SCBT FINANCIAL CORP
Form 10-Q
May 10, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

o **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 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-0799315**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
520 Gervais Street	
Columbia, South Carolina	**29201**
(Address of principal executive offices)	(Zip Code)

(800) 277-2175

(Registrant s telephone number, including area code)

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

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

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

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

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

Class	**Outstanding as of April 30, 2010**
Common Stock, $2.50 par value	12,763,843

Table of Contents

SCBT Financial Corporation and Subsidiaries

March 31, 2010 Form 10-Q

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	March 31, 2010 (Unaudited)	December 31, 2009 (Note 1)	March 31, 2009 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 81,683**	$ 80,523	$ 49,164
Interest-bearing deposits with banks	**5,665**	174	192
Federal funds sold and securities purchased under agreements to resell	**150,144**	24,211	55,256
Money market mutual funds	**605**		25,000
Total cash and cash equivalents	**238,097**	104,908	129,612
Investment securities:			
Securities held to maturity (fair value of $21,062, $21,901 and $22,913, respectively)	**20,403**	21,538	23,057
Securities available for sale, at fair value	**268,372**	173,303	165,558
Other investments	**22,230**	16,271	15,417
Total investment securities	**311,005**	211,112	204,032
Loans held for sale	**15,925**	17,563	43,603
Loans:			
Covered under FDIC loss share agreements	**438,807**		
Not covered under FDIC loss share agreements	**2,175,242**	2,203,238	2,292,654
Less allowance for loan losses	**(41,397)**	(37,488)	(32,094)
Loans, net	**2,572,652**	2,165,750	2,260,560
FDIC receivable for loss share agreements	**277,158**		
Other real estate owned (covered of $32,076, $0, and $0, respectively; and non-covered of $9,319, $3,102 and $9,563, respectively)	**41,395**	3,102	9,563
Premises and equipment, net	**72,079**	71,829	73,606
Goodwill and other intangibles	**73,900**	65,695	66,090
Other assets	**62,973**	62,229	52,518
Total assets	**$ 3,665,184**	$ 2,702,188	$ 2,839,584
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 457,412**	$ 346,248	$ 315,727
Interest-bearing	**2,537,702**	1,758,391	1,836,141
Total deposits	**2,995,114**	2,104,639	2,151,868
Federal funds purchased and securities sold under agreements to repurchase	**237,669**	162,515	205,985
Other borrowings	**62,929**	143,624	152,799
Other liabilities	**34,706**	8,591	17,752

Total liabilities		**3,330,418**		2,419,369		2,528,404
Shareholders equity:						
Preferred stock - $.01 par value; authorized 10,000,000 shares; 0, 0 and 64,779 shares issued and outstanding						61,369
Common stock - $2.50 par value; authorized 40,000,000 shares; 12,750,774, 12,739,533 and 11,319,644 shares issued and outstanding		**31,877**		31,849		28,299
Surplus		**196,793**		196,437		170,270
Retained earnings		**106,713**		59,915		60,952
Accumulated other comprehensive loss		**(617)**		(5,382)		(9,710)
Total shareholders equity		**334,766**		282,819		311,180
Total liabilities and shareholders equity	**$**	**3,665,184**	$	2,702,188	$	2,839,584

The Accompanying Notes are an Integral Part of the Financial Statements.

1

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Interest income:		
Loans, including fees	**$ 34,173**	$ 33,717
Investment securities:		
Taxable	**2,514**	2,370
Tax-exempt	**265**	235
Federal funds sold and securities purchased under agreements to resell	**233**	82
Money market funds		44
Deposits with banks	**19**	
Total interest income	**37,204**	36,448
Interest expense:		
Deposits	**7,055**	9,741
Federal funds purchased and securities sold under agreements to repurchase	**165**	125
Other borrowings	**1,353**	1,584
Total interest expense	**8,573**	11,450
Net interest income	**28,631**	24,998
Provision for loan losses	**20,778**	5,043
Net interest income after provision for loan losses	**7,853**	19,955
Noninterest income:		
Gain on acquisition	**98,081**	
Service charges on deposit accounts	**4,523**	3,585
Bankcard services income	**1,799**	1,182
Mortgage banking income	**1,182**	1,261
Trust and investment services income	**784**	691
Other-than-temporary impairment losses	**(5,586)**	
Other	**1,176**	412
Total noninterest income	**101,959**	7,131
Noninterest expense:		
Salaries and employee benefits	**14,091**	10,519
Federal Home Loan Bank advances prepayment fee	**3,189**	
Net occupancy expense	**2,373**	1,583
Furniture and equipment expense	**1,636**	1,560
Information services expense	**2,371**	1,442
FDIC assessment and other regulatory charges	**1,323**	1,184
OREO (income) expense and loan related	**(270)**	674
Advertising and marketing	**587**	650
Professional fees	**557**	434
Amortization of intangibles	**349**	131
Merger-related expense	**3,908**	
Other	**2,804**	2,010
Total noninterest expense	**32,918**	20,187
Earnings:		
Income before provision for income taxes	**76,894**	6,899
Provision for income taxes	**27,933**	2,379
Net income	**48,961**	4,520
Preferred stock dividends		665

Accretion on preferred stock discount				149
Net income available to common shareholders	**$**	**48,961**	$	3,706
Earnings per common share:				
Basic	**$**	**3.89**	$	0.33
Diluted	**$**	**3.86**	$	0.33
Dividends per common share	**$**	**0.17**	$	0.17
Weighted-average common shares outstanding:				
Basic		**12,591**		11,180
Diluted		**12,696**		11,226

The Accompanying Notes are an Integral Part of the Financial Statements.

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)

Three Months Ended March 31, 2010 and 2009

(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Loss	Total
Balance, December 31, 2008		$	11,250,603	$ 28,127	$ 166,815	$ 59,171	$ (9,185)	$ 244,928
Comprehensive income:								
Net income						4,520		4,520
Change in net unrealized loss on securities available for sale, net of tax							(525)	(525)
Total comprehensive income								3,995
Cash dividends on Series T preferred stock at annual dividend rate of 5%		149				(814)		(665)
Cash dividends declared at $.17 per share						(1,925)		(1,925)
Issuance of Series T preferred stock and warrants to purchase common stock, net of issuance costs	64,779	61,220			3,412			64,632
Restricted stock awards			74,740	187	(187)			
Common stock repurchased			(5,699)	(15)	(159)			(174)
Share-based compensation expense					389			389
Balance, March 31, 2009	64,779	$ 61,369	11,319,644	$ 28,299	$ 170,270	$ 60,952	$ (9,710)	$ 311,180
Balance, December 31, 2009		$	12,739,533	$ 31,849	$ 196,437	$ 59,915	$ (5,382)	$ 282,819
Comprehensive income:								
Net income						48,961		48,961
Change in net unrealized gain on securities available							4,892	4,892

for sale, net of tax						
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax					(127)	(127)
Total comprehensive income						53,726
Cash dividends declared at $.17 per share				(2,163)		(2,163)
Stock options exercised	1,740	4	44			48
Restricted stock awards	11,171	28	(28)			
Common stock repurchased	(1,670)	(4)	(42)			(46)
Share-based compensation expense			382			382
Balance, March 31, 2010	$ 12,750,774	$ 31,877	$ 196,793	$ 106,713	$ (617)	$ 334,766

The Accompanying Notes are an Integral Part of the Financial Statements.

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income	$ **48,961**	$ 4,520
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**1,887**	1,310
Provision for loan losses	**20,778**	5,043
Other-than-temporary impairment on securities	**5,586**	
Gain on acquisition	**(98,081)**	
Share-based compensation expense	**382**	389
Net amortization (accretion) of investment securities	**171**	(124)
Net change in loans held for sale	**1,639**	(27,861)
Net change in miscellaneous assets and liabilities	**16,066**	(780)
Net cash used in operating activities	**(2,611)**	(17,503)
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale		8,971
Proceeds from maturities and calls of investment securities held to maturity	**1,135**	1,170
Proceeds from maturities and calls of investment securities available for sale	**14,828**	12,996
Proceeds from sales of other investment securities		450
Purchases of investment securities available for sale	**(8,315)**	(5,025)
Purchases of other investment securities		(1,088)
Net decrease in customer loans	**31,784**	18,947
Net cash received from acquisition	**306,298**	
Purchases of premises and equipment	**(1,711)**	(2,867)
Net cash provided by investing activities	**344,019**	33,554
Cash flows from financing activities:		
Net decrease in deposits	**(118,031)**	(1,407)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**74,809**	13,231
Repayment of FHLB advances	**(162,836)**	(10,000)
Issuance of preferred stock and warrants, net of issuance costs		64,632
Common stock repurchased	**(46)**	(174)
Dividends paid on preferred stock		(261)
Dividends paid on common stock	**(2,163)**	(1,925)
Stock options exercised	**48**	
Net cash provided by (used in) financing activities	**(208,219)**	64,096
Net increase in cash and cash equivalents	**133,189**	80,147
Cash and cash equivalents at beginning of period	**104,908**	49,465
Cash and cash equivalents at end of period	$ **238,097**	$ 129,612
Supplemental Disclosures:		
Cash paid for:		
Interest	$ **11,601**	$ 18,542
Income taxes	$ **4,871**	$ 31

The Accompanying Notes are an Integral Part of the Financial Statements.

Table of Contents

SCBT Financial Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The condensed consolidated balance sheet at December 31, 2009, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

Note 2 Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation s (the Company) annual report on Form 10-K for the year ended December 31, 2009 should be referenced when reading these unaudited condensed consolidated financial statements.

The following accounting policies were adopted during the first quarter of 2010.

Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset

The Company accounts for its acquisitions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the loss share agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in ASC Topic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,* formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each loan meeting the criteria above, and determine the excess of the loan s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan s or pool s cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flow.

Table of Contents

Note 2 Summary of Significant Accounting Policies (continued)

Loans acquired through business combinations that do not meet the specific criteria of ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans.

Pursuant to an AICPA letter dated December 18, 2009, the AICPA summarized the SEC staff s view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. Regarding the accounting for such loan receivables that, in the absence of further standard setting, the AICPA understands that the SEC staff would not object to an accounting policy based on contractual cash flows (ASC Topic 310-20 approach) or an accounting policy based on expected cash flows (ASC Topic 310-30 approach). Management believes the approach using expected cash flows is a more appropriate option to follow in accounting for the fair value discount.

The FDIC indemnification asset is measured separately from the related covered asset as it is not contractually embedded in the assets and is not transferable with the assets should the Company choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Table of Contents

Note 3 Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, an update to ASC 820-10, *Fair Value Measurements*. This update adds a new requirement to disclose transfers in and out of level 1 and level 2, along with the reasons for the transfers, and requires a gross presentation of purchases and sales of level 3 activities. Additionally, the update clarifies that entities provide fair value measurement disclosures for each class of assets and liabilities and that entities provide enhanced disclosures around level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for level 1 and level 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities are effective for the Company on January 1, 2011. The adoption of the disclosure requirements for level 1 and level 2 transfers and the expanded qualitative disclosures, had no impact on the Company s financial position, results of operations, and EPS. The Company does not expect the adoption of the level 3 disclosure requirements to have an impact on its financial position, results of operations, and EPS.

In February 2010, the FASB issued ASU 2010-09 amending its guidance in FASB ASC 855-10, *Subsequent Events*, to remove the requirement for Securities & Exchange Commission (SEC) filers to disclose the date through which an entity has evaluated subsequent events. This change alleviates potential conflicts with current SEC guidance.

In June 2009, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable beginning in third quarter of 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references except for SFAS references that have not been integrated into the codification.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FASB ASC 805-10-65-1 in topic 805, *Business Combinations*, includes the transition and open effective date information related to this FSP. The guidance amends and clarifies the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. Assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. Contingent consideration arrangements of an acquiree assumed by the acquirer as part of a business combination will be accounted for as contingent consideration by the acquirer. The guidance is effective for fiscal years beginning after December 15, 2008. The guidance is effective and applied to the FDIC-assisted acquisition during the first quarter of 2010.

Note 4 Mergers and Acquisitions

On January 29, 2010, the Company s wholly owned bank subsidiary, SCBT, N.A. (the Bank), entered into a purchase and assumption agreement (the P&A Agreement), including loss share arrangements, with the Federal Deposit Insurance Corporation (FDIC) to purchase certain assets and assume substantially all of the deposits and certain liabilities of Community Bank & Trust, N.A. (CBT), a full service Georgia state-chartered community bank headquartered in Cornelia, Georgia. CBT operated 38 locations, including 36 branches, one loan production office and one trust office in the Northeast region of Georgia.

Pursuant to the P&A Agreement, the Bank received a discount of $158.0 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. The loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses up to $233.0 million and 95% of losses that exceed that amount. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family residential mortgage loans provides for FDIC loss sharing and the Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial loans provides for FDIC loss sharing for five years and the Bank reimbursement to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with ASC Topic 805, the FDIC Indemnification Asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal. The balance of the FDIC Indemnification Asset increases and decreases as the expected and actual cash flows from the covered asset fluctuates, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC Indemnification Asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreements. This discount will be accreted to income over future periods.

Table of Contents

Note 4 Mergers and Acquisitions (continued)

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of CBT as a part of the P&A Agreement. However, the Bank had the option to purchase the real estate, furniture and equipment from the FDIC. The term of this option expired on April 29, 2010, 90 days from the date of the acquisition. On April 28, 2010, the Bank notified the FDIC that it planned to acquire seven bank facilities with an appraised value of approximately $10.9 million. In addition, the Bank notified the FDIC that it plans to purchase approximately $700,000 of furniture or equipment related to 27 locations being retained by the Bank. These 27 banking facilities include both leased and owned locations. In late May and early June of 2010, the Bank will close 10 locations of the acquired Georgia franchise.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. Both the purchased assets and liabilities assumed are recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, especially the loan portfolio and foreclosed real estate, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The purchase accounting adjustments and the loss sharing arrangement with the FDIC will significantly impact the effects of the acquired entity on the ongoing operations of the Company. Disclosure of pro forma financial information is also made more difficult by the troubled nature of CBT prior to the date of the combination. The Company has omitted certain financial information of CBT required by Rule 3-05 of Regulation S-X and the related pro forma financial information under Article 11 of Regulation S-X pursuant to the guidance provided in SEC Staff Accounting Bulletin 1:K, *Financial Statements of Acquired Troubled Financial Institutions* (SAB 1:K). SAB 1:K provides relief from the requirements of Rule 3-05 in certain instances, such as the CBT transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution that involves pervasive federal assistance and audited financial statements of the troubled financial institution are not reasonably available.

As of March 31, 2010, noninterest income includes a pre-tax gain of $98.1 million which resulted from the acquisition of CBT. The amount of the gain is equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed. The Company recognized $3.9 million in merger-related expense during the three months ended March 31, 2010.

Table of Contents

Note 4 Mergers and Acquisitions (continued)

The following table presents the assets acquired and liabilities assumed as of January 29, 2010, as record by CBT on the acquisition date and as adjusted for purchase accounting adjustments.

(Dollars in thousands)	As Recorded by CBT	Balances Kept by FDIC	Balances Acquired from FDIC	Fair Value Adjustments	As Recorded by SCBT
Assets					
Cash and cash equivalents	$ 80,615	$ (12)	$ 80,603	$	$ 80,603
Investment securities	116,270	(10,046)	106,224	(613)(a)	105,611
Loans	828,223	(56,725)	771,498	(312,033)(b)	459,465
Premises and equipment	24,063	(24,015)	48		48
Intangible assets				8,535(c)	8,535
FDIC receivable for loss sharing agreement				276,789(d)	276,789
Other real estate owned and repossessed assets	46,271	4,852	51,123	(25,194)(e)	25,929
Other assets	26,414	(18,541)	7,873		7,873
Total assets	$ 1,121,856	$ (104,487)	$ 1,017,369	$ (52,516)	$ 964,853
Liabilities					
Deposits:					
Noninterest-bearing	$ 107,617	$ (11,602)	$ 96,015	$	$ 96,015
Interest-bearing	907,288	311	907,599	4,892(f)	912,491
Total deposits	1,014,905	(11,291)	1,003,614	4,892	1,008,506
Other borrowings	80,250		80,250	2,316(g)	82,566
Other liabilities	10,748	(3,614)	7,134	194(h)	7,328
Total liabilities	1,105,903	(14,905)	1,090,998	7,402	1,098,400
Net assets acquired over liablities assumed	$ 15,953	$ (89,582)	$ (73,629)	$ (59,918)	$ (133,547)
Excess of assets acquired over liabilities assumed	$ 15,953	$ (89,582)	$ (73,629)		
Aggregate fair value adjustments				$ (59,918)	
Cash received from the FDIC					$ 225,695
Cash due from FDIC					5,933
Total cash received and due from the FDIC					231,628
Pre-tax gain on acquisition					$ 98,081

Explanation of fair value adjustments

Adjustment reflects:

(a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.

(b) Adjustment reflects the fair value adjustments based on the Company s evaluation of the acquired loan portfolio.

(c) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.

(d) Adjustment reflects the estimated fair value of payments the Company will receive from the FDIC under the loss share agreements.

(e) Adjustment reflects the estimated OREO losses based on the Company s evaluation of the acquired OREO portfolio.

(f) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.

(g) Adjustment reflects the prepayment penalty paid when FHLB advances were completely paid off in early February 2010.

(h) Adjustment reflects the fair value of leases assumed.

Table of Contents

Note 5 Investment Securities

The following is the amortized cost and fair value of investment securities held to maturity:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
March 31, 2010:								
State and municipal obligations	**$**	**20,403**	**$**	**669**	**$**	**(10)**	**$**	**21,062**
December 31, 2009:								
State and municipal obligations	$	21,538	$	391	$	(28)	$	21,901

The following is the amortized cost and fair value of investment securities available for sale:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
March 31, 2010:								
Government-sponsored enterprises debt *	**$**	**119,575**	**$**	**626**	**$**	**(182)**	**$**	**120,019**
State and municipal obligations		**40,505**		**1,414**		**(363)**		**41,556**
Mortgage-backed securities **		**95,575**		**4,538**		**(8)**		**100,105**
Trust preferred (collateralized debt obligations)		**6,576**				**(280)**		**6,296**
Corporate stocks		**285**		**114**		**(3)**		**396**
	$	**262,516**	**$**	**6,692**	**$**	**(836)**	**$**	**268,372**
December 31, 2009:								
Government-sponsored enterprises debt *	$	36,785	$	166	$	(336)	$	36,615
State and municipal obligations		26,727		489		(411)		26,805
Mortgage-backed securities **		99,192		4,182		(106)		103,268
Trust preferred (collateralized debt obligations)		12,042				(5,792)		6,250
Corporate stocks		285		80				365
	$	175,031	$	4,917	$	(6,645)	$	173,303

* - Government-sponsored enterprises holdings are comprised of debt securities offered by Federal Home Loan Mortgage Corporation (FHLMC) or Freddie Mac, Federal National Mortgage Association (FNMA) or Fannie Mae, Federal Home Loan Bank (FHLB), and Federal Farm Credit Banks (FFCB).

** - All of the mortgage-backed securities are issued by government-sponsored enterprises; no private-label holdings.

The following is the amortized cost and fair value of other investment securities:

Gross Gross

(Dollars in thousands)	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
March 31, 2010:								
Federal Reserve Bank stock	**$**	**5,987**	**$**		**$**		**$**	**5,987**
Federal Home Loan Bank stock		**14,862**						**14,862**
Investment in unconsolidated subsidiaries		**1,332**						**1,332**
Other		**49**						**49**
	$	**22,230**	**$**		**$**		**$**	**22,230**
December 31, 2009:								
Federal Reserve Bank stock	$	5,987	$		$		$	5,987
Federal Home Loan Bank stock		8,952						8,952
Investment in unconsolidated subsidiaries		1,332						1,332
	$	16,271	$		$		$	16,271

Table of Contents

Note 5 Investment Securities (continued)

The Company has determined that the investment in Federal Reserve Bank stock and Federal Home Loan Bank stock is not other than temporarily impaired as of March 31, 2010 and ultimate recoverability of the par value of these investments is probable. See Item 2 in MD&A under Other Investments.

The amortized cost and fair value of debt securities at March 31, 2010 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 360	$ 364	$ 4,724	$ 4,796
Due after one year through five years	389	395	42,051	42,454
Due after five years through ten years	3,632	3,777	48,750	50,200
Due after ten years	16,022	16,526	166,654	170,526
	$ 20,403	$ 21,062	$ 262,179	$ 267,976

Information pertaining to the Company s securities available for sale with gross unrealized losses at March 31, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2010:				
Securities Held to Maturity				
State and municipal obligations	**$**	**$**	**$ 10**	**$ 812**
Securities Available for Sale				
Government-sponsored enterprises debt	**$ 182**	**$ 12,272**	**$**	**$**
State and municipal obligations	**84**	**2,534**	**279**	**4,363**
Mortgage-backed securities	**8**	**3,162**		
Trust preferred (collateralized debt obligations)			**280**	**2,361**
Corporate stocks	**3**	**166**		
	$ 277	**$ 18,134**	**$ 559**	**$ 6,724**
December 31, 2009:				
Securities Held to Maturity				
State and municipal obligations	$ 28	$ 4,308	$	$
Securities Available for Sale				
Government-sponsored enterprises debt	$ 336	$ 21,117	$	$

State and municipal obligations		13		3,281		398		4,400
Mortgage-backed securities		106		9,388				
Trust preferred (collateralized debt obligations)						5,792		6,250
	$	455	$	33,786	$	6,190	$	10,650

Table of Contents

Note 5 Investment Securities (continued)

The following table presents a roll forward of the amount of credit and non-credit losses on the Company s investment securities recognized in earnings for the three months ended March 31, 2010 for debt securities:

(Dollars in thousands)		
Balance at beginning of period	$	4,922
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized		
PreTSL IX B-3		1,229
PreTSL X B-1		1,216
PreTSL X B-3		336
PreTSL XI B-1		1,488
PreTSL XIII B-2		429
PreTSL XIV		798
Net impairment losses recognized in earnings - 2010		5,496
Balance at end of period	$	10,418

In the first quarter of 2010, the Company continued to evaluate its pooled trust preferred collateralized debt obligations (TRUPs) for OTTI. As of June 30, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments,* in FASB ASC 320-10-65-1 which requires that credit-related OTTI on debt securities be recognized in earnings while noncredit-related OTTI on debt securities not expected to be sold be recognized in other comprehensive income. The Company concluded that there appears to have been a change in the fundamental behavior and inclination of some issuers toward earlier deferrals or defaults on their payments in the trust preferred pools during the first quarter of 2010, and as a result the change in performance of the pools has decreased the probability that the Company would be able to recognize cash flows in excess of the estimated fair value of the securities. In addition, the Company may decide to liquidate these securities before anticipated recovery given the impact of the changes in the nature of the Company s balance sheet and levels of classified assets to capital resulting from the CBT acquisition. As a result of this analysis, the Company changed its intent and expectations relative to these securities, and has written these securities down to fair market value (reflecting both credit and non-credit related considerations). Therefore, a $5.5 million charge was recognized in earnings to write these securities down to their estimated fair value of $3.9 million as of March 31, 2010. These OTTI charges were taken on six of the eight TRUPs, and ranged from $336,000 to $1.5 million per security. PreTSL XVI C has been fully written off as of March 31, 2010 and the MMCaps I A is a senior security in a pool where deferral/default experience has been more predictable.

All future losses in these securities will be charged to earnings and any unrealized gains will be recorded through other comprehensive income (equity), net of tax.

On at least a quarterly basis, the Company reviews its investment portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which fair value has been lower than the cost, the financial condition and near-term prospects of the issuers on a specific collateral approach basis (discussed further below), including any specific events which may influence the operations of those issuers. The Company evaluates its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, including consideration of its investment strategy, its cash flow needs, liquidity position, capital adequacy and interest rate risk position. Additionally, the risk of further OTTI charges may be influenced by additional bank failures, prolonged recession of the U.S. economy, changes in real estate values, interest deferrals, and whether the federal government continues to provide financial assistance to financial institutions.

At March 31, 2010, the book value of the Company s TRUPs totaled $6.6 million with an estimated fair value of $6.3 million. One of these securities is a senior tranche (MMCaps I A) and the remaining seven securities are mezzanine tranches. During the first quarter of 2010, Fitch downgraded the mezzanine TRUPs to C from CC credit rating.

Table of Contents

Note 5 Investment Securities (continued)

As of March 31, 2010, the following table provides detail of the Company s pooled TRUPs:

			Current Information for the Securities					Deferral / Default Statistics		
(Dollars in thousands)	Class	# of Issuers	Book Value	Fair Value	Unrealized Loss (1)	Credit Ratings (2)	Receiving Principal / Interest Contractually at 3/31/10?	Deferral / Defaults % of Total Collateral Balance (4)	Excess Subordination (5) Amount	Excess Subordination (5) % of Current Performing Collateral
PreTSL IX B-3	Mezzanine	44	$ 1,054	$ 1,054	$	Ca / C	Yes / No (3)	29.2%	$	0.0%
PreTSL X B-1	Mezzanine	53	451	451		Ca / C	Yes / No (3)	43.5%		0.0%
PreTSL X B-3	Mezzanine	53	129	129		Ca / C	Yes / No (3)	43.5%		0.0%
PreTSL XI B-1	Mezzanine	60	1,176	1,176		Ca / C	Yes / Yes	25.1%		0.0%
PreTSL XIII B-2	Mezzanine	64	415	415		Ca / C	Yes / Yes	20.8%		0.0%
PreTSL XIV B-2	Mezzanine	62	709	709		Ca / C	Yes / No (3)	22.1%		0.0%
PreTSL XVI C	Mezzanine	46				Ca / C	Yes / No (3)	31.7%		0.0%
MMCaps I A	Senior	27	2,642	2,362	(280)	A3 / A	Yes / Yes	16.5%	63,840	28.2%
Total			$ 6,576	$ 6,296	$ (280)					

Notes to table above:

(1) Unrealized loss greater than twelve months.

(2) Credit Ratings represent Moody s and Fitch ratings (S&P does not rate these securities).

(3) Interest on this security is currently not being paid in cash, but is being added (capitalized) to the principal balance, a process known as a payment in kind (PIK). This is the result of a current, temporary interest shortfall being experienced due to the amount of deferrals within the given deal, and therefore, there is not enough interest available to pay the current interest on the given class of notes. Also, a PIKing may occur as a result of breaching the principal coverage test of the class of notes immediately senior to the given class. The Company has four TRUPs, PreTSL X B-1, X B-3, XIV B-2, and XVI C, which are fully PIKing. In addition, PreTSL IX B-3 is partially PIKing.

(4) This ratio represents the amount of specific deferrals/defaults that have occurred, plus those that are known or projected for the following quarters, to the total amount of original collateral for a given deal. Fewer deferrals/defaults produce a lower ratio.

(5) Excess subordination amount is the additional defaults/deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a break in yield. This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The percent of current performing collateral is the ratio of the excess subordination amount to current performing collateral a higher percent means there is more excess subordination to absorb additional defaults/deferrals, and the better our security is protected from loss.

Table of Contents

Note 6 Loans and Allowance for Loan Losses

The Company s loan portfolio is comprised of the following:

(Dollars in thousands)		March 31, 2010		December 31, 2009		March 31, 2009
Loans covered under loss share agreements	**$**	**438,807**	$		$	
Loans not covered under loss share agreements:						
Commercial non-owner occupied real estate:						
Construction and land development		**442,566**		467,284		519,689
Commercial non-owner occupied		**294,147**		303,650		325,132
Total commercial non-owner occupied real estate		**736,713**		770,934		844,821
Consumer real estate:						
Consumer owner occupied		**287,788**		284,484		298,449
Home equity loans		**250,651**		248,639		232,202
Total consumer real estate		**538,439**		533,123		530,651
Commercial owner occupied real estate		**483,450**		469,101		443,804
Commercial and industrial		**203,296**		214,174		240,624
Other income producing property		**133,949**		137,736		136,703
Consumer		**66,259**		68,770		86,942
Other loans		**13,136**		9,400		9,109
Total loans not covered under loss share agreements		**2,175,242**		2,203,238		2,292,654
Less, allowance for loan losses		**(41,397)**		(37,488)		(32,094)
Loans, net	**$**	**2,572,652**	$	2,165,750	$	2,260,560

The Company s loans covered under loss share agreements portfolio is comprised of the following balances:

		March 31, 2010				
(Dollars in thousands)		Impaired Acquired Loans		All Other Acquired Loans		Total
Loans covered under loss share agreements:						
Commercial real estate:						
Construction and land development	$	54,475	$	22,876	$	77,351
Commercial real estate		46,716		87,206		133,922
Total commercial real estate		101,191		110,082		211,273
Consumer real estate:						
Consumer owner occupied		85,511		62,184		147,695
Home equity loans		5,559		6,078		11,637
Total consumer real estate		91,070		68,262		159,332
Commercial and industrial		14,948		28,392		43,340
Consumer		12,797		11,187		23,983
Other loans				878		879
Total loans covered under loss share agreements	$	220,006	$	218,801	$	438,807

14

Table of Contents

Note 6 Loans and Allowance for Loan Losses (continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans impaired at acquisition date and all other acquired loans as of March 31, 2010 are as follows:

(Dollars in thousands)	Impaired Loans	Non-impaired Loans	Total
Contractually-required principal and interest	$ 424,792	$ 332,027	$ 756,819
Non-accretable difference	(199,789)	(101,395)	(301,184)
Cash flows expected to be collected	225,003	230,632	455,635
Accretable yield	(4,997)	(11,831)	(16,828)
Fair value	$ 220,006	$ 218,801	$ 438,807

Income on acquired loans that are not impaired at acquisition date is recognized in the same manner as loans impaired at acquisition date. A portion of the fair value discount on acquired non-impaired loans has been ascribed as an accretable yield that is accreted into interest income over the estimated remaining life of the loans. The remaining nonaccretable difference represents cash flows not expected to be collected.

The following changes in the carrying value of acquired loans at acquisition date during the three months ended March 31, 2010:

(Dollars in thousands)	Impaired Loans	Non-impaired Loans
Balance, December 31, 2009	$	$
Fair value of acquired impaired loans	233,236	226,229
Reductions for payments and foreclosures	(13,230)	(7,428)
Balance, March 31, 2010	$ 220,006	$ 218,801

Table of Contents

Note 6 Loans and Allowance for Loan Losses (continued)

An analysis of the changes in the allowance for loan losses is as follows:

	March 31,			
(Dollars in thousands)		**2010**		**2009**
Balance at beginning of period	**$**	**37,488**	$	31,525
Loans charged-off		**(17,370)**		(4,993)
Recoveries of loans previously charged-off		**501**		519
Net charge-offs		**(16,869)**		(4,474)
Provision for loan losses		**20,778**		5,043
Balance at end of period	**$**	**41,397**	$	32,094

At March 31, 2010 and 2009, there were $32.6 million and $15.2 million, respectively, of non-covered loans classified as impaired because it is probable that the Company will be unable to collect all principal and interest payments due according to the terms of the related loan agreements. Specific reserves allocated to these impaired non-covered loans totaled $3.3 million and $2.1 million at March 31, 2010 and 2009, respectively. At March 31, 2010, there were approximately $14.3 million of impaired non-covered loans with specific reserves. At March 31, 2010, there were approximately $18.3 million of impaired non-covered loans for which there are no specific reserves. The average recorded investments in impaired non-covered loans for the quarters ended March 31, 2010 and 2009 were $33.7 million and $16.4 million, respectively.

Note 7 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)		**March 31, 2010**		**December 31, 2009**		**March 31, 2009**
Certificates of deposit	**$**	**1,333,890**	$	863,507	$	1,038,474
Interest-bearing demand deposits		**1,003,320**		731,060		642,454
Demand deposits		**457,412**		346,248		315,727
Savings deposits		**199,286**		163,348		154,173
Other time deposits		**1,206**		476		1,040
Total deposits	**$**	**2,995,114**	$	2,104,639	$	2,151,868

The aggregate amounts of time deposits in denominations of $100,000 or more at March 31, 2010, December 31, 2009, and March 31, 2009 were $626.6 million, $441.7 million and $515.5 million, respectively. The Company did not have brokered certificates of deposit at March 31, 2010 and December 31, 2009. The Company had brokered certificates of deposits of $25.0 million March 31, 2009.

Table of Contents

Note 8 Participation in U.S. Treasury Capital Purchase Program

On January 16, 2009, the Company issued and sold Fixed Rate Cumulative Perpetual Preferred Stock, Series T, having a liquidation preference of $1,000 per share to the U.S. Treasury, along with a warrant to purchase 303,083 shares of the Company s common stock, for an aggregate purchase price of $64.8 million as part of the U.S. Treasury s Capital Purchase Program.

On May 20, 2009, the Company entered into a repurchase letter agreement with the U.S. Treasury, pursuant to which the Company repurchased all 64,779 shares of its preferred shares for an aggregate purchase price of approximately $64.8 million, which included accrued and unpaid dividends of approximately $45,000.

On June 24, 2009, the Company entered into an agreement with the Treasury to repurchase the warrant that was issued to the Treasury in connection with the preferred stock. Pursuant to the terms of the agreement, the Company repurchased the warrant for a purchase price of $1.4 million. As a result of the warrant repurchase, the Company has repurchased all securities issued to the Treasury under the Capital Purchase Program.

The Company recognized a dividend on the preferred stock including the accretion on the preferred stock discount of $665,000, for a total effective dividend of $149,000 for the quarter ended March 31, 2009, charged to net income available to common shareholders.

Note 9 Retirement Plans

The Company and its subsidiary bank provide certain retirement benefits to their employees in the form of a non-contributory defined benefit pension plan and an employees savings plan. The non-contributory defined benefit pension plan covers all employees hired on or before December 31, 2005, who have attained age 21, and who have completed one year of eligible service. Employees hired on or after January 1, 2006 are not eligible to participate in the non-contributory defined benefit pension plan. On this date, a new benefit formula applies only to participants who have not attained age 45 or who do not have five years of service.

Effective July 1, 209, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of March 31, 2010.

The components of net periodic pension expense recognized during the three months ended March 31 are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	**2010**	**2009**

Service cost	**$**		$	189
Interest cost		**270**		289
Expected return on plan assets		**(377)**		(352)
Amortization of prior service cost				(43)
Recognized net actuarial loss		**65**		121
Net periodic pension expense (benefit)	**$**	**(42)**	$	204

The Company contributed $244,000 to the pension plan for the three months ended March 31, 2010 and anticipates making similar additional quarterly contributions during the remainder of the year.

Electing employees are eligible to participate in the employees   savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. The Company matches 50% of these contributions up to a 6% employee contribution for employees hired before January 1, 2006 who were age 45 and higher with five or more vesting years of service. The Company matches 100% of these contributions up to a 6% employee contribution for current employees under age 45 or with less than five years of service. Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees   savings plan and the Company matches 100% of the employees contributions up to 6% of salary. Effective April 1, 2009, the Company temporarily suspended th