

TWITTER, INC.  
Form 10-K  
February 21, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 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 Number 001-36164

Twitter, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

20-8913779  
(I.R.S. Employer  
Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

(Address of principal executive offices and Zip Code)

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(415) 222-9670

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.000005 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, 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 filer	Accelerated filer
Non-accelerated filer	Smaller reporting 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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of a share of the registrant's common stock on June 30, 2018 as reported by the New York Stock Exchange on such date was approximately \$31.2 billion.

The number of shares of the registrant's common stock outstanding as of February 7, 2019 was 766,824,550.

Portions of the registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2018.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our ability to attract and retain users and increase the level of engagement, including ad engagement, of our users and its impact on revenue;
- our plans regarding health and user safety, including our expectations regarding the impact on our reported metrics, policies, enforcement and preventing manipulation of our platform;
- our expectations regarding monetizable DAUs (mDAUs), MAUs, changes in cost per ad engagement and changes in ad engagements;
- our ability to develop or acquire new products, product features and services, improve our existing products and services, including with respect to Promoted Tweet product features, video and performance advertising, and increase the value of our products and services;
- our business strategies, plans and priorities, including our plans for growth and hiring, investment in our research and development efforts and our plans to scale capacity and enhance capability and reliability of our infrastructure, including capital expenditures relating to infrastructure;
- our ability to provide new content from third parties, including our ability to secure live streaming video content on terms that are acceptable to us;
- our ability to attract advertisers to our platforms, products and services and increase the amount that advertisers spend with us;
- our expectations regarding our user growth and growth rates and related opportunities as well as the continued usage of our mobile applications, including the impact of seasonality;
- our ability to increase our revenue and our revenue growth rate, including advertising and data licensing and other revenue;
- our ability to improve user monetization;
- our future financial performance, including trends in cost per ad engagement, revenue (including data licensing revenue), cost of revenue, operating expenses, including stock-based compensation and income taxes;
- our expectations regarding fluctuations in our tax expense and cash taxes;
- the impact of the General Data Protection Regulation (GDPR) and other data and privacy regulation;
- our expectations regarding outstanding litigation or the decisions of the courts;
- the effects of seasonal trends on our results of operations;
- the impact of our recent financial results on our valuation allowance for federal and state deferred tax assets;
- the sufficiency of our cash and cash equivalents, short-term investment balance and credit facility together with cash generated from operations to meet our working capital and capital expenditure requirements;
- our ability to timely and effectively develop, invest in, scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets; and
- our expectations regarding international operations and foreign exchange gains and losses.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, cash flows or prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

## NOTE REGARDING KEY METRICS

We review a number of metrics, including monetizable daily active usage or users, or mDAUs, monthly active usage or users, or MAUs, changes in ad engagements and changes in cost per ad engagement, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics” for a discussion of how we calculate mDAUs, MAUs, changes in ad engagements and changes in cost per ad engagement.

We define monetizable daily active usage or users (mDAU) as Twitter users who logged in and accessed Twitter on any given day through Twitter.com or Twitter applications that are able to show ads. Our definition and calculation of mDAU is the same as that of the DAU data presented since the first quarter of 2016. The calculation of mDAU is not based on any standardized industry methodology and is not necessarily calculated in the same manner or comparable to similarly-titled measures presented by other companies. Average mDAU for a period represents the number of mDAU on each day of such period divided by the number of days for such period. Changes in mDAU are a measure of changes in the size of our daily logged in active user base. To calculate the year-over-year change in mDAU, we subtract the average mDAU for the three months ended in the previous year from the average mDAU for the same three months ended in the current year and divide the result by the average mDAU in the previous year.

We define monthly active usage or users (MAU) as Twitter users who logged in or were otherwise authenticated and accessed Twitter through our website, mobile website, desktop or mobile applications, SMS or registered third-party applications or websites in the 30-day period ending on the date of measurement. Average MAU for a period represent the average of the MAU at the end of each month during the period. We believe that mDAU, and its related growth, are the best ways to measure our success against our objectives and to show the size of our audience and engagement going forward, so we will discontinue disclosing MAU after the first quarter of 2019.

Certain metrics also include users that access Twitter through applications that automatically contact our servers for regular updates with no discernible user-initiated action involved, which we refer to as third-party auto-polling MAU. This activity causes our system to count MAUs associated with such applications as active users on the day or days such contact occurs. As of December 31, 2018, fewer than 8.5% of MAUs may have been third-party auto-polling MAU. Third-party auto-polling does not apply to mDAU as mDAU does not include users accessing Twitter through third-party applications.



The numbers of active users presented in this Annual Report on Form 10-K are based on internal company data. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. Furthermore, our metrics may be impacted by our information quality efforts, which are our overall efforts to reduce malicious activity on the service, inclusive of spam, malicious automation, and fake accounts. For example, there are a number of false or spam accounts in existence on our platform. We have performed an internal review of a sample of accounts and estimate that the average of false or spam accounts during the fourth quarter of 2018 represented fewer than 5% of our MAU and mDAU during the quarter. The false or spam accounts for a period represents the average of false or spam accounts in the samples during each monthly analysis period during the quarter. In making this determination, we applied significant judgment, so our estimation of false or spam accounts may not accurately represent the actual number of such accounts, and the actual number of false or spam accounts could be higher than we have estimated. We are continually seeking to improve our ability to estimate the total number of spam accounts and eliminate them from the calculation of our active users, and have made improvements in our spam detection capabilities that have resulted in the suspension of a large number of spam, malicious automation and fake accounts. We intend to continue to make such improvements. After we determine an account is spam, malicious automation or fake, we stop counting it in our MAU, mDAU, or related metrics. Additionally, we rely on third-party SMS aggregators and mobile carriers to deliver SMS messages to certain of our users when we send our SMS messages to such accounts. If, however, we are notified of material deliverability issues because of, for example, infrastructure issues at the service-provider level or governmental restrictions based on content, we do not include the affected users in MAUs. We also treat multiple accounts held by a single person or organization as multiple users for purposes of calculating our active users because we permit people and organizations to have more than one account. Additionally, some accounts used by organizations are used by many people within the organization. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform.

In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAU and mDAU is based on the IP address or phone number associated with the account when a user initially registered the account on Twitter. The IP address or phone number may not always accurately reflect a user's actual location at the time such user engaged with our platform. For example, a mobile user may appear to be accessing Twitter from the location of the proxy server that the user connects to rather than from a user's actual location.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology.

Our total audience metrics are based on both internal metrics and data from Google Analytics, which measures logged-out visitors to our properties.

## PART I

### Item 1. BUSINESS

#### Overview

Twitter is what's happening in the world and what people are talking about right now. From breaking news and entertainment, to sports, politics, and everyday interests, Twitter shows every side of the story. On Twitter you can join the open conversation and watch highlights, clips, or live-streaming events. Twitter is available in more than 40 languages around the world. The service can be accessed via twitter.com, an array of mobile devices via Twitter owned and operated mobile applications (e.g. Twitter for iPhone and Twitter for Android), and SMS.

In 2018, we took important steps to increase the collective health, openness, and civility of the public conversation on Twitter, helping people see high-quality information, strengthening our sign-up and account verification processes, and preventing the abuse of Twitter data. Specific actions we took in 2018 included: strengthening account security, updating our rules to more clearly address specific types of hateful conduct, taking new behavior-based signals into account when presenting and organizing Tweets, making it easier to see when a Tweet was removed for breaking our rules, and expanding our team through increased hiring and acquisition. In 2018, our machine learning efforts continued to improve, making it harder for malicious accounts to manipulate our service through multiple accounts and evading suspension, resulting in the suspension of millions of spammy and suspicious accounts. We also continued our work to make it easier to follow and discuss events as they are unfolding with expanded coverage of sports, entertainment, news, elections, and other topics and events.

#### Products and Services for Users

Our primary product, Twitter, is a global platform for public self-expression and conversation in real time. Twitter allows people to consume, create, distribute and discover content and has democratized content creation and distribution. Periscope is a mobile application that lets anyone broadcast and watch video live with others. Periscope broadcasts can also be viewed through Twitter and on desktop or mobile web browsers. We continue to implement live broadcasts across Twitter, including trends and moments, to help people discover what's happening live.

The reach of Twitter content is not limited to our logged-in users on the Twitter platform, but rather extends to a much larger global audience. The public nature of the Twitter platform allows us and others to extend the reach of Twitter content beyond our properties. Over 1 million media outlets and our platform partners distribute Tweets beyond our properties to complement their content by making it more timely, relevant and comprehensive. These outlets and partners also add value to our user experience by contributing content to our platform. Many of the world's most trusted media outlets and publishers regularly use Twitter as a platform for content distribution.

#### Products and Services for Advertisers

Our Promoted Products enable our advertisers to launch products and services and promote their brands, amplify their visibility and reach, and connect with our audience, while extending the conversation around their advertising campaigns. We enable our advertisers to target an audience based on a variety of factors, including a user's interest graph. The interest graph maps, among other things, interests based on users followed and actions taken on our platform, such as Tweets created and engagement with Tweets. We believe a user's interest graph produces a clear and

real-time signal of a user's interests, greatly enhancing the relevance of the ads we can display for users and enhancing our targeting capabilities for advertisers. Our Promoted Products are incorporated into our platform as native advertising and are designed to be as compelling and useful to our users as organic content on our platform.

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Currently, our Promoted Products consist of:

Cash and cash equivalents at end of period	\$ 99,504	\$ 99,826
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands)	Three Months Ended	
	March 31, 2008	2007
Reconciliation of net income to cash provided by (used in) operating activities		
Net Income	\$1,763	\$2,769
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	811	771
Amortization (accretion) of premiums and discounts on securities	(161)	(80)
Other amortization and accretion	96	16
Trading securities activity	5,000	0
Change in loans held for sale, net	4,971	(1,774)
Provision for (recovery of) loan losses	5,500	(550)
Losses on sale of securities	0	2
Securities restructuring losses	0	5,118
Gain on sale of loans	(84)	(94)
Write-down of other real estate owned	134	2
Loss on disposition of fixed assets	(89)	2
Change in interest receivable	301	(509)
Change in interest payable	(535)	433
Change in prepaid expenses	35	(274)
Change in accrued taxes	878	1,061
Change in other assets	(90)	(9,357)
Change in other liabilities	(1,653)	(1,920)
Net cash provided by (used in) operating activities	\$16,877	\$(4,384)

Supplemental disclosure of non-cash investing activities:

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Fair value adjustment to available for sale securities	\$2,294	\$452
Transfer of loans to other real estate owned	318	135
Transfer of loans to loans held for sale	5,200	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 three-month period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007.

*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.

NOTE B CONTINGENCIES

The Company and its subsidiaries, because of the nature of their businesses, are at all times subject to numerous legal actions, threatened or filed. Management presently believes that none of the legal proceedings to which it is a party are likely to have a materially adverse effect on the Company's consolidated financial condition, operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

NOTE C - COMPREHENSIVE INCOME

At March 31, 2008 and 2007, comprehensive income was as follows:

Three Months Ended

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(Dollars in thousands)	March 31,	
	2008	2007
Net income	\$1,763	\$2,769
Unrealized gains on securities available for sale (net of tax)	1,419	278
Net reclassification adjustment	0	2,226
Comprehensive income	\$3,182	\$5,273

NOTE D BASIC AND DILUTED EARNINGS PER COMMON SHARE

Equivalent shares of 820,000 and 38,000 related to stock options and stock settled appreciation rights for the periods ended March 31, 2008 and 2007, respectively, were excluded from the computation of diluted EPS because they would have been anti-dilutive.

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2008	2007
Basic:		
Net income	\$ 1,763	\$ 2,769
Average shares outstanding	18,928,375	18,960,154
Basic EPS	\$ 0.09	\$ 0.15
Diluted:		
Net income	\$ 1,763	\$ 2,769
Average shares outstanding	18,928,375	18,960,154
Net effect of dilutive options and stock settled appreciation rights issued to executives	118,045	194,727

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TOTAL	19,046,420	19,154,881
Diluted EPS	\$ 0.09	\$ 0.14

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## NOTE E FAIR VALUE INSTRUMENTS MEASURED AT FAIR VALUE

In certain circumstances, fair value enables the Company to more accurately align its financial performance with the market value of actively traded or hedged assets and liabilities. Fair values enable a company to mitigate the non-economic earnings volatility caused from financial assets and financial liabilities being carried at different bases of accounting, as well as to more accurately portray the active and dynamic management of a company's balance sheet. The Company elected to early-adopt SFAS 157 and SFAS 159, as of January 1, 2007. Under SFAS 157, "Fair Value Measurements", and SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities", fair value measurements for items measured at fair value at March 31, 2008 and 2007 included:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2008				
Trading securities	\$ 8,994	\$ 8,994		
Available for sale securities	254,395	254,395		
Loans held for sale	3,889		\$3,889	
Loans (2)	23,670		843	\$ 22,827
Derivatives product assets	307		307	
Other real estate owned (1)	940		940	
March 31, 2007				
Available for sale securities	297,438	297,438		
Loans held for sale	7,662		7,662	
Loans (2)	145		145	
Derivatives product liabilities	399		399	
Other real estate owned (1)	133		133	

(1) Fair value is measured on a nonrecurring basis in accordance with SFAS No. 144.

(2) See Note F. Nonrecurring fair value adjustments to loans identified as impaired reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*. When appraisals are used to determine fair value and the appraisals are based on a market approach, the related loan's fair value is classified as Level 2 input. The fair value of loans based on appraisals which require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows, are classified as Level 3 inputs.

For trading securities, derivative product assets and liabilities, and loans held for sale, the realized and unrealized gains and losses are included in earnings in noninterest income or net interest income, as appropriate, and were not material for the three-month period ended March 31, 2008 and 2007.

#### NOTE F IMPAIRED LOANS AND ALLOWANCE FOR LOAN LOSSES

At March 31 2008 and 2007, the Company's recorded investment in impaired loans and related valuation allowance was as follows:

(Dollars in thousands)	2008		2007	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans without an allowance	\$39,740	\$0	\$0	\$0
Impaired loans with an allowance	\$25,266	\$1,596	\$234	\$89
<b>TOTAL</b>	<b>\$65,006</b>	<b>\$1,596</b>	<b>\$234</b>	<b>\$89</b>

The valuation allowance is included in the allowance for loan losses. The impaired loans were measured for impairment based primarily on the value of underlying collateral. The majority of impaired loans are to residential real estate developers for construction and land development. These relationships including the impaired balances have been and continue to be assessed and evaluated to determine the probable loan loss. This evaluation includes

obtaining current appraisal values for the property, assessing the value of personal guarantees and requires significant management judgment. Depending on changes in circumstances involving each exposure, future assessments of probable losses may yield materially different results, which may result in a material increase or decrease in the allowance for loan losses.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful at which time payments received are recorded as reductions to principal.

Nonaccrual loans and accruing loans past due 90 days or more at March 31, 2008 and 2007 were \$64,730,000 and \$276,000, respectively, for 2008 and \$3,955,000 and \$799,000, respectively for 2007.

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## NOTE G: RECENT ACCOUNTING STANDARDS

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 amends ARB 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be clearly reported as equity in the consolidated financial statements. Additionally, SFAS 160 requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. The provisions of this Statement are effective for fiscal years beginning on or after December 15, 2008, and earlier application is prohibited. Prospective application of this Statement is required, except for the presentation and disclosure requirements which must be applied retrospectively. The Company is currently assessing the potential impact SFAS 160 will have on the financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, by requiring expanded disclosures about an entity's derivative instruments and hedging activities, but does not change SFAS 133's scope or accounting. This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. To meet those objectives, this Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures in a tabular format about fair value amounts of and gains and losses on derivative instruments including specific disclosures regarding the location and amounts of derivative instruments in the financial statements, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 also amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to clarify that derivative instruments are subject to the SFAS 107 concentration of credit-risk disclosures. The provisions of this Statement are effective for fiscal years beginning after November 15, 2008, and earlier application is permitted.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FIRST QUARTER 2008

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.

### NEW OFFICES / CLOSURES FOR 2008

During the first quarter of 2008, the Company's banking subsidiary consolidated three branch locations; the Ft. Pierce WalMart branch office in St. Lucie County was merged with an existing full service branch and closed on February 28, 2008, the Mariner Square branch in Martin County and the Juno Beach branch in Palm Beach County were consolidated with a newer branch serving the same market and were closed on March 31, 2008. A new branch in western Port St. Lucie, Florida in an area with major retail development on Gatlin Boulevard was opened in March 2008. The Company has also upgraded its Arcadia branch location in DeSoto County, significantly increasing this

location's size in April 2008. A second branch in Brevard County and a new, more accessible office replacing the Rivergate branch in St. Lucie County are under construction and should also be completed during the second quarter of 2008. Prospectively, two existing branches in proximity to new offices planned for 2008 are expected to close simultaneously with branch openings.

During 2007, Seacoast National Bank, the Company's primary banking subsidiary, opened several offices, including its first Brevard County branch office in the Viera area; the existing loan production office in Brevard County closed during the second quarter of 2007, with personnel moving to this new branch location. In addition, during the first quarter of 2007 a loan production office was opened in Broward County in a temporary location pending completion of improvements to a permanent location on U.S. Highway One in Ft. Lauderdale, which opened in October 2007. The Company closed its Port St. Lucie WalMart location in St. Lucie County on December 31, 2007.

## EARNINGS SUMMARY

Net income for the first quarter of 2008 totaled \$1,763,000 or \$0.09 per share diluted, compared to \$1,903,000 or \$0.10 per share diluted in the fourth quarter of 2007 and \$2,769,000 or \$0.14 per share diluted in the first quarter of 2007.

## CRITICAL ACCOUNTING ESTIMATES

Management, after consultation with the Company's Audit Committee, believes the most critical accounting estimates and assumptions that may affect the Company's financial status and that involve the most difficult, subjective and complex assessments are:

- the allowance and the provision for loan losses;
- the fair value of securities;
- goodwill impairment; and
- contingent liabilities.

The following is a brief discussion of the critical accounting policies intended to facilitate a reader's understanding of the judgments, estimates and assumptions underlying these accounting policies and the possible or likely events or uncertainties known to us that could have a material effect on our reported financial information.

#### Allowance and Provision for Loan Losses

The information contained on pages 18-19 and 23-29 related to the Provision for Loan Losses, Loan Portfolio, Allowance for Loan Losses and Nonperforming Assets is intended to describe the known trends, events and uncertainties which could materially impact the Company's accounting estimates related to the Company's allowance for loan losses.

#### Fair Value of Securities Classified as Trading and Available for Sale

The use of fair value accounting for financial instruments enables the Company to better align the financial results of those items with their economic value.

At March 31, 2008, trading securities totaled \$8,994,000 and available for sale securities totaled \$254,395,000. The fair value of the available for sale portfolio at March 31, 2008 was more than historical amortized cost, producing net unrealized gains of \$2,794,000 that have been included in other comprehensive income as a component of shareholders' equity. The Company made no change to the valuation techniques used to determine the fair values during the first quarter 2008. The fair value of each security available for sale or trading was obtained from independent pricing sources utilized by many financial institutions. However, actual values can only be determined in an arms-length transaction between a willing buyer and seller that can, and often do, vary from these reported values. Furthermore, significant changes in recorded values due to changes in actual and perceived economic conditions can occur rapidly, producing greater unrealized losses in the available for sale portfolio.

The credit quality of the Company's security holdings is investment grade and higher and are traded in highly liquid markets. Negative changes in the fair values, as a result of unforeseen deteriorating economic conditions, should only be temporary. Further, management believes that the Company's other sources of liquidity, as well as the cash flow from principal and interest payments from the securities portfolio, reduces the risk that losses would be realized as a result of needed liquidity from the securities portfolio.

#### Goodwill Impairment

The Company's goodwill is tested annually for impairment. The amount of goodwill at March 31, 2008 totaled \$49.8 million, and results from the acquisitions of three separate community banks whose operations have been fully integrated into one operating subsidiary bank of the Company.

The assessment as to the continued value for goodwill involves judgments, assumptions and estimates regarding the future. At year-end 2007, the Company's closing price per share in the open market approximated 92 percent of book value per share which was considered as a possible indication of impairment. The Company updated its annual impairment analysis, after January 1, 2008 using the assistance of an independent third party. In performing the analysis, management considered the make-up of assets and liabilities (loan and deposit composition), scarcity value, capital ratios, market share, credit quality, control premiums, the type of financial institution, its overall size, the various markets in which the institution conducts business, as well as, profitability. Based upon the results of this analysis, management concluded that goodwill had suffered no impairment at December 31, 2007. The market capitalization of Seacoast has increased by approximately \$15 million since year-end 2007 and no event has transpired to cause management to believe a significant change in valuation has occurred. Management anticipates that goodwill will need to be tested more frequently for impairment during this period of economic stress and uncertainty which could result in future impairment.

Our highly visible local market orientation, combined with a wide range of products and services and favorable demographics, provides the Company with a wide range of opportunities to increase sales volumes, both to existing and prospective customers, resulting in increasing profitability in these markets over the long term.

#### Contingent Liabilities

The Company is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings, tax and other claims arising from the conduct of our business activities. These proceedings include actions brought against the Company and/or our subsidiaries with respect to transactions in which the Company and/or our subsidiaries acted as a lender, a financial advisor, a broker or acted in a related activity. Accruals are established for legal and other claims when it becomes probable the Company will incur an expense and the amount can be reasonably estimated. The Company involves internal and external experts, such as attorneys, consultants and other professionals, in assessing probability and in estimating any amounts involved. Throughout the life of a contingency, the Company or our experts may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in recorded reserves. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts reserved for those claims. During the first quarter of 2008, the Company reversed \$130,000 of a \$275,000 charge it had recorded as of December 31, 2007 for its portion of Visa® credit card litigation and settlement costs. Visa®'s initial public offering was successfully completed during the first quarter of 2008, eliminating the need for this accrual. Management is not aware of any other probable losses.

#### RESULTS OF OPERATIONS

## NET INTEREST INCOME

Net interest income (on a fully taxable equivalent basis) for the first quarter of 2008 totaled \$20,562,000, declining modestly from 2007's fourth quarter by \$162,000 or 0.8 percent and lower than first quarter 2007's result by \$870,000 or 4.1 percent. The following table details net interest income and margin results (on a tax equivalent basis) for the past five quarters:

(Dollars in thousands)	Net Interest Income	Net Interest Margin
First quarter 2007	21,432	3.92
Second quarter 2007	21,468	4.09
Third quarter 2007	21,147	3.94
Fourth quarter 2007	20,724	3.71
First quarter 2008	20,562	3.74

Net interest margin on a tax equivalent basis improved 3 basis points to 3.74 percent for first quarter 2008 compared to fourth quarter 2007, but was lower by 18 basis points year over year. Improvements in net interest margin in the second quarter of 2007 (up 17 basis points from 3.92 percent in the first quarter of 2007) reflected the effect of management's restructuring of the investment portfolio during April 2007. Since then, the Company has operated in a more challenging lending environment with unrecognized interest on loans placed on nonaccrual the primary contributor to declines in net interest income and margin in the third and fourth quarter of 2007, as well as first quarter 2008 versus first quarter 2007.

The earning asset mix improved year over year. For 2008, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 85.8 percent, compared to 79.4 percent a year ago. Average securities as a percent of average earning assets decreased from 19.8 percent a year ago to 13.0 during first quarter 2008 and federal funds sold and other investments increased slightly to 1.2 percent from 0.7 percent over the same period in 2007. In addition to increasing average total loans as a percentage of earning assets, the mix of loans changed, with commercial and commercial real estate volumes representing 62.1 percent of total loans at March 31, 2008 (compared to 60.5 percent a year ago at March 31, 2007) and lower yielding residential loan balances (including home equity loans and lines, and construction loans) representing 33.4 percent of total loans (versus 34.7 percent a year ago) (see Loan Portfolio).

The yield on earning assets for first quarter 2008 was 6.40 percent, 52 basis points lower than for first quarter 2007, a reflection of the declining interest rate environment. The Federal Reserve decreased interest rates 100 basis points between September 2007 and the end of 2007, and an additional 200 basis points from year-end 2007 to the end of March 2008. The following table details the yield on earning assets (on a tax equivalent basis) for the past five quarters:



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	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	2008	2007	2007	2007	2007
Yield	6.40%	6.71%	7.05%	7.10%	6.92%

The yield on loans declined 90 basis points to 6.62 percent over the last twelve months. The yield on investment securities was improved, increasing 68 basis points year over year to 5.15 percent, due primarily to the restructuring of the investment portfolio at the beginning of the second quarter of 2007 when approximately \$225 million in securities with an average yield of 3.87 percent was sold. Federal funds sold (and other investments) yielded 4.54 percent for the first quarter 2008, lower when compared to 6.25 percent a year ago for the same period.

Average earning assets for the first quarter of 2008 decreased \$6.5 million or 0.3 percent compared to the fourth quarter of 2007. Average loan balances decreased \$16.4 million (or 0.9 percent) to \$1,897.6 million, average federal funds sold and other investments decreased \$7.0 million to \$26.3 million, and average investment securities were \$16.9 million (or 6.2 percent) higher, totaling \$288.7 million.

While loan demand has weakened, the Company's successful expansion with the addition of full service branch locations in Broward and Brevard County in 2007, and loan officer additions in the Treasure Coast, Big Lake and Orlando regions continue to provide significant pipelines for commercial lending. At March 31, 2008, commercial lenders in the Company's newer markets (Palm Beach County, Brevard County, Broward County, Orlando, and the Big Lake region) have new loan pipelines totaling \$251 million and total outstanding loans of \$815 million (compared to \$96 million and \$751 million a year ago, respectively). At March 31, 2008 the Company's total commercial and commercial real estate loan pipeline was \$299 million, versus \$308 million at March 31, 2007.

Commercial and commercial real estate loan production for the first quarter of 2008 totaled \$57 million, compared to \$76 million for the first quarter a year ago and \$72 million for the fourth quarter of 2007. Economic conditions in the markets the Company serves are expected to be more challenging in 2008 and the Company expects annual loan growth to slow from the 9.5 percent rate achieved in 2007 due to expected pay-downs and reduced loan production.

Closed residential loan production for the first quarter of 2008 totaled \$30 million, of which \$14 million was sold servicing released. In comparison, \$27 million in residential loans were produced in the fourth quarter of 2007, with \$9 million sold servicing released, and \$35 million was produced in the first quarter of 2007, with \$15 million sold servicing released. A slow down in existing home sales in the Company's markets have reduced demand for residential mortgages and demand for new homes is expected to remain soft into 2008.

During the first quarter of 2008, maturities (principally pay-downs) of securities totaled \$18.1 million, \$400,000 in security sales were transacted, and security portfolio purchases totaled \$9.8 million. In comparison, during the first quarter of 2007, maturities (principally pay-downs) of securities totaled \$28.1 million, no security sales were transacted, and security purchases totaled \$4.0 million. Purchases were nominal, conducted principally for pledging requirements.

Still a significant component favorably affecting the Company's net interest margin, the average balance for lower cost interest bearing deposits (NOW, savings and money market) increased to 62.2 percent of average total interest deposits during the first quarter of 2008, versus 60.8 percent a year ago and 60.6 percent for the fourth quarter of 2007. Average certificates of deposit (CDs) (a higher cost component of interest bearing deposits) decreased to 37.8 percent of interest bearing deposits from 39.2 percent a year ago and fourth quarter 2007's result of 39.4 percent. Some of the decline in low cost funding caused by interest rate increased over the past couple years incenting customers to migrate to higher paying CDs, repurchase agreements or investments in financial markets (stocks, bonds, etc.) is likely to reverse with the Federal Reserve's recent shift to lower rates. Public fund deposits factor significantly as well prospectively since local governmental bodies and municipalities previously maintaining funds with the State of Florida, in many instances, are actively bidding proposals to local banks for placement of deposits.

Because of expected loan payoffs and cash flow from investment securities during 2007, the Company chose to temporarily rely on short-term borrowings during the first quarter of 2007. Average federal funds purchased increased to 5.6 percent of average interest bearing liabilities during the first quarter of 2007 versus 0.7 percent for first quarter 2008, with overall short-term borrowings (including federal funds purchased and sweep repurchase agreements with customers of the Company's subsidiary) higher at 12.9 percent of interest bearing liabilities for the first quarter of 2007, versus 5.7 percent for 2008.

Other borrowings (comprised of subordinated debt and advances from the Federal Home Loan Bank or FHLB) have not increased since year-end 2007. However, average other borrowings for the first quarter 2008 increased by \$51.1 million or 75.4 percent to \$118.8 million when compared to first quarter 2007. Since the end of the first quarter of 2007, the following activity has occurred:

(1) On June 29, 2007, the Company issued \$12,372,000 in subordinated debentures, and simultaneously paid off a 3-year term loan for \$12,000,000 originated on February 16, 2006. The rate on the term loan adjusted quarterly and was based on the 3-month LIBOR plus 130 basis points. The subordinated debt was issued in conjunction with the formation of a Delaware trust subsidiary, SBCF Statutory Trust III, which completed a private sale of \$12.0 million of floating rate trust preferred securities. The Company has two prior subordinated debt issuances, similarly done in conjunction with trust subsidiaries issuing \$40.0 million in floating rate trust preferred securities. The rate on the Company's newest subordinated debt issuance adjusts quarterly, based on the 3-month LIBOR plus 135 basis points.

(2) The Company also added two advances from the Federal Home Loan Bank (FHLB) of \$25 million each on September 25, 2007 and November 27, 2007, respectively, with fixed rates of 3.64 percent and 2.70 percent. The borrowings are convertible to a variable rate on a quarterly basis at the discretion of the FHLB and the Company has the option to repay the borrowing if the FHLB elects to convert.

The cost of interest-bearing liabilities in the first quarter of 2008 decreased 48 basis points to 3.26 percent from first quarter 2007 and was 45 basis points lower than for fourth quarter 2007, largely a result of the impact of the Federal Reserve decreasing short-term interest rates in January 2008. Based on recent Federal Reserve commentary,

short-term interest rates may be poised to decline further if economic activity measures warrant. With many of the Company's deposit products re-pricing, the future cost for interest bearing liabilities should improve. The following table details the cost of interest bearing liabilities for the past five quarters:

	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	2008	2007	2007	2007	2007
Rate	3.26%	3.71%	3.88%	3.79%	3.74%

The average aggregated balance for NOW, savings and money market balances increased \$95.6 million or 10.7 percent to \$989.3 million for first quarter 2008 compared to first quarter 2007, noninterest bearing deposits decreased \$63.9 million or 16.5 percent to \$323.4 million, and average CDs increased by \$23.7 million or 4.1 percent to \$600.7 million. Slowing activity in the residential real estate market (resulting in declining title company and escrow deposits), as well as completed commercial real estate construction projects (and associated escrow deposits depleting at end of construction), have contributed to the decline in noninterest bearing deposits. Company management believes its market expansion and marketing will result in new relationships and growth in low-cost/no cost funding sources over time. However, economic factors are likely to continue to challenge growth, and with the Company's loan to deposit ratio at 96.5 percent at March 31, 2008, will likely make margin expansion challenging. Pressure on the net interest margin is expected to continue in 2008 and may increase as a result of management's success with its strategies for retail deposit growth.

#### PROVISION FOR LOAN LOSSES

Management determines the provision for loan losses charged to operations by continually analyzing and monitoring delinquencies, nonperforming loans and the level of outstanding balances for each loan category, as well as the amount of net charge-offs, and by estimating losses inherent in its portfolio. While the Company's policies and procedures used to estimate the provision for loan losses charged to operations are considered adequate by management there exist factors beyond the control of the Company, such as general economic conditions both locally and nationally, which make management's judgment as to the adequacy of the provision and allowance for loan losses necessarily approximate and imprecise (see *Nonperforming Assets* and *Allowance for Loan Losses* .)

The provision for loan losses is the result of a detailed analysis estimating an appropriate and adequate allowance for loan losses. The analysis includes the evaluation of impaired loans as prescribed under SFAS No. 114 *Accounting by Creditors for Impairment of a Loan*, and SFAS No. 118 *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures*, as well as, an analysis of homogeneous loan pools not individually evaluated as prescribed under SFAS No. 5, *Accounting for Contingencies*. For the quarter ended March 31, 2008, the provision for loan losses was \$5.5 million, an increase of \$6.1 million, from the prior year's first quarter.

The provision for loan losses was \$1.1 million more than net charge-offs of \$4.4 million or 0.93 percent of total loans during the first quarter 2008, reflecting the downturn in the residential real estate markets and deteriorating credit conditions. Net charge offs for the first quarter of 2007 were \$125,000 and for the last quarter 2007, \$4.5 million.

The increase in net charge-offs was largely due to higher net charge-offs in the residential construction and land development loan portfolio. A downturn in residential real estate prices and sales has negatively affected the entire

industry. The Company's other portfolios related to residential real estate have not had significant problems as the Company has never originated any residential loan product including home equity, lines of credit or mortgage as sub prime, Alt A, option ARMS, or any negative amortizing loan. In addition, the commercial real estate portfolio has not had significant credit quality deterioration as a result of the changed residential market conditions.

Since year-end 2007, nonaccrual loans decreased by \$3.1 million to \$64.7 million at March 31, 2008, but between June 30, 2007 and December 31, 2007, nonaccrual loans increased \$52.5 million to \$67.8 million. Nonperforming loans increased in the third and fourth quarter of 2007 as the result of loans to developers of residential real estate projects not performing in accordance with their contractual obligations. These loans were placed on nonaccrual status and provisioning of \$8,375,000 and \$3,813,000 was recorded in the third and fourth quarter of 2007, respectively.

Loan growth during 2007 totaled \$165.3 million or 9.5 percent. While loan growth is expected to be slower in 2008, the Company's loan loss provisioning may increase as problem loans related to the slow residential real estate market negatively impacts borrowers and valuations.

The Company's land and acquisition and development loans related to the residential market currently total approximately \$282 million or 15.0 percent of total loans at March 31, 2008 (see Loan Portfolio ), declining from approximately \$295 million or 15.5 percent at December 31, 2007. These lending relationships are monitored on a monthly basis and the value of the underlying real estate has been evaluated using current appraisals, and where appropriate, discounted cash flow approach using estimated holding periods and prospective future sales values discounted at rates we believe appropriate. The Company believes it was among the first banks to recognize the change in market conditions in mid-2006 and is the beneficiary of early identification of deteriorating loans and potential problems. Early monitoring has resulted in a smaller exposure, with additional equity added by developers, guarantor performance, and additional collateral obtained.

#### NONINTEREST INCOME

Noninterest income, excluding gains or losses from securities, totaled \$6,162,000 for the first quarter of 2008, \$203,000 or 3.4 percent higher than for the fourth quarter of 2007, and \$54,000 or 0.9 percent lower than for the first quarter of 2007. Excluding the impact of securities gains or losses, noninterest income accounted for 23.1 percent of total revenue (net interest income plus noninterest income, excluding securities gains or losses) in the first quarter of 2008 compared to 22.5 percent a year ago. Noninterest income for the first quarter of 2008, and the fourth and first quarter of 2007 is detailed as follows:

1st Qtr	4th Qtr	1st Qtr
2008	2007	2007

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Service charges on deposits	\$1,850	\$2,070	\$1,733
Trust income	582	627	627
Mortgage banking fees	368	278	455
Brokerage commissions and fees	683	572	754
Marine finance fees	685	596	726
Debit card income	611	563	568
Other deposit based EFT fees	108	103	131
Merchant income	735	676	756
Other income	540	474	466
Total	\$6,162	\$5,959	\$6,216

For the first quarter, revenues from the Company's financial services businesses decreased slightly year over year, by \$116,000 or 8.4 percent, but were higher than fourth quarter 2007's results by \$66,000 or 5.5 percent. Of the \$116,000 decrease, trust revenue was lower by \$45,000 or 7.2 percent and brokerage commissions and fees were lower by \$71,000 or 9.4 percent. Included in the \$71,000 decline in brokerage commissions and fees was a decline of \$74,000 in revenue from insurance annuity sales, year over year. Lower estate fees were the primary cause for the decline in trust income, decreasing by \$32,000 from the first quarter of 2007. Revenue generation from wealth management services was challenging in 2007 due to higher interest rate deposit products offered as an alternative and an uncertain economic environment. While economic uncertainty will remain an issue for clients of the Company's wealth management services, lower interest rates in 2008 are likely to heighten interest in financial market products.

Service charges on deposits were \$117,000 or 6.8 percent higher year over year for the first quarter of 2008, with overdraft income higher by \$139,000. Compared to fourth quarter 2007, service charges on deposits were \$220,000 or 10.6 percent lower in the first quarter of 2008, with overdraft fees the primary cause as well (\$207,000 higher in 2007 in the fourth quarter). Growth rates for remaining service charge fees on deposits have been generally lower, as the trend is for customers to prefer deposit products which have no fees or where fees can be avoided by maintaining balance requirements.

In the first quarter of 2008, marine finance fees from the sale of marine loans increased \$89,000 or 14.9 percent compared to 2007's fourth quarter, but compared to the first quarter of 2007 were \$41,000 or 5.6 percent lower. The Company's marine finance division (Seacoast Marine Finance) produced \$43.8 million in loans during the first quarter of 2008, compared to \$46.8 million in the first quarter of 2007 and \$36.4 million in the fourth quarter of 2007. Seacoast Marine Finance is headquartered in Ft. Lauderdale, Florida with lending professionals in Florida and California. The production team in California is capable of not only serving California, but Washington and Oregon as well. Marine Finance production is cyclical with the first quarter each year producing higher revenues.

Greater usage of check cards over the past several years by core deposit customers and an increased cardholder base has increased interchange income. For the first quarter of 2008, debit card income increased \$43,000 or 7.6 percent from a year ago, and other deposit based electronic funds transfer (EFT) income decreased \$23,000 or 17.6 percent. Debit card and other deposit based EFT revenue is dependent upon business volumes transacted, as well as the

amplitude of fees permitted by VISA® and MasterCard®.

Mortgage banking revenue for the first quarter of 2008 increased \$90,000 or 32.4 percent from the fourth quarter of 2007 but was \$87,000 or 19.1 percent lower than the first quarter of 2007. Mortgage banking revenue as a component of overall noninterest income has diminished, comprising 5.7 percent of noninterest income for all of 2007 and 6.0 percent for the first quarter of 2008. With more favorable interest rates, an increase in applications and loan closings occurred during the first quarter of 2008 (compared to fourth quarter 2007). While these more favorable conditions could result in the Company experiencing further growth in mortgage banking fees in 2008, results will also depend on the secondary market for residential mortgage loan sales which continues to be somewhat disrupted.

Merchant income was \$21,000 or 2.8 percent lower for the first quarter of 2008, compared to one year earlier, and \$59,000 or 8.7 percent higher than for the fourth quarter of 2007. Merchant income as a source of revenue is dependent upon the volume of credit card transactions that occur with merchants who have business demand deposits with the Company's banking subsidiary. The Company's expansion into new markets the past couple years has positively impacted merchant income but continued economic weakness and the impact on customer spending has offset the positive impacts of increased account acquisitions.

Other income for the first quarter of 2008 included \$305,000 related to the redemption of Visa®, Inc. shares, as a result of their initial public offering (IPO). In addition, fair value adjustments on foreclosed properties resulted in write-offs of \$134,000 during the first quarter of 2008, partially offsetting the benefit derived from the Visa redemption. These items were exclusive to 2008's first quarter, versus 2007 for the same period.

## NONINTEREST EXPENSES

When compared to the first quarter of 2007, total noninterest expenses decreased by \$19,000 to \$18,684,000, and were \$1,108,000 or 5.6 percent lower than fourth quarter 2007's expenses. Noninterest expenses in the first quarter of 2008 were in line with management expectations and guidance provided with its fourth quarter earnings release regarding branch consolidations, reductions in staff, marketing costs and other professional fees.

Salaries and wages increased, by \$39,000 to \$7,935,000 due to new revenue producing staff in the newer markets in the first quarter 2008 compared to the prior year same period. Included in the salary increase year over year were increases of \$163,000 for the Company's newer markets such as Broward County (up \$58,000), Orlando (up \$31,000), Brevard County (up \$9,000) and Palm Beach County (up \$98,000). These increases were mostly offset with staff eliminations from branch consolidations. As noted in prior discussions, the Company lowered incentive payouts for senior officers and reduced profit sharing compensation as a result of lower than expected earnings performance, and these cost savings will remain in effect in 2008 until the Company produces meaningful earnings improvements. Full-time equivalent employees totaled 493 at March 31, 2008, compared to 521 at March 31, 2007.

Employee benefit costs increased \$338,000 or 20.0 percent to \$2,025,000 from the first quarter of 2007. The Company elected to recognize a higher estimate for claims experience in the first quarter 2008 for its self funded health care plan compared to the first quarter of 2007; however, the Company expects total expense for the entire year for health care claims to be approximately the same as in 2007 due to lower FTE s resulting in fewer participants in the plan for 2008 offsetting higher health care costs. Higher claims experience resulted in an increase of \$370,000 year over year in group health insurance, and was the primary cause for the overall increase in benefits costs compared to 2007. Profit sharing accruals for the Company s 401K plan were lower by \$38,000.

Outsourced data processing costs totaled \$2,014,000 for the first quarter of 2008, an increase of \$69,000 or 3.5 percent from a year ago. The Company s subsidiary bank utilizes third parties for its core data processing systems and merchant services processing. Outsourced data processing costs are directly related to the number of transactions processed. Outsourced data processing costs can be expected to increase as the Company s business volumes grow and new products such as bill pay, internet banking, etc. become more popular.

Occupancy expenses and furniture and equipment expenses on an aggregate basis decreased \$5,000 to \$2,531,000, versus first quarter results last year. Reducing expense was the sale of certain assets (including leasehold improvements) at the closed WalMart locations, netting the Company approximately \$90,000 more than carrying value of assets sold. Lease payments for bank premises increased \$120,000 year over year, but maintenance, repairs and upkeep expenditures were \$78,000 lower and partially offsetting. Also increasing for the first quarter year over year was depreciation, increasing by \$39,000 and reflecting the addition of newer offices, as well as furniture and equipment acquired over the past twelve months.

Marketing expenses, including sales promotion costs, ad agency production and printing costs, newspaper and radio advertising, and other public relations costs associated with the Company s efforts to market products and services, decreased by \$102,000 or 14.6 percent to \$598,000 when compared to a year ago for the first quarter. Contributing to the decrease, media advertising costs were \$167,000 lower, as well as direct mail campaign costs, public relations expenditures, and donations, less than prior year by \$15,000, \$11,000 and \$17,000, respectively. Partially offsetting were higher agency production costs totaling \$115,000, principally one-time costs for television commercial production.

Legal and professional fees totaled \$926,000 for the first quarter of 2008, an increase of \$94,000 or 11.3 percent from the first quarter of 2007. Legal fees were \$239,000 higher year over year, the primary cause being problem asset resolution. As expected, other professional fees were lower by \$102,000 and the Company benefited from lower accruals for regulatory and Independent registered public accounting firm fees. Other professional fees were higher in the first quarter of 2007 due to costs related to third party vendors assisting the Company with its review of processes, operations and costs, as well as strategic planning.

Federal Deposit Insurance Corporation ( FDIC ) insurance premiums were reformulated for 2007 and increased as much as \$1 million but were more than offset under the FDIC s new rules by a one-time credit for premiums previously paid that totaled \$1,240,000. Any credit not used in 2007 has been applied in 2008 to reduce insurance assessments in the first quarter. The Company will have utilized the full benefit of this one-time credit during the

second quarter of 2008, therefore FDIC assessments will be greater in the second quarter of 2008 and thereafter by approximately \$300,000 per quarter.

Remaining noninterest expenses decreased \$463,000 or 15.1 percent to \$2,596,000 when comparing the first quarter of 2008 to the same quarter a year ago. Benefiting 2008 was a \$130,000 reversal of an accrual for the Company's portion of Visa® litigation and settlement costs (recorded in the fourth quarter of 2007), a result of Visa®'s recent, successful IPO eliminating the need for the accrual. Also decreasing year over year for the quarter were costs for repossessed and foreclosed assets (down \$34,000, principally related to higher costs a year ago for an \$8 million loan collected during the first quarter of 2007), telephone and data lines (down \$45,000), stationery, printing and supplies (down \$32,000), bank paid closing costs (down \$128,000, paid equity line costs have been more limited), and dealer referral fees for marine loan production (down \$55,000).

## INCOME TAXES

Income taxes for 2008 were 28.4 percent of income before taxes, compared to 35.8 percent for 2007 in the first quarter. A state income tax benefit was recorded during the first quarter of 2008 on the Company's bank subsidiary, a result of lower earnings performance in conjunction with a real estate investment trust ( REIT ) structure originated in 2003. The Company believes prospective earnings will result in tax provisioning that more than offsets any carry-forward benefit.

## FINANCIAL CONDITION

## CAPITAL RESOURCES

At March 31, 2008, the Company's total risk-based capital ratio was 12.29 percent, increasing from December 31, 2007's reported ratio of 12.17 percent and March 31, 2007's ratio of 11.67 percent.

## LOAN PORTFOLIO

Total loans (net of unearned income) were \$1,877,968,000 at March 31, 2008, \$134,674,000 or 7.7 percent more than at March 31, 2007, and \$20,421,000 or 1.1 percent less than at December 31, 2007.

The following table details loan portfolio composition at March 31, 2008, December 31, 2007 and March 31, 2007:



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(In thousands)	Mar. 31, 2008	Dec. 31, 2007	Mar. 31, 2007
Construction and land development			
Residential	\$ 282,401	\$ 295,082	\$ 351,607
Commercial	239,768	242,448	146,951
	522,169	537,530	498,558
Individuals	71,823	72,037	82,209
	593,992	609,567	580,767
Real estate mortgage			
Residential real estate			
Adjustable	317,621	319,470	285,368
Fixed rate	89,061	87,506	87,872
Home equity mortgages	91,731	91,418	97,328
Home equity lines	56,340	59,088	51,379
	554,753	557,482	521,947
Commercial real estate	549,922	517,332	444,541
	1,104,675	1,074,814	966,488
Commercial and financial	93,933	126,695	112,110
Installment loans to individuals	84,926	86,362	83,222
Other loans	442	951	707
Total	\$ 1,877,968	\$ 1,898,389	\$ 1,743,294

Loan growth over the past twelve months was largely centered in commercial real estate mortgage loans and commercial development loans offset by declines in residential development, residential construction, and commercial and financial loans. As shown in the table above, commercial construction and land development loans increased \$92,817,000 to \$239,768,000 at March 31, 2008 and commercial real estate mortgages increased \$105,381,000 to \$549,922,000. Residential mortgage loans and home equity lines combined, increased by \$32,806,000 during the past twelve months to \$554,753,000. Partially offsetting these increases were declines in residential construction and land development loans of \$69,206,000 to \$282,401,000 at March 31, 2008, residential construction and lot loans to individuals which declined by \$10,386,000 to \$71,823,000, and commercial and financial loans that were \$18,177,000 lower and totaled \$93,933,000 at the end of the first quarter 2008.

Construction and land development loans, including loans secured by commercial real estate, were comprised of the following types of loans at March 31, 2008 and March 31, 2007:

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March 31 (In millions)	2008			2007		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Construction and land development						
Residential:						
Condominiums	\$57.2	\$6.8	\$64.0	\$84.4	\$44.5	\$128.9
Town homes	23.8	1.9	25.7	9.9	3.9	13.8
Single Family						
Residences	62.7	14.5	77.2	100.9	64.3	165.2
Single Family						
Land & Lots	106.1	16.6	122.7	107.7	26.2	133.9
Multifamily	32.6	14.5	47.1	48.7	8.4	57.1
	282.4	54.3	336.7	351.6	147.3	498.9
Commercial:						
Office buildings	29.1	5.3	34.4	17.6	8.6	26.2
Retail trade	60.4	11.5	71.9	12.5	8.7	21.2
Land	92.5	15.5	108.0	93.4	25.0	118.4
Industrial	16.9	5.8	22.7	8.9	8.7	17.6
Healthcare	1.0	--	1.0	2.5	1.0	3.5
Churches & educational facilities	--	0.5	0.5	1.8	0.8	2.6
Lodging	--	--	--	4.8	10.3	15.1
Convenience stores	1.8	--	1.8	0.5	0.8	1.3
Marina	26.8	7.6	34.4	2.2	2.8	5.0
Other	11.3	5.5	16.8	2.8	8.6	11.4
	239.8	51.7	291.5	147.0	75.3	222.3
	522.2	106.0	628.2	498.6	222.6	721.2
Individuals:						
Lot loans	39.4	--	39.4	40.5	--	40.5
Construction	32.4	14.5	46.9	41.7	22.0	63.7
	71.8	14.5	86.3	82.2	22.0	104.2
<b>Total</b>	<b>\$594.0</b>	<b>\$120.5</b>	<b>\$714.5</b>	<b>\$580.8</b>	<b>\$244.6</b>	<b>\$825.4</b>

The construction period for commercial real estate generally ranges from 18-24 months. Demand in the Company's market area over the past few years provided the opportunity for growth in these type loans.

There has been a slowing in residential real estate activity in most of the Company's markets, resulting in increases of inventory for finished new housing units. Sales prices for both new and existing residential housing have moderated, declining from their market highs. The Company anticipates that the slowing of loan growth evident over the past couple quarters will continue in 2008, in part due to slowing demand but also to repayments of existing construction loans.

The following is the geographic location of the Company's construction and land development loans (excluding loans to individuals) totaling \$522,169,000 at March 31, 2008:

<b>Florida County</b>	<b>% of Total Construction and Land Development Loans</b>
Indian River	19.0 %
Palm Beach	17.8
St. Lucie	13.8
Martin	13.1
Brevard	7.4
Orange	6.3
Volusia	3.7
Lee	3.1
Osceola	3.0
Highlands	3.0
Dade	2.1
Miami-Dade	1.8
Okeechobee	1.2
Broward	1.1
Charlotte	0.9
Bradford	0.6
Lake	0.6
Marion	0.4
Collier	0.4
Hendry	0.3
Other	0.4
<b>Total</b>	<b>100.0 %</b>

The Company's ten largest commercial real estate funded and unfunded loan relationships at March 31, 2008 aggregated to \$186.7 million (versus \$184.7 million a year ago) and for the top 66 commercial real estate relationships in excess of \$5 million the aggregate funded and unfunded totaled \$607.7 million (compared to 69 relationships

aggregating to \$673.7 million a year ago).

Commercial real estate mortgage loans were comprised of the following loan types at March 31, 2008 and 2007:

March 31 (In millions)	2008			2007		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Office buildings	\$144.3	\$2.2	\$146.5	\$113.4	\$2.8	\$116.2
Retail trade	83.8	0.7	84.5	62.0	2.1	64.1
Industrial	104.3	1.5	105.8	66.3	0.6	66.9
Healthcare	39.9	0.9	40.8	40.5	1.3	41.8
Churches and educational facilities	40.2	0.2	40.4	32.9	3.9	36.8
Recreation	2.8	0.4	3.2	4.4	0.4	4.8
Multifamily	20.0	1.6	21.6	8.4	--	8.4
Mobile home parks						
	3.2	--	3.2	3.0	--	3.0
Lodging	27.9	0.2	28.1	16.9	--	16.9
Restaurant	8.0	1.2	9.2	11.2	1.1	12.3
Agriculture	12.4	1.1	13.5	24.5	5.7	30.2
Convenience						
Stores	23.1	--	23.1	22.2	--	22.2
Other	40.1	0.9	41.0	38.8	1.3	40.1
<b>Total</b>	<b>\$550.0</b>	<b>\$10.9</b>	<b>\$560.9</b>	<b>\$444.5</b>	<b>\$19.2</b>	<b>\$463.7</b>

Fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, totaled approximately \$287 million and \$263 million, respectively, at March 31, 2008, compared to \$197 million and \$248 million, respectively, a year ago.

Residential mortgage lending is an important segment of the Company's lending activities. The Company has never originated sub-prime, Alt A, Option ARM or any negative amortizing residential loans. Substantially all residential originations have been underwritten to conventional loan agency standards including loans having balances that exceed agency value limitations. The Company selectively adds residential mortgage loans to its portfolio, primarily loans with adjustable rates. The Company has reduced the relative size of the residential loan portfolio over the past few years and increased the size of the commercial and commercial real estate loan portfolios.

Exposure to market interest rate volatility with respect to mortgage loans is managed by attempting to match maturities and re-pricing opportunities for assets against liabilities and through loan sales. At March 31, 2008, approximately \$318 million or 64 percent of the Company's residential mortgage loan balances were adjustable, compared to \$285 million or 61 percent a year ago. Loans secured by residential properties having fixed rates totaled approximately \$181 million at March 31, 2008, of which 15- and 30-year mortgages totaled approximately \$37 million and \$52 million, respectively. The remaining fixed rate balances were comprised of home improvement loans, most with maturities of 10 years or less. The Company also has a small home equity line portfolio totaling approximately \$56 million at March 31, 2008. In comparison, loans secured by residential properties having fixed rates totaled approximately \$185 million at March 31, 2007, with 15- and 30-year fixed rate residential mortgages totaling approximately \$38 million and \$50 million, respectively.

Commercial and financial loans decreased and totaled \$93,933,000 at March 31, 2008, compared to \$112,110,000 a year ago. Commercial lending activities are directed principally towards businesses whose demand for funds are within the Company's lending limits, such as small to medium sized professional firms, retail and wholesale outlets, and light industrial and manufacturing concerns.

The Company was also a creditor for consumer loans to individual customers (including installment loans, loans for automobiles, boats, and other personal, family and household purposes, and indirect loans through dealers to finance automobiles) totaling \$84,926,000 (versus \$83,222,000 a year ago), real estate construction loans to individuals secured by residential properties totaling \$32,392,000 (versus \$40,848,000 a year ago), and residential lot loans to individuals totaling \$39,431,000 (versus \$41,361,000 a year ago).

Overall loan growth is expected to be in a range of negative 5 percent to 3 percent growth in 2008 due in part to the dramatic slowing of residential real estate sales activity in all of the Company's markets and lower demand for commercial loans in the newer metro markets of Orlando, West Palm Beach and Fort Lauderdale. The Company has placed increased emphasis on non-residential mortgage loan growth within its market footprint and the Company's expansion into new markets over the past few years has broadened its geographic focus into more metropolitan areas with a focus on selectively acquiring market share.

At March 31, 2008, the Company had commitments to make loans (excluding unused home equity lines of credit) of \$247,466,000, compared to \$371,245,000 at March 31, 2007.

#### ALLOWANCE FOR LOAN LOSSES

Management continuously monitors the quality of the loan portfolio and maintains an allowance for loan and lease losses ( ALLL ) sufficient to absorb probable losses inherent in the loan portfolio.

The allowance for loan losses totaled \$23,000,000 at March 31, 2008, \$8,760,000 higher than one year earlier and \$1,098,000 more than at December 31, 2007. The ALLL framework has three basic elements: specific allowances for loans individually evaluated for impairment, a formula-based component for pools of homogeneous loans within the portfolio that have similar risk characteristics which are not individually evaluated, and qualitative elements which are subjective and require a high degree of management judgment and are based on other inherent risk factors and imprecision associated with the modeling and estimation processes. Management continually evaluates the ALLL methodology seeking to refine and enhance this process as appropriate, and it is likely that the methodology will continue to evolve over time.

The model utilized to analyze the adequacy of the allowance for loan losses takes into account qualitative factors such as credit quality, loan concentrations, internal controls, audit results, staff turnover, local market economics and loan growth. In its continuing evaluation of the allowance and its adequacy, management also considers quantitative factors such as, the Company's loan loss experience, loss experience of peer banks, the amount of past due and nonperforming loans, and the estimated values of loan collateral. Commercial and commercial real estate loans are assigned internal risk ratings reflecting our estimate of the probability of the borrower defaulting on any obligation and the estimated probable loss in the event of default. Retail credit risk is measured from a portfolio view rather than by specific borrower and are assigned internal risk rankings reflecting the combined probability of default and loss. The independent Credit Administration Department assigns allowance factors to the individual internal risk ratings based on an estimate of the risk using a variety of tools and information. Loan Review is an independent unit that performs loan reviews and evaluates a representative sample of credit extensions after the fact for appropriate individual internal risk ratings. Loan Review has the authority to change internal risk ratings and is responsible for assessing the adequacy of credit underwriting. This unit reports directly to the Directors Loan Committee of the Board of Directors.

The allowance as a percentage of loans outstanding has increased appropriately over the past several quarters reflecting the increased probable losses inherent in the loan portfolio, from 0.82 percent at March 31, 2007, to 0.84 percent at June 30, 2007, to 1.19 percent at September 30, 2007, to 1.15 percent at December 31, 2007, and to 1.22 percent at March 31, 2008. The allowance for loan losses represents management's estimate of an amount adequate in relation to the risk of losses inherent in the loan portfolio.

During the first three months of 2008, net charge-offs totaled \$4,401,000, consisting of \$3,500,000 in net charge-offs related to nonperforming residential construction and land development loans, \$688,000 in net charge-offs for commercial and commercial real estate loans, \$125,000 in net charge-offs related to residential real estate and \$88,000 in net charge-offs for consumer loans. A year ago, net charge-offs of \$125,000 were recorded during the first three months.

Concentration of credit risk, discussed under Loan Portfolio of this discussion and analysis, can affect the level of the allowance and may involve loans to one borrower, an affiliated group of borrowers, borrowers engaged in or dependent upon the same industry, or a group of borrowers whose loans are predicated on the same type of collateral. The Company's significant concentration of credit is a collateral concentration of loans secured by real estate. At March 31, 2008, the Company had \$1,699 million in loans secured by real estate, representing 90.5 percent of total

loans, up slightly from 88.8 percent at March 31, 2007. In addition, the Company is subject to a geographic concentration of credit because it only operates in central and southeastern Florida. The Company has a meaningful credit exposure to commercial real estate developers and investors with total commercial real estate construction and land development loans of 27.8 percent of total loans at March 31, 2008, versus 28.6 percent at March 31, 2007. The Company's exposure to these credits is secured by project assets and personal guarantees. The exposure to this industry group, together with an assessment of current trends and expected future financial performance, are considered in our evaluation of the adequacy of the ALLL.

While it is the Company's policy to charge off in the current period loans in which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy as well as conditions affecting individual borrowers, management's judgment of the allowance is necessarily approximate and imprecise. It is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer companies identified by the regulatory agencies.

In assessing the adequacy of the allowance, management relies predominantly on its ongoing review of the loan portfolio, which is undertaken both to ascertain whether there are probable losses that must be charged off and to assess the risk characteristics of the portfolio in aggregate. This review considers the judgments of management, and also those of bank regulatory agencies that review the loan portfolio as part of their regular examination process. Our bank regulators have generally agreed with our credit assessments, however the regulators could seek additional provisions to our allowance for loan losses and additional capital in light of the risks of our markets and credits. As a result of economic conditions in our markets and our real estate exposure the bank regulators could, based on their evaluations of our credit quality, impose regulatory enforcement actions to implement such actions.

## NONPERFORMING ASSETS

At March 31, 2008, the Company's ratio of nonperforming assets to loans outstanding plus other real estate owned (foreclosed property) was 3.50 percent, compared to 0.23 percent one year earlier and 3.61 percent at December 31, 2007. Nonperforming assets at March 31, 2008 totaled \$65,670,000 and are comprised of \$64,730,000 of nonaccrual loans and \$940,000 of other real estate owned. In comparison, nonperforming assets totaled \$68,569,000 at December 31, 2007 (comprised of \$67,834,000 of nonaccrual loans and \$735,000 of other real estate owned) and \$4,088,000 at March 31, 2007 (comprised of \$3,955,000 of nonaccrual loans and \$133,000 of other real estate owned). At March 31, 2008, virtually all nonaccrual loans were secured with real estate. The majority of nonaccrual loans are land and acquisition and development loans related to the residential market that were added to nonaccrual loans in the third and fourth quarters of 2007. These loans continue to be monitored monthly and are in the process of collection through foreclosure, refinancing or sale. Current residential real estate sales volumes are low compared to prior years, and market prices have been declining since mid-2006. At March 31, 2008, loans totaling \$65,006,000 (including all nonaccrual loans) were considered impaired and \$1,596,000 of the allowance for loan losses was allocated for potential losses on these loans.

Management believes that nonperforming loans will experience variability over the next few quarters that could result in increased net charge offs and loan loss provisioning. Nonperforming assets are subject to changes in the economy, both nationally and locally, changes in monetary and fiscal policies, and changes in conditions affecting various borrowers from the Company's subsidiary bank. No assurance can be given that nonperforming assets will not in fact increase or otherwise change.

## SECURITIES

At March 31, 2008, the Company had \$8,994,000 in trading securities, \$254,395,000 in securities available for sale, and securities held for investment carried at \$31,061,000. The Company's securities portfolio decreased \$124,285,000 or 29.7 percent from March 31, 2007, and \$6,279,000 or 2.1 percent from December 31, 2007. Maturities of securities of \$18.1 million and purchases totaling \$9.8 million were transacted during the first three months of 2008.

While activity has been nominal in 2008, during the first quarter of 2007 the Company determined it was in the best interest of shareholders to restructure its balance sheet by selling low yielding securities and paying off overnight borrowings. As a result, management identified approximately \$225 million in securities which had an average yield of approximately of 3.87 percent and sold them in April 2007. Since the Company had the intent to sell these securities, prior to quarter end, the Company recorded a loss of \$5.1 million (\$3.3 million net of income taxes) in the first quarter of 2007 for the difference in the fair value and the carrying value of the securities at March 31, 2007.

At March 31, 2008, available for sale securities totaling \$254,395,000 had gross losses of \$1,764,000 and gross gains of \$4,558,000, compared to gross losses of \$297,000 and gross gains of \$284,000 at March 31, 2007. All of the securities with unrealized losses are reviewed for other-than-temporary impairment at least quarterly. As a result of these reviews in the first quarter of 2008, it was determined that no impairment charges related to securities owned with unrealized losses were deemed other than temporarily impaired this quarter since the Company has the present intent and ability to retain these securities until recovery.

Company management considers the overall quality of the securities portfolio to be high. All securities held are traded in liquid markets.

## DEPOSITS AND BORROWINGS

Total deposits increased \$56,158,000 or 3.0 percent to \$1,945,738,000 at March 31, 2008 compared to one year earlier, reflecting the strength of the Company's core deposit franchise. Certificates of deposit (CDs) increased \$37,886,000 or 6.4 percent to \$629,318,000 over the past twelve months, lower cost interest bearing deposits (NOW, savings and money markets deposits) increased \$89,769,000 or 10.0 percent to \$986,794,000, and noninterest bearing demand deposits decreased \$71,497,000 or 17.8 percent to \$329,626,000. Deposits increased significantly during the



fourth quarter of 2007, increasing \$131.6 million or 7.1 percent, a result of normal seasonal deposit increases and higher average public fund deposit balances due to credit concerns relating to a state run investment fund. Since year-end 2007 deposits have declined \$41,595,000 or 2.1 percent, in large part due to portions of the increased public fund deposits either being disbursed or placed in investments other than bank deposits.

With higher interest rates over the past several years, disintermediation between lower cost (or no cost) products and CDs occurred. Local competitors with higher loan to deposit ratios aggressively increased rates for CDs in latter 2006 and throughout 2007, purposefully maintaining necessary funding for their institutions. During this period of time, Seacoast was more cautious with regards to the pricing of its CDs and is content to continue to follow this strategy prospectively.

The Company expects it will be successful generating deposits by marketing desirable products, in particular its array of money market and NOW product offerings. The Company's entrance into new markets, including Palm Beach County, the Broward County market, and central Florida provide an opportunity to enhance overall deposit growth, including lower cost interest bearing deposits. During the first quarter of 2008, the Company instituted a focused retail deposit growth plan which improved deposit growth over the last two months of the quarter, and has focused its commercial lenders on growing low cost commercial deposits as well. The combined deposit growth from these efforts is expected to assist in offsetting seasonal deposit declines that normally occur in the second and third quarters each year.

Repurchase agreement balances decreased over the past twelve months by \$22,878,000 or 19.4 percent to \$94,896,000 at March 31, 2008. Repurchase agreements are offered by the Company's subsidiary bank to select customers who wish to sweep excess balances on a daily basis for investment purposes. At March 31, 2008, the number of sweep repurchase accounts was 250, compared to 209 a year ago. No federal funds purchased were outstanding at March 31, 2008, versus \$95 million at March 31, 2007. The Company does utilize federal funds purchased during periods of temporary gaps between loan funding, principal repayments and deposit growth. As previously noted, federal funds purchased were paid off in April 2007 with proceeds from the sale of securities.

#### OFF-BALANCE SHEET TRANSACTIONS

In the normal course of business, we engage in a variety of financial transactions that, under U. S. generally accepted accounting principles, either are not recorded on the balance sheet or are recorded on the balance sheet in amounts that differ from the full contract or notional amounts. These transactions involve varying elements of market, credit and liquidity risk.

The two primary off-balance sheet transactions the Company has engaged in are: 1) to manage exposure to interest rate risk (derivatives), and 2) to facilitate customers' funding needs or risk management objectives (commitments to extend credit and standby letters of credit).

Derivative transactions are often measured in terms of a notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is not usually exchanged, but is used only as the basis upon which interest or other payments are calculated.

The derivatives the Company uses to manage exposure to interest rate risk are interest rate swaps. All interest rate swaps are recorded on the balance sheet at fair value with realized and unrealized gains and losses included either in the results of operations or in other comprehensive income, depending on the nature and purpose of the derivative transaction.

Credit risk of these transactions is managed by establishing a credit limit for each counterparty and through collateral agreements. The fair value of interest rate swaps recorded in the balance sheet at March 31, 2008 included derivative product assets of \$307,000. In comparison, at March 31, 2007 derivative product liabilities of \$399,000 were outstanding.

Lending commitments include unfunded loan commitments and standby and commercial letters of credit. A large majority of loan commitments and standby letters of credit expire without being funded, and accordingly, total contractual amounts are not representative of our actual future credit exposure or liquidity requirements. Loan commitments and letters of credit expose the Company to credit risk in the event that the customer draws on the commitment and subsequently fails to perform under the terms of the lending agreement.

Loan commitments to customers are made in the normal course of our commercial and retail lending businesses. For commercial customers, loan commitments generally take the form of revolving credit arrangements. For retail customers, loan commitments generally are lines of credit secured by residential property. These instruments are not recorded on the balance sheet until funds are advanced under the commitment. For loan commitments, the contractual amount of a commitment represents the maximum potential credit risk that could result if the entire commitment had been funded, the borrower had not performed according to the terms of the contract, and no collateral had been provided. Loan commitments were \$312 million at March 31, 2008 and \$433 million at March 31, 2007.

## INTEREST RATE SENSITIVITY

Fluctuations in interest rates may result in changes in the fair value of the Company's financial instruments, cash flows and net interest income. This risk is managed using simulation modeling to calculate the most likely interest rate risk utilizing estimated loan and deposit growth. The objective is to optimize the Company's financial position, liquidity, and net interest income while limiting their volatility.

Senior management regularly reviews the overall interest rate risk position and evaluates strategies to manage the risk. The Company has determined that an acceptable level of interest rate risk would be for net interest income to fluctuate no more than 6 percent given a parallel change in interest rates (up or down) of 200 basis points. The Company's most recent Asset and Liability Management Committee (ALCO) model simulations indicate net interest income would increase 3.0 percent if interest rates gradually rise 200 basis points over the next twelve months and 1.1 percent if interest rates gradually rise 100 basis points. The model simulation indicates net interest income would decrease by 0.4 percent over the next twelve months given a gradual decline in interest rates of 100 basis points and 1.6 percent if interest rates gradually decline 200 basis points.

The Company had a negative gap position based on contractual and prepayment assumptions for the next twelve months, with a negative cumulative interest rate sensitivity gap as a percentage of total earning assets of 20.3 percent at December 31, 2007. For the first quarter of 2008, the gap remains negative, close to December's result.

The computations of interest rate risk do not necessarily include certain actions management may undertake to manage this risk in response to changes in interest rates. Derivative financial instruments, such as interest rate swaps, options, caps, floors, futures and forward contracts may be utilized as components of the Company's risk management profile.

## LIQUIDITY MANAGEMENT

Contractual maturities for assets and liabilities are reviewed to adequately maintain current and expected future liquidity requirements. Sources of liquidity, both anticipated and unanticipated, are maintained through a portfolio of high quality marketable assets, such as residential mortgage loans, securities held for sale and federal funds sold. The Company also has access to borrowed funds such as federal funds and Federal Home Loan Bank (FHLB) lines of credit and is able to provide short term financing of its activities by selling, under an agreement to repurchase, United States Treasury and Government agency securities not pledged to secure public deposits or trust funds. At March 31, 2008, the Company had available lines of credit of \$336 million. The Company had \$50 million of United States Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements.

Liquidity, as measured in the form of cash and cash equivalents (including federal funds sold and interest bearing deposits), totaled \$99,504,000 at March 31, 2008 as compared to \$99,826,000 at March 31, 2007. The composition of cash and cash equivalents has changed from a year ago. Over the past twelve months cash and due from banks declined \$34,032,000 or 34.6 percent while federal funds sold and interest bearing deposits increased \$33,710,000 to \$35,217,000. Cash and cash equivalents vary with seasonal deposit movements and are generally higher in the winter than in the summer, and vary with the level of principal repayments and investment activity occurring in the Company's securities portfolio and loan portfolio.

## EFFECTS OF INFLATION AND CHANGING PRICES

The condensed consolidated financial statements and related financial data presented herein have been prepared in accordance with U. S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money, over time, due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the general level of inflation. However, inflation affects financial institutions' increasing cost of goods and services purchased, as well as the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders' equity. Mortgage originations and refinancings tend to slow as interest rates increase, and likely will reduce the Company's earnings from such activities and the income from the sale of residential mortgage loans in the secondary market.

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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.

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, assume, should, support, indicate, would, believe, contemplate, expect, estimate, continue, further, plan, 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, 2007 under Special Cautionary Notice Regarding Forward-Looking Statements, and otherwise in our Securities and Exchange Commission (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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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's discussion and analysis Interest Rate Sensitivity .

Market risk refers to potential losses arising from changes in interest rates, and other relevant market rates or prices.

Interest rate risk, defined as the exposure of net interest income and Economic Value of Equity ( EVE ) to adverse movements in interest rates, is the Company's primary market risk, and mainly arises from the structure of the balance sheet (non-trading activities). Seacoast is also exposed to market risk in its investing activities. The ALCO meets regularly and is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. The policies established by ALCO are reviewed and approved by the Company's Board of Directors. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board. These limits reflect the Company's tolerance for interest rate risk over short-term and long-term horizons.

The Company also performs valuation analysis, which is used for discerning levels of risk present in the balance sheet that might not be taken into account in the net interest income simulation analysis. Whereas net interest income simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted value of liability cash flows, the net of which is referred to as EVE. The sensitivity of EVE to changes in the level of interest rates is a measure of the longer-term re-pricing risk and options risk embedded in the balance sheet. In contrast to the net interest income simulation, which assumes interest rates will change over a period of time, EVE uses instantaneous changes in rates. EVE values only the current balance sheet, and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate life deposit portfolios. Based on our most recent modeling, an instantaneous 100 basis point increase in rates is estimated to decrease the EVE 1.9 percent versus the EVE in a stable rate environment. An instantaneous 100 basis point decrease in rates is estimated to decrease the EVE 5.3 percent versus the EVE in a stable rate environment.

While an instantaneous and severe shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon, i.e., the next fiscal year. Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, change in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

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Item 4. CONTROLS AND PROCEDURES

The management of the Company, including Mr. Dennis S. Hudson, III as Chief Executive Officer and Mr. William R. Hahl as Chief Financial Officer, has evaluated the Company's disclosure controls and procedures. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those controls or other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

The Company's chief executive officer and chief financial officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of March 31, 2008 and concluded that those disclosure controls and procedures are effective. There have been no changes in the Company's internal controls or in other factors known to the Company that could significantly affect the Company's internal control over financial reporting subsequent to their evaluation. There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

While the Company believes that its existing disclosure controls and procedures have been effective to accomplish these objectives, the Company intends to continue to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

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## **Part II OTHER INFORMATION**

### **Item 1.**

#### **Legal Proceedings**

The Company and its subsidiaries are subject, in the ordinary course, to litigation incident to the business 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.

### **Item 1A.**

#### **Risk Factors**

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part 1 under the caption "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Seacoast's market areas in Florida are susceptible to hurricanes and tropical storms and related flooding. Such weather events can disrupt operations, result in damage to our properties and the properties securing loans from us, as well as negatively affect the local economies in the markets where we operate. Seacoast cannot predict whether or to what extent damage that may be caused by future hurricanes will affect its operations or the economies in Seacoast's current or future market areas, but such weather events could result in a decline in loan origination, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures or loan losses. Seacoast's business or results of operations may be adversely affected by these and other negative effects of future hurricanes or tropical storms, including flooding. On July 1, 2007, we renewed our property insurance, but due to damages by named storms in 2004 and 2005 resulting in diminishing interest by insurance carriers to offer affordable insurance we were only able to obtain wind coverage for the Company's main campus in Stuart, Florida, with a deductible of \$2.75 million for named storms and for other storms a deductible of 5% of insured value. Several branches are insured with a 5% deductible through Citizens Insurance, a State of Florida sponsored insurer of last resort, as these branches (principally in Palm Beach County) fall within designated wind pool areas determined by the State of Florida. All remaining offices do not fall within designated wind pool areas and therefore are uninsured for wind damage. At July 1, 2007, the insured value for the Company's main campus approximated \$18 million (less the indicated deductible); the insurable value of all of the Company's properties approximated \$54 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.

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**Item 2.**

**Unregistered Sales of Securities and Use of Proceeds**

Issuer purchases of equity securities during the first quarter of 2008 were as follows:

Total Number

Maximum

of Shares

Number of

Purchased as

Shares that

Total Number

Average

Part of Public

May yet be

of Shares

Price Paid

Announced

Purchased

Period

Purchased

Per Share

Plan\*

Under the Plan

1/1/08 to 1/31/08

1,111
\$12.46
664,166
160,834
2/1/08 to 2/28/08
0
0
664,166
160,834
3/1/08 to 3/31/08
0
0
664,166
160,834
Total 1st Quarter
1,111
\$12.46
664,166
160,834

\* The plan to purchase equity securities totaling 825,000 was approved on September 18, 2001, with no expiration date.

**Item 3.**

**Defaults upon Senior Securities**

None

**Item 4.**

**Submission of Matters to a Vote of Security Holders**

None

**Item 5.**

**Other Information**

During the period covered by this report, there was no information required to be disclosed by us in a Current Report on Form 8-K that was not so reported, nor were there any material changes to the procedures by which our security holders may recommend nominees to our Board of Directors.

**Item 6.**

Exhibits

Exhibit 31.1

Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2

Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1

Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2

Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

Pursuant to the requirements 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.

SEACOAST BANKING CORPORATION OF FLORIDA

May 9, 2008

/s/ Dennis S. Hudson, III

DENNIS S. HUDSON, III

Chairman &

Chief Executive Officer

May 9, 2008

/s/ William R. Hahl

WILLIAM R. HAHL



Executive Vice President &  
Chief Financial Officer

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