

SCBT FINANCIAL CORP
Form 10-Q
November 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended September 30, 2008

OR

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

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 No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company

(as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class
Common Stock, \$2.50 par value

Outstanding as of October 31, 2008
11,242,532

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SCBT Financial Corporation and Subsidiaries

September 30, 2008 Form 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****SCBT Financial Corporation and Subsidiaries****Condensed Consolidated Balance Sheets***(Dollars in thousands, except par value)*

| | September 30, 2008 (Unaudited) | December 31, 2007 (Note 1) | September 30, 2007 (Unaudited) |
|---|--------------------------------------|----------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | \$ 56,813 | \$ 62,595 | \$ 46,930 |
| Interest-bearing deposits with banks | 824 | 3,437 | 2,831 |
| Federal funds sold and securities purchased under agreements to resell | 22,500 | 29,301 | 10,600 |
| Total cash and cash equivalents | 80,137 | 95,333 | 60,361 |
| Investment securities: | | | |
| Securities held to maturity (fair value of \$23,547, \$21,215 and \$16,014, respectively) | 24,560 | 21,457 | 15,962 |
| Securities available for sale, at fair value | 198,899 | 223,380 | 216,493 |
| Other investments | 15,502 | 13,472 | 10,235 |
| Total investment securities | 238,961 | 258,309 | 242,690 |
| Loans held for sale | 11,419 | 17,351 | 13,921 |
| Loans | 2,279,726 | 2,083,047 | 1,842,226 |
| Less allowance for loan losses | (29,199) | (26,570) | (23,822) |
| Loans, net | 2,250,527 | 2,056,477 | 1,818,404 |
| Premises and equipment, net | 64,056 | 55,454 | 52,504 |
| Goodwill | 62,888 | 61,709 | 32,313 |
| Other assets | 58,757 | 52,550 | 47,050 |
| Total assets | \$ 2,766,745 | \$ 2,597,183 | \$ 2,267,243 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Deposits: | | | |
| Noninterest-bearing | \$ 313,700 | \$ 315,791 | \$ 293,388 |
| Interest-bearing | 1,825,027 | 1,612,098 | 1,520,454 |
| Total deposits | 2,138,727 | 1,927,889 | 1,813,842 |
| Federal funds purchased and securities sold under agreements to repurchase | 224,328 | 296,186 | 172,496 |
| Other borrowings | 172,738 | 143,860 | 88,865 |
| Other liabilities | 11,365 | 14,183 | 16,568 |
| Total liabilities | 2,547,158 | 2,382,118 | 2,091,771 |
| Shareholders' equity: | | | |
| Common stock - \$2.50 par value; authorized 40,000,000 shares; 10,225,776, 10,160,432 and 9,201,820 shares issued and outstanding | 25,564 | 25,401 | 23,005 |
| Surplus | 141,911 | 140,652 | 108,367 |
| Retained earnings | 57,534 | 50,499 | 46,923 |
| Accumulated other comprehensive loss | (5,422) | (1,487) | (2,823) |

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| | | | | | | |
|--|----|------------------|----|-----------|----|-----------|
| Total shareholders' equity | | 219,587 | | 215,065 | | 175,472 |
| Total liabilities and shareholders' equity | \$ | 2,766,745 | \$ | 2,597,183 | \$ | 2,267,243 |

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

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest income: | | | | |
| Loans | \$ 35,727 | \$ 34,332 | \$ 107,528 | \$ 99,829 |
| Investment securities: | | | | |
| Taxable | 2,760 | 2,646 | 8,356 | 7,482 |
| Tax-exempt | 291 | 308 | 1,212 | 951 |
| Federal funds sold and securities purchased under agreements to resell | 177 | 498 | 835 | 1,567 |
| Deposits with banks | 3 | 83 | 50 | 165 |
| Total interest income | 38,958 | 37,867 | 117,981 | 109,994 |
| Interest expense: | | | | |
| Deposits | 11,231 | 13,925 | 36,527 | 39,412 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,392 | 2,132 | 5,069 | 6,677 |
| Other borrowings | 1,678 | 1,322 | 5,252 | 4,820 |
| Total interest expense | 14,301 | 17,379 | 46,848 | 50,909 |
| Net interest income | 24,657 | 20,488 | 71,133 | 59,085 |
| Provision for loan losses | 2,785 | 1,161 | 6,362 | 2,743 |
| Net interest income after provision for loan losses | 21,872 | 19,327 | 64,771 | 56,342 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 4,157 | 3,909 | 11,994 | 10,952 |
| Bankcard services income | 1,247 | 1,051 | 3,679 | 3,067 |
| Mortgage banking income | 507 | 863 | 2,777 | 2,964 |
| Trust and investment services income | 725 | 697 | 2,102 | 1,971 |
| Securities gains (losses), net | (9,760) | | (9,420) | 42 |
| Other | 431 | 584 | 1,807 | 1,791 |
| Total noninterest income (loss) | (2,693) | 7,104 | 12,939 | 20,787 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 10,164 | 9,685 | 32,248 | 28,981 |
| Furniture and equipment expense | 1,577 | 1,459 | 4,667 | 4,227 |
| Net occupancy expense | 1,528 | 1,247 | 4,520 | 3,585 |
| Advertising and marketing | 771 | 985 | 2,782 | 2,432 |
| Professional fees | 597 | 513 | 1,638 | 1,522 |
| Amortization of intangibles | 144 | 125 | 433 | 377 |
| Other | 4,315 | 3,809 | 12,632 | 11,379 |
| Total noninterest expense | 19,096 | 17,823 | 58,920 | 52,503 |
| Earnings: | | | | |
| Income before provision for income taxes | 83 | 8,608 | 18,790 | 24,626 |
| Provision for income taxes | (41) | 2,966 | 6,554 | 8,203 |
| Net income | \$ 124 | \$ 5,642 | \$ 12,236 | \$ 16,423 |
| Earnings per share: | | | | |
| Basic | \$ 0.01 | \$ 0.61 | \$ 1.21 | \$ 1.79 |
| Diluted | \$ 0.01 | \$ 0.61 | \$ 1.19 | \$ 1.78 |
| Dividends per share | \$ 0.17 | \$ 0.17 | \$ 0.51 | \$ 0.51 |

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| | | | | |
|---|---------------|-------|---------------|-------|
| Weighted-average common shares outstanding: | | | | |
| Basic | 10,121 | 9,201 | 10,111 | 9,190 |
| Diluted | 10,274 | 9,212 | 10,252 | 9,221 |

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

Table of Contents**SCBT Financial Corporation and Subsidiaries****Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)****Nine Months Ended September 30, 2008 and 2007***(Dollars in thousands, except per share data)*

| | Common Stock Shares | Common Stock Amount | Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|--|------------------------|------------------------|------------|----------------------|---|------------|
| Balance, December 31, 2006 | 8,719,146 | \$ 21,798 | \$ 92,099 | \$ 51,508 | \$ (3,517) | \$ 161,888 |
| Comprehensive income: | | | | | | |
| Net income | | | | 16,423 | | 16,423 |
| Change in net unrealized loss on securities available for sale, net of tax effects | | | | | 694 | 694 |
| Total comprehensive income | | | | | | 17,117 |
| Cash dividends declared at \$.51 per share | | | | (4,661) | | (4,661) |
| Stock options exercised | 7,451 | 20 | 125 | | | 145 |
| Employee stock purchases | 9,577 | 23 | 325 | | | 348 |
| Restricted stock awards | 32,356 | 81 | (81) | | | |
| Common stock repurchased | (2,474) | (6) | (86) | | | (92) |
| Share-based compensation expense | | | 727 | | | 727 |
| Common stock dividend of 5%, record date, March 9, 2007 | 435,764 | 1,089 | 15,258 | (16,347) | | |
| Balance, September 30, 2007 | 9,201,820 | \$ 23,005 | \$ 108,367 | \$ 46,923 | \$ (2,823) | \$ 175,472 |
| Balance, December 31, 2007 | 10,160,432 | \$ 25,401 | \$ 140,652 | \$ 50,499 | \$ (1,487) | \$ 215,065 |
| Comprehensive income: | | | | | | |
| Net income | | | | 12,236 | | 12,236 |
| Change in net unrealized loss on securities available for sale, net of tax effects | | | | | (3,935) | (3,935) |
| Total comprehensive income | | | | | | 8,301 |
| Cash dividends declared at \$.51 per share | | | | (5,201) | | (5,201) |
| Stock options exercised | 8,266 | 21 | 157 | | | 178 |
| Employee stock purchases | 12,960 | 32 | 297 | | | 329 |
| Restricted stock awards | 48,089 | 120 | (120) | | | |
| Common stock repurchased | (3,971) | (10) | (118) | | | (128) |
| Share-based compensation expense | | | 1,043 | | | 1,043 |
| Balance, September 30, 2008 | 10,225,776 | \$ 25,564 | \$ 141,911 | \$ 57,534 | \$ (5,422) | \$ 219,587 |

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

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 12,236 | \$ 16,423 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,719 | 3,148 |
| Provision for loan losses | 6,362 | 2,743 |
| Other-than-temporary impairment on securities | 9,760 | |
| Gain on sale of securities | (340) | (42) |
| Share-based compensation expense | 1,043 | 727 |
| (Gain) loss on disposal of premises and equipment | 23 | (8) |
| Net accretion of investment securities | (205) | (149) |
| Net change in loans held for sale | 5,932 | 9,315 |
| Net change in miscellaneous assets and liabilities | (8,286) | (611) |
| Net cash provided by operating activities | 30,244 | 31,546 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investment securities available for sale | 2,020 | |
| Proceeds from maturities and calls of investment securities held to maturity | 3,595 | 3,295 |
| Proceeds from maturities and calls of investment securities available for sale | 63,393 | 27,079 |
| Proceeds from sales of other investment securities | 1,329 | 4,502 |
| Purchases of investment securities held to maturity | (6,679) | (1,157) |
| Purchases of investment securities available for sale | (56,810) | (60,337) |
| Purchases of other investment securities | (3,019) | (4,571) |
| Net increase in customer loans | (200,410) | (82,985) |
| Purchases of premises and equipment | (11,945) | (6,193) |
| Proceeds from sale of premises and equipment | 17 | 93 |
| Net cash used in investing activities | (208,509) | (120,274) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 210,837 | 107,127 |
| Net decrease in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | (75,839) | (32,109) |
| Proceeds from FHLB advances | 185,400 | 155,000 |
| Repayment of FHLB advances | (152,507) | (155,075) |
| Common stock issuance | 329 | 348 |
| Common stock repurchased | (128) | (92) |
| Dividends paid | (5,201) | (4,661) |
| Stock options exercised | 178 | 145 |
| Net cash provided by financing activities | 163,069 | 70,683 |
| Net decrease in cash and cash equivalents | (15,196) | (18,045) |
| Cash and cash equivalents at beginning of period | 95,333 | 78,406 |
| Cash and cash equivalents at end of period | \$ 80,137 | \$ 60,361 |
| Supplemental Disclosures: | | |
| Cash paid for: | | |
| Interest | \$ 48,845 | \$ 50,718 |
| Income taxes | \$ 10,091 | \$ 8,699 |

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

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SCBT Financial Corporation and Subsidiaries

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 September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The condensed consolidated balance sheet at December 31, 2007, 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.

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, 2007 should be referenced when reading these unaudited condensed consolidated financial statements.

Note 2 Recent Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board (FASB) issued a FASB Staff Position (FSP) No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FAS 157-3 clarifies the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued (see *Investment Securities* under Note 11 *Fair Value*).

In June 2008, the FASB issued a FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. The guidance in this FSP applies to the calculation of earnings per share (EPS) under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP is effective for financial statements issued in fiscal years beginning after December 15, 2008. The Company is currently evaluating the effects of this FSP on its EPS calculation and related disclosures.

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In February 2008, the FASB issued FSP No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, and FAS 157-2, *Effective Date of FASB Statement No. 157*. FAS 157-1 removes fair value measurements that are used in lease accounting from the scope of FASB Statement No. 157, *Fair Value Measurements*. FAS 157-2 defers, for one year, the requirement to apply FAS 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are not remeasured at least annually. The Company is currently evaluating the effects that FAS 157-1 will have on the financial condition, results of operations and the disclosures that will be presented in the consolidated financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*, which expressed the staff's view that, consistent with FASB Statement No. 156, *Accounting for Servicing of Financial Assets*, and FASB Statement No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities*, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB No. 109 is effective for all written loan commitments recorded at fair value that are entered into, or substantially modified, in fiscal quarters beginning after December 15, 2007. The staff expects registrants to apply the views of SAB No. 109 on a prospective basis. The effect of adoption during the first quarter of 2008 did not have a material impact on the Company's results of operations.

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Note 2 Recent Accounting Pronouncements (continued)

Beginning January 1, 2008, the Company can prospectively elect to apply Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, and measure selected financial assets and liabilities at fair value on a contract-by-contract basis. After evaluating the guidance contained in the Statement, the Company has decided not to elect the fair value option for any financial assets or liabilities as of September 30, 2008.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations*. The statement will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Company will account for business combinations under this Statement include: the acquisition date for purposes of measuring consideration paid will be the date at which the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*, will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, Statement 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The Company will prospectively apply Statement 141(R) to all business combinations completed on or after January 1, 2009. The Company has no business combinations currently scheduled.

In September 2006, the FASB issued Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which revises the reporting of assets and liabilities for pensions and other post-retirement benefits. The Company has now adopted the requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position for the year ending December 31, 2008.

Note 3 Adjustment Related to Goodwill

The Company has adjusted goodwill during the first half of 2008 for certain items related to the TSB Financial Corporation (TSB) acquisition labeled below. Additionally, in April 2008, the Company also adjusted goodwill to correct an error in accounting related to the acquisitions of New Commerce Bancorp and Sun Bancshares, Inc. on April 8, 2005 and November 18, 2005, respectively. At the time of each acquisition, the Company should have recorded a deferred tax liability when recording its core deposit intangible assets related to the temporary difference between book and tax basis amortization. The adjustment resulted in an increase in goodwill of \$844,000. The adjustment did not have an impact on the Company s results of operations.

The changes in the carrying amount of goodwill for the period ended September 30, 2008 are as follows:

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(Dollars in thousands)

| | | |
|---|----|--------|
| Balance, December 31, 2007 | \$ | 61,709 |
| Increases (decreases) related to TSB acquisition: | | |
| Additional cash paid in lieu of fractional shares | | 13 |
| Recognition of deferred tax liability (temporary difference) related to core deposit intangible asset | | 332 |
| Reduction in accrued merger costs from initial estimate, net of tax | | (10) |
| Total increases related to TSB acquisition | | 335 |
| Recognition of deferred tax liability (temporary difference) related to core deposit intangible asset in the Sun Bancshares, Inc. and New Commerce Bancorp acquisitions | | 844 |
| Balance, September 30, 2008 | \$ | 62,888 |

Table of Contents**Note 4 Mergers and Acquisitions**

On November 30, 2007, the Company acquired in a merger 100% of the outstanding stock of TSB, including its wholly-owned subsidiary, The Scottish Bank, headquartered in Charlotte, NC. As a part of the acquisition, the Company incurred certain merger costs related to the acquisition of TSB. Presented in the table below is the activity in accrued merger costs related to the TSB transaction during the quarter ended September 30, 2008:

| (Dollars in thousands) | Beginning Balance December 31, 2007 | Purchase Adjustments | Amounts Charged to Earnings | Amounts Paid | Ending Balance September 30, 2008 |
|-------------------------------|--|-------------------------|-----------------------------------|-----------------|--|
| Severance and related costs | \$ 491 | \$ | \$ | \$ (464) | \$ 27 |
| Professional fees | 680 | (5) | | (675) | |
| Contract termination costs | 105 | (5) | | (100) | |
| Other merger-related expenses | 125 | (6) | | (119) | |
| Totals | \$ 1,401 | \$ (16) | \$ | \$ (1,358) | \$ 27 |

The accrued merger costs reflected above are expected to be paid out during 2008 and the first half of 2009. Severance and related costs include change in control payments. Professional fees primarily include investment banker fees, accountant fees, legal fees and transfer agent fees. Contract termination costs are the result of the early termination of service contracts with various service providers related to the acquisition of TSB.

Note 5 Loans and Allowance for Loan Losses

The Company's loan portfolio is comprised of the following:

| (Dollars in thousands) | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---------------------------------------|-----------------------|----------------------|-----------------------|
| Real estate: | | | |
| Commercial | \$ 1,259,007 | \$ 1,075,423 | \$ 928,044 |
| Consumer residential mortgage | 278,149 | 256,609 | 233,851 |
| Consumer construction and development | 187,606 | 202,413 | 189,075 |
| Commercial | 209,376 | 245,069 | 203,593 |
| Home equity loans | 212,131 | 164,104 | 136,538 |
| Consumer | 101,683 | 117,650 | 120,521 |
| Other loans | 31,774 | 21,779 | 30,604 |
| Total loans | 2,279,726 | 2,083,047 | 1,842,226 |
| Less, allowance for loan losses | (29,199) | (26,570) | (23,822) |
| Loans, net | \$ 2,250,527 | \$ 2,056,477 | \$ 1,818,404 |

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

| (Dollars in thousands) | September 30, | |
|--|---------------|-----------|
| | 2008 | 2007 |
| Balance at beginning of period | \$ 26,570 | \$ 22,668 |
| Loans charged-off | (4,474) | (2,325) |
| Recoveries of loans previously charged-off | 741 | 736 |
| Net charge-offs | (3,733) | (1,589) |
| Provision for loan losses | 6,362 | 2,743 |
| Balance at end of period | \$ 29,199 | \$ 23,822 |

Table of Contents**Note 5 Loans and Allowance for Loan Losses (continued)**

At September 30, 2008 and 2007, there were \$10.8 million and \$4.1 million, respectively, of loans classified as impaired under the definition outlined in SFAS No. 114 *Accounting By Creditors For Impairment of a Loan*. Specific reserves allocated to these impaired loans totaled \$525,000 and \$106,000 at September 30, 2008 and 2007, respectively. At September 30, 2008, there were approximately \$3.4 million of impaired loans with specific reserves of approximately \$525,000. At September 30, 2008, there were approximately \$7.4 million in impaired loans for which no specific reserve had been recognized. The average recorded investments in impaired loans for the quarters ended September 30, 2008 and 2007 were \$859,000 and \$230,000, respectively.

Note 6 Deposits

The Company's total deposits are comprised of the following:

| (Dollars in thousands) | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Certificates of deposit | \$ 1,116,379 | \$ 886,330 | \$ 833,050 |
| Interest-bearing demand deposits | 558,589 | 588,289 | 544,759 |
| Demand deposits | 313,700 | 315,791 | 293,388 |
| Savings deposits | 147,562 | 137,129 | 128,153 |
| Other time deposits | 2,497 | 350 | 14,492 |
| Total deposits | \$ 2,138,727 | \$ 1,927,889 | \$ 1,813,842 |

The aggregate amount of time deposits in denominations of \$100,000 or more at September 30, 2008, December 31, 2007, and September 30, 2007 was \$509.7 million, \$427.2 million and \$396.2 million, respectively. The Company had brokered certificates of deposits of \$106.2 million, \$622,000 and \$8.9 million, respectively, at September 30, 2008, December 31, 2007, and September 30, 2007.

Note 7 Other Borrowings

On September 22, 2008, the Company borrowed \$15 million under a Subordinated Term Loan Agreement with a maturity date of September 30, 2015. The unsecured subordinated term loan bears interest at three-month LIBOR for such interest period plus 3.50% per annum, payable quarterly. The Company may prepay at par without premium. The subordinated debt qualifies as Tier 2 regulatory capital for the first two years, with the capital treatment phasing out twenty percent per year thereafter.

Note 8 Retirement Plans

The Company and its subsidiaries 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.

Table of Contents**Note 8 Retirement Plans (continued)**

The components of net periodic pension expense recognized during the three and nine months ended September 30 are as follows:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|--------|------------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 165 | \$ 167 | \$ 497 | \$ 500 |
| Interest cost | 258 | 231 | 773 | 692 |
| Expected return on plan assets | (336) | (301) | (1,006) | (901) |
| Amortization of prior service cost | (43) | (43) | (130) | (130) |
| Recognized net actuarial loss | 79 | 104 | 236 | 313 |
| Net periodic pension expense | \$ 123 | \$ 158 | \$ 370 | \$ 474 |

The Company contributed \$195,000 and \$585,000 to the pension plan for the three and nine months ended September 30, 2008 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 a 6%.

Employees can enter the savings plan on or after the first day of each month. If an employee's hire date is on or after April 1, 2007, and the employee does not elect to defer at least 2% of his or her salary by the required election date, the Company will automatically enroll the employee and defer (withhold) 2% of his or her salary and contribute that amount to the Plan as a salary deferral. The employee may enter into a salary deferral agreement at any time to select an alternative deferral amount or to elect not to defer in the Plan. If the employee does not elect an investment allocation, the plan administrator will select a retirement-based portfolio according to the employee's number of years until normal retirement age. The plan's investment valuations are generally provided on a daily basis.

Table of Contents**Note 9 Earnings Per Share**

Basic earnings per share are calculated by dividing net income by the weighted-average shares of common stock outstanding during each period. The Company's diluted earnings per share are based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options or vesting of restricted shares. The weighted-average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30:

| (Dollars and shares in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Basic earnings per share: | | | | |
| Net income | \$ 124 | \$ 5,642 | \$ 12,236 | \$ 16,423 |
| Weighted-average basic shares | 10,121 | 9,201 | 10,111 | 9,190 |
| Basic earnings per share | \$ 0.01 | \$ 0.61 | \$ 1.21 | \$ 1.79 |
| Diluted earnings per share: | | | | |
| Net income | \$ 124 | \$ 5,642 | \$ 12,236 | \$ 16,423 |
| Weighted-average basic shares | 10,121 | 9,201 | 10,111 | 9,190 |
| Effect of dilutive securities | 153 | 11 | 141 | 31 |
| Weighted-average dilutive shares | 10,274 | 9,212 | 10,252 | 9,221 |
| Diluted earnings per share | \$ 0.01 | \$ 0.61 | \$ 1.19 | \$ 1.78 |

The calculation of diluted earnings per share excludes outstanding stock options that have exercise prices greater than the average market price of the common shares for the year as follows:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Number of shares | 45,545 | 43,545 | 57,095 | 41,445 |
| Range of exercise prices | \$34.65 - \$39.74 | \$34.65 - \$39.74 | \$32.82 - \$39.74 | \$37.70 - \$39.74 |

Table of Contents**Note 10 Share-Based Compensation**

The Company's 1999 and 2004 stock option programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options and restricted stock.

Stock Options

With the exception of non-qualified options granted to directors under the 1999 and 2004 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than one year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within one year following the date of the grant, as these incentive stock options become exercisable in 25% increments ratably over the four year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and have terms ranging from five to ten years. No options were granted under the 1999 plan after January 2, 2004, and the plan is closed other than for any options still unexercised and outstanding. The 2004 plan is the only plan from which new share-based compensation grants may be issued. It is the Company's policy to grant options out of the 661,500 shares registered under the 2004 plan.

Activity in the Company's stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

| Options | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Yrs.) | Aggregate Intrinsic Value (000 \$) |
|--|------------------|---------------------------------|--|------------------------------------|
| Outstanding at January 1, 2008 | 336,384 | \$ 26.33 | | |
| Granted | 29,482 | 31.50 | | |
| Exercised | (8,266) | 21.59 | | |
| Expired/Forfeited | (225) | 27.07 | | |
| Outstanding at September 30, 2008 | 357,375 | 26.84 | 5.60 | \$ 3,915 |
| Exercisable at September 30, 2008 | 282,893 | 24.90 | 4.92 | \$ 3,616 |
| Weighted-average fair value of options granted during the year | | \$ 10.77 | | |

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting periods. The following weighted-average assumptions were used in valuing options issued:

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Nine Months Ended
September 30,
2008 2007

| | | |
|-------------------------|----------------|---------|
| Dividend yield | 1.87% | 1.88% |
| Expected life | 6 years | 7 years |
| Expected volatility | 37% | 18% |
| Risk-free interest rate | 3.44% | 4.65% |

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Table of Contents**Note 10 Share-Based Compensation (continued)***Restricted Stock*

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Grants to employees have typically vested over a 48-month period, and beginning in 2007, some grants cliff vest after four years. Also, some grants issued during 2008 to certain employees cliff vest after ten years. Grants to non-employee directors typically vest within a 12-month period.

Nonvested restricted stock for the nine months ended September 30, 2008 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

| Restricted Stock | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------|---------------|---|
| Nonvested at January 1, 2008 | 69,919 | \$ 31.75 |
| Granted | 48,089 | 32.37 |
| Vested | (14,971) | 34.56 |
| Forfeited | | |
| Nonvested at September 30, 2008 | 103,037 | 31.64 |

As of September 30, 2008, there was \$2.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. This cost is expected to be recognized over a weighted-average period of 3.64 years. The total fair value of shares vested during the nine months ended September 30, 2008 was \$916,000.

Note 11 Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2008, commitments to extend credit and standby letters of credit totaled \$544.8 million. The Company does not anticipate any material losses as a result of these transactions.

Note 12 Fair Value

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157), which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Observable inputs such as quoted prices in active markets;
- Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Note 12 Fair Value (continued)

Following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets (although the Company has no such investments). Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based on their redemption provisions.

Pooled trust preferred securities are Level 2 securities under SFAS 157's three-tier fair value hierarchy. Market prices for these securities were obtained by using a pricing model which uses primarily observable market data including stated LIBOR spreads, maturity dates and securities ratings. Additionally, duration assumptions are derived from similar Treasury securities. Lastly, the pricing model includes an estimated liquidity discount which is assumed into the spread and is not an observable market input (Level 3).

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans held for sale is nonrecurring Level 2.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2008, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not

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available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

| (Dollars in thousands) | Fair Value September 30, 2008 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|-------------------------------------|---|---|--|
| Securities available for sale | \$ 198,899 | \$ 1,008 | \$ 197,891 | \$ |

Table of Contents**Note 12 Fair Value (continued)**

For fair value measurements using significant unobservable inputs (Level 3), there were no gains or losses for the nine months ended September 30, 2008 included in earnings that are attributable to the change in unrealized gains or losses of the Company's securities available for sale at September 30, 2008.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

| (Dollars in thousands) | Fair Value September 30, 2008 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------|-------------------------------------|---|---|--|
| Impaired loans | \$ 2,912 | \$ | \$ 2,912 | \$ |

Note 13 Other-Than-Temporary Impairment

The Company recognized a \$9.8 million other-than-temporary impairment (OTTI) charge on Freddie Mac preferred securities for the three and nine months ended September 30, 2008. The Company evaluated the income tax benefit related to the OTTI charge recorded on these securities and determined that the Company had enough capital gains in existing assets to recognize the full tax benefit related to the OTTI charge. Further, the Company began to develop the appropriate tax strategy to support these capital gains. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 would allow the Company to recognize these losses on Freddie Mac preferred securities against ordinary income upon disposition.

At September 30, 2008, the Company had 85 securities available for sale in an unrealized loss position of \$6.5 million. The total unrealized loss position included 8 pooled trust preferred securities whose value has declined primarily as a result of the demise of an active market for these securities, these trust preferred securities had a \$4.9 million unrealized loss position at September 30, 2008. The Company continues to evaluate these securities and has the ability and intent to hold all securities within the investment portfolio until their maturity or until the value recovers. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2008.

Note 14 Subsequent Events

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted and grants the U.S. Secretary of the Treasury with the authority to purchase troubled assets from financial institutions in accordance with the Troubled Assets Relief Program. If the Company were to participate in the Treasury Department's Capital Purchase Program, the Company estimates that it could sell senior preferred stock in an amount

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between approximately \$21.6 million and \$64.8 million, or approximately 1% to 3% of total risk-weighted assets of \$2.16 billion at September 30, 2008. The Company is in the process of completing the application for the Treasury Capital Purchase Program and currently expects to submit it by November 14, 2008; however, no assurance can be provided regarding the amount, if any, of preferred stock capital the Company would choose to accept if it is approved as a participant. In addition, the Company's shareholders would need to approve the authorization of preferred stock in order for the Company to participate in the program.

On October 28, 2008, the Company issued 1,010,000 shares of its authorized but unissued common stock to certain accredited investors at \$28.00 per share pursuant to a private placement transaction. Net proceeds from this sale of common stock, estimated to be \$26.8 million, are expected to be used for general corporate purposes, including supporting the continued and anticipated growth of the Company. The issuance of these shares and receipt of the net proceeds increased the Company's consolidated total risk-based capital ratio on a proforma basis as of September 30, 2008 to approximately 12.5%. The Company intends to file a registration statement with the U.S. Securities and Exchange Commission to permit resale of the common shares issued in this transaction.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the financial statements contained in this quarterly report beginning on page 1. For further information, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

We are a bank holding company headquartered in Columbia, South Carolina, and were incorporated under the laws of South Carolina in 1985. We provide a wide range of banking services and products to our customers through our wholly-owned bank subsidiaries: SCBT, N.A. and South Carolina Bank and Trust of the Piedmont, N.A. (Piedmont), both national banks that opened for business in 1934 and 1996, respectively. On November 30, 2007, we acquired our third banking subsidiary, The Scottish Bank, N.A. (TSB). We do not engage in any significant operations other than the ownership of these banking subsidiaries.

At September 30, 2008, we had approximately \$2.8 billion in assets and approximately 711 full-time equivalent employees. Through our banking subsidiaries we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

The following discussion describes our results of operations for the quarter ended September 30, 2008 as compared to the quarter ended September 30, 2007 as well as results for the nine months ended September 30, 2008 and 2007, and also analyzes our financial condition as of September 30, 2008 as compared to December 31, 2007 and September 30, 2007. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion.

The following section also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements

and the related notes and the other statistical information also included in this report.

Bank Subsidiary Name Change

We changed the name of our lead bank subsidiary, South Carolina Bank and Trust, N.A. to SCBT, N.A. (SCBT) effective September 25, 2008. SCBT will continue to do business in the state of South Carolina as SCBT and South Carolina Bank and Trust. In addition to the name change, we submitted an application to the Office of the Comptroller of the Currency for approval to merge TSB and Piedmont into SCBT in the fourth quarter of 2008. After the merger, TSB will operate as North Carolina Bank and Trust (NCBT) and Piedmont will operate as South Carolina Bank and Trust of the Piedmont, both divisions of SCBT.

Recent Government Actions

In response to the challenges facing the financial services sector, several regulatory and governmental actions have recently been announced including:

- The Emergency Economic Stabilization Act, approved by Congress and signed by President Bush on October 3, 2008, which, among other provisions, allowed the U.S. Treasury to purchase troubled assets from banks, authorized the Securities and Exchange Commission to suspend the application of market-to-market accounting, and temporarily raised the basic limit of FDIC deposit insurance from \$100,000 to \$250,000; the legislation contemplated a return to the \$100,000 limit on December 31, 2009;
- On October 7, 2008, the FDIC approved a plan to increase the rates banks pay for deposit insurance;
- On October 14, 2008, the U.S. Treasury announced the creation of a new program, the TARP Capital Purchase Program that encourages and allows financial institutions to build capital through the sale of senior preferred shares to the U.S. Treasury on terms that are non-negotiable (see Note 14 *Subsequent Events*);
- On October 14, 2008, the FDIC announced the creation of the Temporary Liquidity Guarantee Program (TLGP), which seeks to strengthen confidence and encourage liquidity in the banking system. The TLGP has two primary components that are available on a voluntary basis to financial institutions:
 - Guarantee of newly-issued senior unsecured debt; the guarantee would apply to new debt issued on or before June 30, 2009 and would provide protection until June 30, 2012; issuers electing to participate would pay a 75 basis point fee for the guarantee;

- Unlimited deposit insurance for non-interest bearing deposit transaction accounts; financial institutions electing to participate will pay a 10 basis point premium in addition to the insurance premiums paid for standard deposit insurance;

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We will participate in the TLGP's enhanced deposit insurance program. As a result of the enhancements to deposit insurance protection and the expectation that there will be demands on the FDIC's deposit insurance fund, it is clear that our deposit insurance costs will increase significantly during 2009.

Although it is likely that further regulatory actions will arise as the Federal government attempts to address the economic situation, management is not aware of any further recommendations by regulatory authorities that, if implemented, would have or would be reasonably likely to have a material effect on liquidity, capital ratios or results of operations.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

Allowance for Loan Losses

The allowance for loan losses reflects the estimated losses that will result from the inability of our subsidiary banks' borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See "Provision for Loan Losses and Nonperforming Assets" below and "Allowance for Loan Losses" in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill is not amortized, but is evaluated annually for impairment. Core deposit premium costs, included in other assets in the condensed consolidated balance sheets, consist of costs that resulted from the acquisition of deposits from other commercial banks. Core deposit premium costs represent the estimated value of long-term deposit relationships acquired in these transactions. These costs are amortized over the estimated useful lives of the deposit accounts acquired on a method that we believe reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets

Income taxes are provided for the tax effects of the transactions reported in our condensed consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available-for-sale securities, allowance for loan losses, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. We file a consolidated federal income tax return for our subsidiaries.

Other-Than-Temporary Impairment (OTTI)

We evaluate securities for other-than-temporary impairment at least on a monthly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the anticipated outlook for changes in the general level of interest rates, and (4) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Results of Operations

We measure our progress based on soundness, profitability, and growth. We achieved strong loan growth and maintained solid asset quality for the third quarter of 2008. Our asset quality remained at manageable levels even while nonperforming assets as a percentage of total assets increased to 0.54% and net charge-offs increased to 0.41% annualized for the three months ended September 30, 2008. We also achieved strong loan growth of \$33.4 million during the third quarter of 2008 and growth of \$281.3 million (excluding total loans acquired in the TSB transaction) from the prior comparative quarter of September 30, 2007. Lower profitability resulted in a decrease in consolidated net income for the third quarter of 2008 caused primarily by a \$9.8 million (\$6.3 million, after-tax) other-than-temporary impairment (OTTI) charge on Freddie Mac preferred securities. Non-taxable equivalent net interest income for the quarter increased 20.3% and non-taxable equivalent net interest margin increased 6 basis points to 3.83% from the most recent quarter of June 30, 2008. Our continued focus on expense control and the reversal of incentive compensation expense (which will not be paid due to the OTTI charge on Freddie Mac preferred securities recorded in the third quarter of 2008) helped drive our efficiency ratio down to 59.82% for the third quarter of 2008.

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The following key operating highlights for the third quarter of 2008 are outlined below:

- Consolidated net income decreased 97.8% to \$124,000 in the third quarter of 2008 (which includes \$258,000 related to TSB), as compared to \$5.6 million in the third quarter of 2007.
- Diluted earnings per share (EPS) decreased to \$0.01 for the third quarter of 2008 as compared to \$0.61 for the comparable period in 2007. EPS in the current period reflects an increase in common shares issued and outstanding due to the TSB acquisition.
- A \$9.8 million OTTI charge on Freddie Mac preferred securities led to a decrease in consolidated net income for the third quarter of 2008; however, the charge was partially offset by a 20.3% increase in non-taxable equivalent net interest income.
- The provision for loan losses as a percent of average loans reflects an increase due to an increase in nonperforming assets and an increase in net charge-offs during the third quarter ended September 30, 2008 compared to year ended December 31, 2007. The allowance for loan losses as a percent of total loans has slightly decreased as compared to the comparable third quarter of 2007 due to some instances where we have chosen to aggressively write down nonperforming assets in lieu of carrying a higher reserve on these assets. This thereby lowers the level of reserves that would be posted if these write-downs had not occurred. The rise in NPLs this quarter has lowered the coverage of NPLs by the allowance from 495% at September 30, 2007 to 236% at September 30, 2008.
- For the three months ended September 30, 2008, return on average assets (ROAA), return on average equity (ROAE) and return on average tangible equity decreased as a result of the \$9.8 million OTTI charge on Freddie Mac preferred securities.
- Average shareholders' equity increased \$49.6 million, or 28.8%, from third quarter ended September 30, 2007 driven by the issuance of equity related to the TSB acquisition. However, average shareholders' equity decreased slightly by \$279,000, or 0.1% from the second quarter ended June 30, 2008.

| Selected Figures and Ratios | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Return on average assets (annualized) | 0.02% | 0.99% | 0.60% | 0.98% |
| Return on average equity (annualized) | 0.22% | 12.98% | 7.41% | 13.04% |
| Return on average tangible equity (annualized) | 0.56% | 16.58% | 10.80% | 16.79% |
| Average shareholders' equity (in thousands) \$ | 221,995 | \$ 172,421 | 220,688 | \$ 168,345 |

Net Interest Income and Margin

Summary

Our taxable equivalent net interest margin declined slightly from the third quarter of 2007 as a result of the Federal Reserve's dramatic reduction of rates during the first nine months of 2008; however, we experienced some margin expansion in the third quarter of 2008 compared to the second quarter of 2008. Non-taxable equivalent and taxable equivalent net margin expanded by 6 and 5 basis points, respectively, from the second quarter ended June 30, 2008. Margin expansion was largely driven by the maturity of certificates and other time deposits causing the average rate to decrease by 56 basis points during the three months ended September 30, 2008 as compared to the three months ended June 30, 2008. Non-taxable equivalent and taxable equivalent net margin compressed by 3 basis points from the third quarter ended September 30, 2007. Margin compression was driven by a lower average yield on loans for the three months ended September 30, 2008 as compared to the same period in 2007.

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Non-TE net interest income | \$ 24,657 | \$ 20,488 | \$ 71,133 | \$ 59,085 |
| Non-TE yield on interest-earning assets | 6.05% | 7.13% | 6.27% | 7.07% |
| Non-TE rate on interest-bearing liabilities | 2.58% | 3.87% | 2.90% | 3.84% |
| Non-TE net interest margin | 3.83% | 3.86% | 3.78% | 3.80% |
| TE net interest margin | 3.86% | 3.89% | 3.82% | 3.83% |

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Non-taxable equivalent net interest income increased \$4.2 million, or 20.3%, in the third quarter of 2008 compared to the same period in 2007. Some key highlights are outlined below:

- Average earning assets increased 21.6% to \$2.6 billion in the third quarter of 2008 compared to the same period last year due to the acquisition of TSB which increased average earning assets by \$199.4 million for the third quarter of 2008. Excluding TSB, the increase is primarily reflected within commercial real estate loans of the loan portfolio and investment securities.
- Non-taxable equivalent yield on interest-earning assets for the third quarter of 2008 decreased 108 basis points from the comparable period in 2007, and by 11 basis points compared to the second quarter of 2008. The yield on a portion of our earning assets adjusts simultaneously, but to varying degrees of magnitude, with changes in the general level of interest rates.
- The average cost of interest-bearing liabilities for the third quarter of 2008 decreased 129 basis points from the same period in 2007, and by 20 basis points compared to the second quarter of 2008. This is a reflection of the impact of adjusting rates on all deposit accounts as quickly as we could in the first and second quarters of 2008, given the dramatic reduction in interest rates by the Federal Reserve Board, and certificates of deposits re-pricing lower during the third quarter of 2008.
- Taxable equivalent net interest margin decreased by 3 basis points to 3.86% for the third quarter of 2008, compared to 3.89% for the third quarter of 2007. Compared to the second quarter of 2008, taxable equivalent net interest margin expanded by 5 basis points primarily attributable to the rapid pace of the Federal Reserve's rate cuts, our growth in loans and CD re-pricing.

Loans

Loans acquired in the TSB merger, growth in core commercial real estate loans, growth in home equity loans and growth in consumer residential mortgage loans drove the increase in total loans (excluding mortgage loans held for sale) in the third quarter of 2008 from the comparable period in 2007. Total loans grew 23.8% from the balance at September 30, 2007 and an annualized 5.9% from the balance at June 30, 2008. Total loans, net of deferred loan costs and fees, at September 30, 2008 were \$2.3 billion compared to \$1.8 billion at September 30, 2007. The increase was driven in part by \$156.2 million in loans acquired in the TSB merger. Excluding the TSB acquisition, our loans grew \$281.3 million, or 15.3%, from the amount at September 30, 2007.

Loans are our largest category of earning assets and commercial real estate loans represented approximately 40.9% of our total loans as of September 30, 2008. Commercial real estate loans as described in Note 5 (*Loans and Allowance for Loan Losses*) to the consolidated financial statements also includes owner occupied commercial real estate not reflected in the percentage above. At September 30, 2008, consumer construction and development loans represented 8.2% of our total loan portfolio. Consumer construction and development loans were comprised of \$130.9 million in lot loans and \$56.7 million in construction loans, which represented 5.7% and 2.5%, respectively, of our total loan portfolio.

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| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Average total loans | \$ 2,265,606 | \$ 1,810,332 | \$ 2,192,088 | \$ 1,786,887 |
| Interest income on total loans | 35,590 | 34,040 | 106,712 | 98,764 |
| Non-TE yield | 6.25% | 7.46% | 6.50% | 7.39% |

Interest earned on loans increased 4.6% in the third quarter of 2008 compared to the third quarter of 2007. Some key highlights for the quarter ended September 30, 2008 are outlined below:

- Average total loans in the third quarter of 2008 increased 25.1%, as compared to the third quarter of 2007, leading to a volume-driven increase in interest income even though the average yield fell.
- Commercial real estate loans (including owner occupied commercial real estate) increased \$331.0 million, or 35.7%, to \$1.3 billion from September 30, 2007. Core commercial real estate loans (excluding TSB) increased \$238.2 million, or 25.7%, from the same quarter in 2007.
- Commercial non-real estate loans increased \$5.8 million, or 2.8%, to \$209.4 million from the amount at September 30, 2007. Core commercial non-real estate loans (excluding TSB) decreased \$18.6 million, or 9.2%, from the same quarter in 2007.

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- Home equity loans (HELOCs) increased \$75.6 million, or 55.4%, to \$212.1 million from the amount at September 30, 2007. Core home equity loans (excluding TSB) increased \$54.1 million, or 39.6%, from the same quarter in 2007. We have improved our underwriting process to require approval of HELOCs based on the total mortgage debt on the property. We have also reviewed credit scores on these lines to identify potential weaknesses.
- Consumer residential mortgage loans increased \$44.3 million, or 18.9%, to \$278.1 million from the amount at September 30, 2007. Core consumer residential mortgage loans (excluding TSB) increased \$38.8 million, or 16.6%, from the same quarter in 2007.
- Our non-taxable equivalent yield decreased by 121 basis points compared to the yield for the third quarter of 2007.

Investment Securities

We use investment securities, our second largest category of earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At September 30, 2008, the composition of the portfolio remained relatively consistent with the composition at September 30, 2007. During the third quarter of 2008, we continued to slightly lengthen the average life of the portfolio to lock in some relatively attractive yields in anticipation of and in response to the Federal Reserve's easing cycle that started in late 2007. We also observed some slowing in prepayments of mortgage-backed securities that also served to slightly lengthen their average lives. At September 30, 2008, investment securities totaled \$239.0 million, compared to \$258.5 million at December 31, 2007 and \$242.7 million at September 30, 2007.

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Average investment securities | \$ 250,395 | \$ 232,652 | \$ 252,149 | \$ 224,743 |
| Interest income on investment securities | 3,051 | 2,954 | 9,568 | 8,433 |
| Non-TE yield | 4.85% | 5.04% | 5.07% | 5.02% |

Interest earned on investment securities increased 3.3% in the third quarter of 2008 compared to the third quarter of 2007. The increase resulted from a 15 basis point increase on the yield on taxable investment securities and a 1.6% increase in balances of average taxable investment securities. These increases were partially offset by the average yield of tax-exempt investment securities decreasing 202 basis points and the average balance increasing 59.1% from the third quarter of 2007. The increase in the average balances of securities primarily resulted from the acquisition of TSB during the latter part of the fourth quarter of 2007.

Although securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While management generally holds these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

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At September 30, 2008, we had 85 securities available for sale in an unrealized loss position, which totaled \$6.5 million. During the quarter the credit and capital markets continued to experience unprecedented turmoil globally. These positions largely reflect the loss of liquidity in the capital markets and substantial widening of spreads (over the U.S. Treasury yield curve) that most market segments experienced during the period. Information pertaining to our securities available for sale with gross unrealized losses at September 30, 2008 and December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

| (Dollars in thousands) | Less Than Twelve Months | | Twelve Months or More | |
|---|-------------------------|------------|-------------------------|------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| September 30, 2008: | | | | |
| Government-sponsored enterprises debt | \$ 45 | \$ 4,953 | \$ | \$ |
| State and municipal obligations | 1,088 | 10,084 | | |
| Mortgage-backed securities | 331 | 43,740 | 43 | 1,463 |
| FHLMC preferred stock* | | 489 | | |
| Trust preferred (collateralized debt obligations) | 4,755 | 9,497 | 180 | 2,615 |
| Other corporate bonds | 75 | 302 | | |
| | \$ 6,294 | \$ 69,065 | \$ 223 | \$ 4,078 |

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| (Dollars in thousands) | Less Than Twelve Months | | Twelve Months or More | |
|---|-------------------------------|---------------|-------------------------------|---------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| December 31, 2007: | | | | |
| Government-sponsored enterprises debt | \$ 49 | \$ 15,480 | \$ 3 | \$ 4,997 |
| State and municipal obligations | 89 | 5,314 | | |
| Mortgage-backed securities | 32 | 7,545 | 200 | 21,178 |
| FHLMC preferred stock* | 220 | 5,780 | | |
| Trust preferred (collateralized debt obligations) | 19 | 2,962 | | |
| | \$ 409 | \$ 37,081 | \$ 203 | \$ 26,175 |

* Securities issued by the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

During the third quarter of 2008 as compared to the second quarter of 2008, the total number of securities with an unrealized loss position decreased by eleven securities; however, two additional pooled trust preferred securities moved into an unrealized loss position. An unrealized loss position on pooled trust preferred securities totaling \$4.9 million drove total unrealized loss on securities available for sale to \$6.5 million at September 30, 2008. We recorded a \$9.8 million OTTI charge on six Freddie Mac preferred securities for the three and nine months ended September 30, 2008. As a result, the majority of our unrealized losses as of September 30, 2008 result from changes in the current value of eight pooled trust preferred securities due primarily to the demise of an active market for these securities, resulting in an increased spread to U.S. Treasury securities.

Investment securities in an unrealized loss position as of September 30, 2008 continue to perform as scheduled. We have the ability and intent to hold all securities within the portfolio until the maturity or until the value recovers, therefore, we do not consider these investments to be other-than-temporarily impaired at September 30, 2008. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for other-than-temporary impairment related to securities available for sale would not impact cash flow, tangible capital or liquidity.

Interest-Bearing Liabilities

Interest-bearing liabilities include interest-bearing transaction accounts, savings deposits, certificates of deposits (CDs), other time deposits, federal funds purchased, and other borrowings. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Average interest-bearing liabilities | \$ 2,205,668 | \$ 1,782,911 | \$ 2,161,063 | \$ 1,771,419 |
| Interest expense | 14,301 | 17,379 | 46,848 | 50,909 |
| Average rate | 2.58% | 3.87% | 2.90% | 3.84% |

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Even as the average balance of interest-bearing liabilities increased to support loan growth during the third quarter of 2008, interest expense on interest-bearing liabilities decreased 17.7% in the third quarter of 2008 compared to the third quarter of 2007. The decrease was driven by a decline in the average rates on transaction and money market balances, certificates and other time deposits and deposit and federal funds purchased and securities sold under agreements to repurchase. In addition, we experienced a 129 basis point decrease in the average rate on all interest-bearing liabilities with decreases in every category. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended September 30, 2008 grew 16.5% compared to the same period in 2007.
- Interest-bearing deposits grew 20.0% to \$1.8 billion at September 30, 2008 from the period end balance at September 30, 2007, and increased \$212.9 million, or 17.6% annualized from the balance at December 31, 2007.
- The average rate on transaction and money market account deposits for the three months ended September 30, 2008 decreased 114 basis points from the comparable period in 2007, which caused interest expense to decrease by \$1.6 million for the third quarter of 2008.
- Average certificates and other time deposits increased 25.6%, up \$211.7 million from the average balance in the third quarter of 2007. Although the average balance increased, a 132 basis point decrease in the interest rate drove an \$855,000 decrease in interest expense for the three months ended September 30, 2008.
- Average federal funds purchased and securities sold under agreements to repurchase increased 56.3%, up \$106.3 million from the average balance in the third quarter of 2007. The Federal Reserve maintained the federal funds rate of 2.00% as of September 30, 2008 and subsequent to quarter-end lowered it to 1.50%. As a result, we continue to elect to meet a greater portion of our funding needs through these non-deposit sources. The average rate for the three months ended September 30, 2008 decreased 260 basis points from the comparable period in 2007, which caused interest expense to decrease by \$740,000.
- Interest expense on average interest-bearing liabilities decreased \$3.1 million, or 17.7%, for the three months ended September 30, 2008 from the comparable period in 2007 even though total interest-bearing liabilities increased \$422.8 million for the third quarter of 2008. This resulted from a 129 basis point drop in the average rate on total interest-bearing liabilities.

Noninterest-Bearing Deposits

Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide our banks with interest-free sources of funds. Average noninterest-bearing deposits grew \$36.4 million, or 12.6%, to \$326.3 million in the third quarter of 2008 compared to the third quarter of 2007. From the second quarter of 2008, average noninterest-bearing deposits grew \$12.4 million, or 4.0%.

For the nine months ended September 30, 2008, new demand deposit transaction accounts declined by 5.8% compared to the same period in 2007. Our customers opened approximately 14,300 new demand deposit checking accounts (approximately 11,500 personal accounts and 2,800 business accounts) during the first nine months of 2008 compared to approximately 15,200 the first nine months of 2007. Despite the declines,

we grew new business demand deposit accounts by 2.6% during the nine months ended September 30, 2008 compared to the prior period in 2007. New savings accounts during the first nine months of 2008 declined 3.8% to approximately 5,100, as compared to new savings accounts during the first nine months of 2007.

Provision for Loan Losses and Nonperforming Assets

We have established an allowance for loan losses through a provision for loan losses charged to expense. The allowance for loan losses represents an amount that we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. We assess the adequacy of the allowance for loan losses by using an internal risk rating system, independent credit reviews, and regulatory agency examinations all of which evaluate the quality of the loan portfolio and seek to identify problem loans. Based on this analysis, management and the board of directors consider the current allowance to be adequate. Nevertheless, our evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses may vary from our estimates, and there is a possibility that charge-offs in future periods could exceed the allowance for loan losses as estimated at any point in time.

In addition, regulatory agencies, as an integral part of the examination process, periodically review the banking subsidiaries allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

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The following table presents a summary of the changes in the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007.

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance at beginning of period | \$ 28,760 | \$ 23,369 | \$ 26,570 | \$ 22,668 |
| Loans charged-off | (2,590) | (912) | (4,474) | (2,325) |
| Recoveries | 244 | 204 | 741 | 736 |
| Net charge-offs | (2,346) | (708) | (3,733) | (1,589) |
| Provision for loan losses | 2,785 | 1,161 | 6,362 | 2,743 |
| Balance at end of period | \$ 29,199 | \$ 23,822 | \$ 29,199 | \$ 23,822 |
| Total loans: | | | | |
| At period end | \$ 2,279,726 | \$ 1,842,226 | \$ 2,279,726 | \$ 1,842,226 |
| Average | 2,265,606 | 1,810,332 | 2,192,088 | 1,786,887 |
| As a percentage of average loans (annualized): | | | | |
| Net charge-offs | 0.41% | 0.16% | 0.23% | 0.12% |
| Provision for loan losses | 0.49% | 0.26% | 0.39% | 0.21% |
| Allowance as a percentage of period end loans | 1.28% | 1.29% | 1.28% | 1.29% |
| Allowance as a percentage of period end non-performing loans (NPLs) | 236.23% | 494.75% | 236.23% | 494.75% |

The provision for loan losses as a percent of average loans reflects an increase due to an increase in our nonperforming assets and an increase in net charge-offs during the third quarter of 2008 compared to year end 2007. We aggressively charged down (by 38%) a portion of one loan during the quarter, which was significant, given the decline in the appraised value of the underlying collateral (real estate) and the overall concern that the borrower will be unable to meet the contractual payments of principal and interest. Additionally, there is continued concern about the economy as a whole and the market conditions throughout the Southeast. The allowance for loan losses as a percent of total loans has slightly decreased as compared to the comparable 2007 period due to the inclusion of the TSB loan portfolio where the allowance for loan losses to loans was lower, which is reflective of its minimal net charge offs, lower relative level of non-performing loans (assets), and fewer past due loans to date, historically. With the significant rise in NPLs during the quarter, the ratio of the allowance to cover these loans decreased by more than 50% from 495% at September 30, 2007 down to 236% at September 30, 2008.

The table below summarizes our NPAs.

| (Dollars in thousands) | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|-----------------------|----------------------|-----------------------|
| Non accrual loans | \$ 11,564 | \$ 5,353 | \$ 4,008 |
| Accruing loans past due 90 days or more | 796 | 985 | 807 |
| Total nonperforming loans | 12,360 | 6,338 | 4,815 |
| Other real estate owned (OREO) | 2,508 | 490 | 443 |
| Other nonperforming assets | 172 | 82 | 237 |
| Total nonperforming assets | \$ 15,040 | \$ 6,910 | \$ 5,495 |

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| | | | |
|---|--------------|-------|-------|
| Total NPLs as a % of total loans | 0.54% | 0.30% | 0.26% |
| Total NPAs as a % of total loans and OREO | 0.66% | 0.33% | 0.30% |
| Total NPAs as a % of total assets | 0.54% | 0.27% | 0.24% |

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In the table above, other nonperforming assets consist of non-real estate such as repossessed vehicles. OREO includes certain real estate acquired as a result of foreclosure and property not intended for bank use. We had four loans which drove this increase and accounted for approximately \$5 million. These factors can have a negative impact on real estate absorption rates and nonperforming assets could continue to rise, as they have over the past year. The increase in non-accrual loans and OREO from the end of 2007 is reflective of the pressure on the real estate market and economy.

Overall, our loan portfolio remains within our historical trends in terms of charge-offs and NPAs as a percentage of total loans. Given the industry-wide rise in credit costs, we have taken additional proactive measures to identify problem loans including in-house and independent review of larger transactions and updating credit scores on all consumer real estate loans. Our policy for evaluating problem loans includes obtaining new certified real estate appraisals as needed. We continue to monitor and review frequently the overall asset quality within the loan portfolio.

Noninterest Income

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Service charges on deposit accounts | \$ 4,157 | \$ 3,909 | \$ 11,994 | \$ 10,952 |
| Bankcard services income | 1,247 | 1,051 | 3,679 | 3,067 |
| Mortgage banking income | 507 | 863 | 2,777 | 2,964 |
| Trust and investment services income | 725 | 697 | 2,102 | 1,971 |
| Securities gains (losses), net | (9,760) | | (9,420) | 42 |
| Other | 431 | 584 | 1,807 | 1,791 |
| Total noninterest income | \$ (2,693) | \$ 7,104 | \$ 12,939 | \$ 20,787 |

Noninterest income decreased 137.9% in the third quarter of 2008 as compared to the same period in 2007 due to the \$9.8 million OTTI charge on Freddie Mac preferred securities. The quarterly decrease in total noninterest income primarily resulted from the following:

- Service charges on deposit accounts increased 6.3%, driven primarily by an increase in non-sufficient funds and return check charges and checking account service charges.
- Mortgage banking income decreased 41.3%, driven by a reduction in service release premiums for the third quarter. Production in secondary market mortgages continues to slow down compared to the third quarter of 2007 due to the overall slowdown within the real estate industry and the industry-wide tightening of credit relative to mortgage lending.
- Bankcard services income increased 18.6%, driven largely by the number of new accounts opened in the third quarter and more customers using our debit cards. The overall increase was also driven by higher merchant account transactions and customer credit card transactions. Debit card income, merchant account income and credit card income contributed 54.1%, 15.3% and 14.9%, respectively, of the total increase in bankcard services income.

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- Trust and investment services income increased 4.0%, driven primarily by an increase in trust services for personal estates and managing agency fees; however, trust assets under management dropped slightly to approximately \$161.4 million at September 30, 2008 as compared to \$170.6 million at June 30, 2008.
- We recorded an OTTI charge on our investment in Freddie Mac preferred shares of \$9.8 million on a pre-tax basis and \$6.3 million on an after-tax basis during the third quarter of 2008.
- Other noninterest income decreased 26.2%, primarily driven by our decision to bring the bank official check product in-house and lower customer service fees charged at branches during the third quarter of 2008.

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| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Salaries and employee benefits | \$ 10,164 | \$ 9,685 | \$ 32,248 | \$ 28,981 |
| Furniture and equipment | 1,577 | 1,459 | 4,667 | 4,227 |
| Net occupancy expense | 1,528 | 1,247 | 4,520 | 3,585 |
| Information services expense | 1,249 | 1,050 | 3,569 | 3,162 |
| Advertising and marketing | 771 | 985 | 2,782 | 2,432 |
| Business development and staff related | 470 | 512 | 1,583 | 1,625 |
| Professional fees | 597 | 513 | 1,638 | 1,522 |
| Amortization of intangibles | 144 | 125 | 433 | 377 |
| Other | 2,596 | 2,247 | 7,480 | 6,592 |
| Total noninterest expense | \$ 19,096 | \$ 17,823 | \$ 58,920 | \$ 52,503 |

Noninterest expense increased 7.1% in the third quarter of 2008 compared to the same period in 2007. The quarterly increases primarily resulted from the following:

- Salaries and employee benefits expense increased 4.9%, driven mainly by additional employees acquired in the TSB merger. During the third quarter of 2008, we determined that incentive compensation for 2008 would be substantially reduced due to the \$9.8 million OTTI charge on Freddie Mac preferred securities. Accrued incentive compensation of \$894,000, primarily related to executive management, was reversed during the third quarter of 2008. Excluding TSB, salaries and benefits expense decreased 1.7% or \$163,000, compared to the third quarter of 2007. We expect that salaries and commissions expense will continue to be driven largely by sales volume incentives in 2008.
- Furniture and equipment expense and net occupancy expense increased 8.1% and 22.5%, respectively, as a result of additional financial centers acquired in the TSB acquisition in the fourth quarter of 2007.
- Information services expense increased 19.0%, driven by an increase in computer software maintenance and data communications expense during the third quarter of 2008.
- Advertising and marketing expense decreased 21.7%, driven by lower advertising and public relations costs during the third quarter of 2008.
- Other noninterest expense increased 15.5%, due primarily to a \$220,000 increase in FDIC insurance premiums. We expected our premiums to increase as we have already used in prior comparative periods the one-time credit provided under the FDIC's amended assessment structure.

Income Tax Expense

The Company's effective income tax rate increased to 34.9% at September 30, 2008 compared to 33.3% at September 30, 2007. The higher effective tax rate in 2008 is reflective of changes in various permanent differences, and an increase in the effective rate projected for fiscal year 2008 compared to 2007.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of September 30, 2008, shareholders' equity was \$219.6 million, an increase of \$4.5 million, or 2.1%, from \$215.1 million at December 31, 2007. Shareholders' equity has increased 25.1%, or \$44.1 million, from September 30, 2007. The quarter-to-quarter comparison reflects the issuance of \$34.0 million in equity related to the TSB acquisition. Excluding the TSB acquisition, shareholders' equity increased 5.8%, or \$10.1 million, from September 30, 2007.

We are subject to certain risk-based capital guidelines. Certain ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted to reflect credit risk. Under the guidelines promulgated by the Board of Governors of the Federal Reserve System, which are substantially similar to those of the Comptroller of the Currency, Tier 1 risk-based capital must be at least 4% of risk-weighted assets, while total risk-based capital must be at least 8% of risk-weighted assets.

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In conjunction with the risk-based ratios, the regulatory agencies have also prescribed a leverage capital ratio for assessing capital adequacy. The minimum Tier 1 leverage ratio required for banks is between 3% and 5%, depending on the institution's composite rating as determined by its regulators.

| Capital Adequacy Ratios | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---------------------------|-----------------------|----------------------|-----------------------|
| Tier 1 risk-based capital | 9.34% | 9.64% | 10.32% |
| Total risk-based capital | 11.28% | 10.89% | 11.57% |
| Tier 1 leverage | 7.46% | 8.42% | 8.20% |

Compared to December 31, 2007, our Tier 1 risk-based capital and Tier 1 leverage ratios have decreased primarily because of the growth in loans and the OTTI charge during the nine months ended September 30, 2008. Total risk-based capital increased reflecting SCBT closing on a subordinated debt agreement which provided \$15.0 million of Tier 2 regulatory capital to enhance the capital structure and support future growth. Our capital ratios are currently in excess of the minimum standards and continue to be in the well capitalized regulatory classification.

Subsequent to September 30, 2008, we issued 1,010,000 shares of our authorized but unissued common stock to certain accredited investors pursuant to a private placement transaction which provided approximately \$26.8 million in Tier 1 capital. Our Tier 1 risk-based capital, Total risk-based capital and Tier 1 leverage ratios would have been approximately 10.57%, 12.52% and 8.46%, respectively, if the common stock had been issued as of September 30, 2008.

Liquidity

Liquidity refers to the ability for us to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our banks,
- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our banks' asset/liability management and net interest margin requirements, and

- Continually working to identify and introduce new products that will attract customers or enhance our banks appeal as a primary provider of financial services.

In the first nine months of 2008, we increased both deposits and non-deposit sources of funding. Our deposits include an increase in brokered certificates of deposits to \$106.2 million, or 5.0% of total deposits, at September 30, 2008 from \$8.9 million, or 0.5% of total deposits at September 30, 2007 to support loan growth and to lock in for 3- to 4-month terms some deposit rates that were favorable to local market CD rates. Compared to the fourth quarter of 2007, we slightly lengthened the terms of other borrowed funds to lock in relatively low rates that were available. We continue to emphasize shorter maturities of such funds in anticipation of an ongoing accommodative Federal Reserve monetary policy. Our approach may provide an opportunity to lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, typically including some level of federal funds sold, reverse repurchase agreements, and/or other short-term investments; asset quality; well-capitalized position; and profitable operating results. Cyclical and other economic trends and conditions can disrupt our banks' desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, the banks' federal funds sold position, if any, serves as the primary source of immediate liquidity. At September 30, 2008, our banks had total federal funds credit lines of \$349.4 million with total advances of \$74.5 million. If additional liquidity were needed, the banks would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our

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correspondent banks and/or the Federal Home Loan Bank. At September 30, 2008, our banks had a total FHLB credit facility of \$216.9 million with total advances of \$150.2 million. We believe that our liquidity position continues to be adequate and readily available.

Our contingency funding plan provides several potential stages based on liquidity levels. Our board of directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. Our subsidiary banks maintain various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, our banks would utilize these alternative sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our banks. This could increase our banks' cost of funds, impacting net interest margins and net interest spreads. We are evaluating the U.S. Treasury Department's Capital Purchase Program. We cannot provide any assurance regarding whether we will participate or to what extent we may participate in such program.

Deposit and Loan Concentration

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. As of September 30, 2008, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

Concentration of Credit Risk

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk-based capital, or \$60.9 million at September 30, 2008. Based on these criteria, we had seven such credit concentrations at September 30, 2008, including \$274.1 million of loans to borrowers engaged in other activities related to real estate, \$88.4 million of loans to lessors of nonresidential buildings, \$87.8 million of loans to religious organizations, \$74.9 million of loans to physicians for office buildings, \$72.4 million of loans for land subdivision, \$69.5 million of loans to borrowers constructing new single family housing and \$60.5 million of loans to lessors of residential buildings and dwellings.

Cautionary Note Regarding Any Forward-Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities and Exchange Act of 1934. The words may, will, anticipate, should, would, believe, contemplate, expect, estimate, continue, may, and intend, as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007 and the following:

- **Credit risk** associated with an obligor's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed;
- **Interest rate risk** involving the effect of a change in interest rates on both the bank's earnings and the market value of the portfolio equity;
- **Liquidity risk** affecting our banks' ability to meet their obligations when they come due;
- **Price risk** focusing on changes in market factors that may affect the value of financial instruments which are mark-to-market periodically;
- **Transaction risk** arising from problems with service or product delivery;
- **Compliance risk** involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- **Strategic risk** resulting from adverse business decisions or improper implementation of business decisions;
- **Reputation risk** that adversely affects earnings or capital arising from negative public opinion;
- **Terrorist activities risk** that result in loss of consumer confidence and economic disruptions; and

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- ***Merger integration risk*** including potential deposit attrition, higher than expected costs, customer loss and business disruption associated with the integration of TSB, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters.

These risks are exacerbated by the recent developments in national and international financial markets, and we are unable to predict what effect these uncertain market conditions will have on the Company. During 2008, the capital and credit markets have experienced extended volatility and disruption. In the last 90 days, the volatility and disruption have reached unprecedented levels. There can be no assurance that these unprecedented recent developments will not materially and adversely affect our business, financial condition and results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2008 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Management necessarily applied its judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Based upon this evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

There have been no significant changes in our internal controls over financial reporting that occurred during the third quarter of 2008 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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To the best of our knowledge, we are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in our ordinary course of business.

Item 1A. RISK FACTORS

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as well as cautionary statements contained in this Form 10-Q, including those under the caption *Cautionary Note Regarding Any Forward-Looking Statements* set forth in Part I, Item 2 of this Form 10-Q. The risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 continue to be relevant to an understanding of our business, financial condition and operating results; however, certain of those risk factors have been updated in this Form 10-Q as set forth below. References to *we*, *our* and *us* in these risk factors refer to the Company.

General Business Risks

Recent negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.

Negative developments in the latter half of 2007 and during 2008 in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing into 2009. As a result of this credit crunch, commercial as well as consumer loan portfolio performances have deteriorated at many institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Global

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securities markets, and bank holding company stock prices in particular, have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, significant new federal laws and regulations relating to financial institutions, including, without limitation, the Emergency Economic Stabilization Act of 2008 (the EESA) and the U.S. Treasury Department's Capital Purchase Program, have been adopted. Furthermore, the potential exists for additional federal or state laws and regulations regarding, among other matters, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. We can provide no assurance regarding the manner in which any new laws and regulations will affect us.

At September 30, 2008, we had 85 securities available for sale in an unrealized loss position, which totaled \$6.5 million. The majority of our unrealized loss position resulted from eight pooled trust preferred securities. These securities had a \$4.9 million unrealized loss position as of September 30, 2008, which was affected by the significant market turmoil that occurred during the third quarter and that remains in the global financial markets.

On September 7, 2008, the U.S. Treasury Department announced that Freddie Mac (along with Fannie Mae) has been placed into conservatorship under the control of the newly created Federal Housing Finance Agency. As a result of these recent events, during the third quarter of 2008 we incurred a \$9.8 million OTTI charge related to our Freddie Mac preferred securities. Going forward, we do not expect to receive dividends on our Freddie Mac preferred securities for an indefinite period of time. We received pre-tax dividends of \$302,000 on our Freddie Mac preferred securities in the first six months of 2008.

Liquidity needs could adversely affect our results of operations and financial condition.

The primary sources of funds of our banks are client deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances, sales of securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

We may decide to make future acquisitions, which could dilute current shareholders' stock ownership and expose us to additional risks.

In accordance with our strategic plan, we regularly evaluate opportunities to acquire other banks and/or branch locations to expand the Company. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity.

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Our acquisition activities could be material to the Company. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders' ownership interest in the Company. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity.

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Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and merger partners and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly received.

New or acquired banking office facilities and other facilities may not be profitable.

We may not be able to identify profitable locations for new banking offices. The costs to start up new banking offices or to acquire existing branches, and the additional costs to operate these facilities, may increase our non-interest expense and decrease our earnings in the short term. If branches of other banks become available for sale, we may acquire those offices. It may be difficult to adequately and profitably manage our growth through the establishment or purchase of additional banking offices and we can provide no assurance that any such banking offices will successfully attract enough deposits to offset the expenses of their operation. In addition, any new or acquired banking offices will be subject to regulatory approval, and there can be no assurance that we will succeed in securing such approval.

We are exposed to a need for additional capital resources for the future and these capital resources may not be available when needed or at all.

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments or to strengthen our capital position. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control and our financial performance. We cannot provide assurance that such financing will be available to us on acceptable terms or at all. We are evaluating the U.S. Treasury Department's Capital Purchase Program. We cannot provide any assurance regarding whether we will participate or to what extent we may participate in such program.

The FDIC Deposit Insurance assessments that we are required to pay may materially increase in the future, which would have an adverse effect on our earnings.

As a member institution of the FDIC, we are required to pay semi-annual deposit insurance premium assessments to the FDIC. During the year ended December 31, 2007, we paid \$398,000 in deposit insurance assessments and during the first six months of 2008, we paid \$632,000. Due to the recent failure of several unaffiliated FDIC insurance depository institutions, we anticipate that the deposit insurance premium assessments paid by all banks will increase. If the deposit insurance premium assessment rate applicable to us increases, our earnings could be adversely impacted.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer's audited financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition and results of operations could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with GAAP or are materially misleading.

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Negative public opinion surrounding our company and the financial institutions industry generally could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

Legal and Regulatory Risks

We are exposed to changes in the regulation of financial services companies.

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America, the General Assembly of the State of South Carolina, and the General Assembly of the State of North Carolina. The agencies regulating the financial services industry also periodically adopt changes to their regulations. On September 7, 2008, the U.S. Treasury Department announced that Freddie Mac (along with Fannie Mae) has been placed into conservatorship under the control of the newly created Federal Housing Finance Agency. On October 3, 2008, the EESA was signed into law, and on October 14, 2008 the U.S. Treasury Department announced its Capital Purchase Program under EESA. It is possible that additional legislative proposals may be adopted or regulatory changes may be made that would have an adverse effect on our business. We can provide no assurance regarding the manner in which any new laws and regulations will affect us.

Risks Related to an Investment in Our Common Stock

We may issue additional shares of common stock or equity derivative securities that will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the terms on which we may obtain additional capital.

Our authorized capital includes 40,000,000 shares of common stock. As of October 30, 2008, we had 11,242,532 shares of common stock outstanding and had reserved for issuance 357,375 shares underlying options that are or may become exercisable at an average price of \$26.84 per share. In addition, as of October 30, 2008, we had the ability to issue 364,598 shares of common stock pursuant to options and restricted stock that may be granted in the future under our existing equity compensation plans. Subject to applicable NASDAQ rules, our board generally has the authority, without action by or vote of the shareholders, to issue all or part of any authorized but unissued shares of common stock for any corporate purpose, including issuance of equity-based incentives under or outside of our equity compensation plans. We may seek additional equity capital in the future as we develop our business and expand our operations. Any issuance of additional shares of common stock or equity derivative securities will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. Shares we issue in connection with this offering will increase the total number of outstanding shares and dilute the percentage ownership interest of our existing shareholders.

Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline.

Although our common stock is listed for trading on The NASDAQ Global Select MarketSM, the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

The existence of outstanding stock options issued to our current or former executive officers, directors, and employees may result in dilution of your ownership and adversely affect the terms on which we can obtain additional capital.

As of October 30, 2008, we had outstanding options to purchase 357,375 shares of our common stock at a weighted average exercise price of \$26.84 per share. All of these options are held by our current or former executive officers, directors,

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and employees. Also, as of September 30, 2008, we had the ability to issue options and restricted stock to purchase an additional 364,598 shares of our common stock. The issuance of shares subject to options under the equity compensation plans will result in dilution of your ownership of our common stock.

The exercise of stock options could also adversely affect the terms on which we can obtain additional capital. Option holders are most likely to exercise their options when the exercise price is less than the market price for our common stock. They profit from any increase in the stock price without assuming the risks of ownership of the underlying shares of common stock by exercising their options and selling the stock immediately.

We have broad discretion in using/applying the net proceeds from our sale on October 28, 2008 of 1,010,000 shares of common stock to certain accredited investors pursuant to a private placement transaction and could be adversely affected if we fail to use the funds effectively.

We intend to use the net proceeds from the private offering for general corporate purposes, which may include, among other things, providing additional capital to our banks to support growth. We have significant flexibility in applying the net proceeds of the private offering. Our failure to apply these funds effectively could adversely affect our business by reducing our return on equity and inhibiting our abilities to expand and/or raise additional capital in the future.

Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.

Our ability to pay cash dividends may be limited by regulatory restrictions, by our banks' ability to pay cash dividends to our holding company and by our need to maintain sufficient capital to support our operations. The ability of our banks to pay cash dividends to our holding company is limited by their obligations to maintain sufficient capital and by other restrictions on their cash dividends that are applicable to national banks and banks that are regulated by the FDIC. If our banks are not permitted to pay cash dividends to our holding company, it is unlikely that we would be able to pay cash dividends on our common stock.

Table of Contents**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) and (b) not applicable

(c) Issuer Purchases of Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 147,872 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the third quarter of 2008:

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|----------------------------|--|---|--|--|
| July 1 - July 31 | 1,681 * | \$ 33.29 | | 147,872 |
| August 1 - August 31 | | | | 147,872 |
| September 1 - September 30 | | | | 147,872 |
| Total | 1,681 | | | 147,872 |

* These shares were repurchased under arrangements, authorized by our stock-based compensation plans and Board of Directors, whereby officers or directors may sell previously owned shares to SCBT in order to pay for the exercises of stock options or for income taxes owed on vesting shares of restricted stock. These shares are not purchased under the plan to repurchase 250,000 shares announced in February 2004.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS

- Exhibit 10.1 Subordinated Term Loan Agreement and Note, dated as of September 22, 2008, among South Carolina Bank and Trust, N.A., as borrower and SunTrust Bank, as lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 23, 2008)
- Exhibit 31.1 Rule 13a-14(a) Certification of Principal Executive Officer
- Exhibit 31.2 Rule 13a-14(a) Certification of Principal Financial Officer
- Exhibit 32.1 Section 1350 Certification of Principal Executive Officer
- Exhibit 32.2 Section 1350 Certification of Principal Financial Officer

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.

SCBT FINANCIAL CORPORATION
(Registrant)

Date: November 7, 2008

/s/ Robert R. Hill, Jr.
Robert R. Hill, Jr.
President and Chief Executive Officer

Date: November 7, 2008

/s/ John C. Pollok
John C. Pollok
Senior Executive Vice President and
Chief Financial Officer

Date: November 7, 2008

/s/ Karen L. Dey
Karen L. Dey
Senior Vice President and
Controller (Principal Accounting Officer)

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Exhibit Index

| Exhibit No. | Description |
|--------------------|---|
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