the reporting period. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be worse than those anticipated in the estimates, which could materially affect the financial results of our operations and financial condition.

The material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses, goodwill and deferred income taxes and its related recoverability, which are discussed later in this section.

CONSOLIDATION
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank and Chartwell (since the acquisition on March 5, 2014), after elimination of inter-company accounts and transactions. The accounts of the Bank, in turn, include its wholly-owned subsidiary, Meadowood Asset Management, LLC, after elimination of inter-company accounts and transactions. The unaudited consolidated financial statements of

the Company presented herein have been prepared pursuant to rules of the Securities and Exchange Commission for quarterly reports on form 10-Q and do not include all of the information and note disclosures required by GAAP for a full year presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures, considered necessary for the fair presentation of the accompanying consolidated financial statements, have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2013, included in the Company's Annual Report on Form 10-K.

BUSINESS COMBINATIONS

We account for business combinations using the acquisition method of accounting. Under this method of accounting, the acquired company’s net assets are recorded at fair value as of the date of acquisition, and the results of operations of the acquired company are combined with our results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill.

Table of Contents

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company has defined cash and cash equivalents as cash, interest-earning deposits with other institutions, federal funds sold, and short-term investments which have an original maturity of 90 days or less.

INVESTMENT SECURITIES

The Company’s investments are classified as either: (1) held-to-maturity – debt securities that the Company intends to hold until maturity and are reported at amortized cost; (2) trading securities – debt and certain equity securities bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings; or (3) available-for-sale – debt and certain equity securities not classified as either held-to-maturity or trading securities and reported at fair value, with changes in fair value reported as a component of accumulated other comprehensive income (loss).

The cost of securities sold is determined on a specific identification basis. Amortization of premiums and accretion of discounts are recorded as interest income from investments over the life of the security utilizing the level yield method. We evaluate impaired investment securities quarterly to determine if impairments are temporary or other-than-temporary. For impaired debt securities, management first determines whether it intends to sell or if it is more-likely than not that it will be required to sell the impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. Impaired debt securities are determined to be other-than-temporarily impaired (“OTTI”) if the Company concludes as of the balance sheet date that it has the intent to sell, or believes it will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. Credit losses on OTTI debt securities are recorded through earnings, regardless of the intent or the requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security’s expected cash flows and its amortized cost basis. Non-credit related OTTI charges are recorded as decreases to accumulated other comprehensive income (loss), in the statement of comprehensive income as well as the shareholders’ equity section of the balance sheet, on an after-tax basis, as long as the Company has no intent or expected requirement to sell the impaired debt security before a recovery of its amortized cost basis.

LOANS

Loans and leases are stated at unpaid principal balances, net of deferred loan fees and costs. Interest income on loans is accrued at the contractual rate on the principal amount outstanding and includes the amortization of deferred loan fees and costs. Deferred loan fees and costs are amortized to interest income over the life of the loan, taking into consideration scheduled payments and prepayments.

The Company considers a loan to be a Troubled Debt Restructuring (“TDR”) when there is a concession made to a financially troubled borrower. Once a loan is deemed to be a TDR, the Company considers whether the loan should be placed in non-accrual status. In assessing accrual status, the Company considers the likelihood that repayment and performance according to modified terms will be achieved, as well as the borrower’s historical payment performance. A loan is designated and reported as TDR until such loan is either paid-off or sold.

The recognition of interest income on a loan is discontinued when, in management's opinion, it is probable the borrower is unable to meet payments as they become due or when the loan becomes 90 days past due, whichever occurs first. All unpaid accrued interest on such loans is reversed. Such interest ultimately collected is applied to reduce principal if there is doubt about the collectability of principal. If a borrower brings a loan current for which accrued interest has been reversed, then the recognition of interest income on the loan is resumed, once the loan has been current for a period of six consecutive months or greater.

The Company is a party to financial instruments with off-balance sheet risk (commitments to extend credit) in the normal course of business to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis using the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary by the Company upon extension of a commitment, is based on management's credit evaluation of the borrower.

OTHER REAL ESTATE OWNED

Real estate, other than bank premises, is recorded at the lower of original cost or fair value less estimated selling costs at the time of acquisition. Fair value is determined based on an independent appraisal. Expenses related to holding the property are charged against earnings in the current period. Depreciation is not recorded on the other real estate owned (“OREO”) properties.

Table of Contents

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through provisions for loan losses that are charged to operations. Loans are charged against the allowance for loan losses when management believes that the principal is uncollectible. If, at a later time, amounts are recovered with respect to loans previously charged off, the recovered amount is credited to the allowance for loan losses.

The allowance is appropriate, in management's judgment, to cover probable losses inherent in the loan portfolio as of March 31, 2014 and December 31, 2013. Management’s judgment takes into consideration general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. Although management believes it has used the best information available to it in making such determinations, and that the present allowance for loan losses is adequate, future adjustments to the allowance may be necessary, and net income may be adversely affected if circumstances differ substantially from the assumptions used in determining the level of the allowance. In addition, as an integral part of their periodic examination, certain regulatory agencies review the adequacy of the Bank’s allowance for loan losses and may direct the Bank to make additions to the allowance based on their judgments about information available to them at the time of their examination.

The components of the allowance for loan losses represent estimates based upon Accounting Standards Codification (“ASC”) Topic 450, Contingencies, and ASC Topic 310, Receivables. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages, consumer lines of credit and commercial loans that are not individually evaluated for impairment under ASC Topic 310. ASC Topic 310 is applied to commercial and consumer loans that are individually evaluated for impairment.

Under ASC Topic 310, a loan is impaired, based upon current information and events, in management's opinion, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest, or if a loan is designated as a troubled debt restructuring. Management performs individual assessments of impaired loans to determine the existence of loss exposure based upon future cash flows or where a loan is collateral dependent, based upon the fair value of the collateral less estimated selling costs.

In estimating probable loan loss under ASC Topic 450 management considers numerous factors, including historical charge-off rates and subsequent recoveries. Management also considers, but is not limited to, qualitative factors that influence our credit quality, such as delinquency and non-performing loan trends, changes in loan underwriting guidelines and credit policies, as well as the results of internal loan reviews. Finally, management considers the impact of changes in current local and regional economic conditions in the markets that we serve. Assessment of relevant economic factors indicates that some of the Company’s primary markets historically tend to lag the national economy, with local economies in our primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends.

Management bases the computation of the allowance for loan losses under ASC Topic 450 on two factors: the primary factor and the secondary factor. The primary factor is based on the inherent risk identified within each of the Company's three loan portfolios based on the historical loss experience of each loan portfolio. Management has developed a methodology that is applied to each of the three primary loan portfolios, consisting of commercial and industrial, commercial real estate and private banking-personal loans. As the loan loss history, mix, and risk rating of each loan portfolio change, the primary factor adjusts accordingly. The allowance for loan losses related to the primary factor is based on our estimates as to probable losses for each loan portfolio. The secondary factor is intended to capture risks related to events and circumstances that may impact the performance of the loan portfolio. Although this factor is more subjective in nature, the methodology focuses on internal and external trends in pre-specified categories (risk factors) and applies a quantitative percentage which drives the secondary factor. There are nine (9) risk factors and each risk factor is assigned a reserve level, based on management's judgment as to the probable impact of each risk factor on each loan portfolio. The impact of each risk factor is monitored on a quarterly basis. As the trend in any risk factor changes, a corresponding change occurs in the reserve associated with each respective risk factor, such that the secondary factor remains current to changes in each loan portfolio.

Loan participations follow the same underwriting and risk rating criteria, and are individually risk rated under the same process as loans directly originated by the Company. The ongoing credit review of participation loans follows the same process that is followed by loans originated directly by the Company. Additionally, management does not rely solely on information from the lead bank when considering the appropriate level of allowance for loan losses to be recorded on any individual participation loan.

The Company also maintains a reserve for losses on unfunded commitments. This reserve is reflected as a component of other liabilities and, in management’s judgment, is sufficient to cover probable losses inherent in the commitments. Management tracks the level and trends in unused commitments and takes into consideration the same factors as those considered for purposes of the allowance for loan losses on outstanding loans.