SCBT FINANCIAL CORP
Form 10-Q
August 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission file number 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(800) 277-2175

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	Outstanding as of July 31, 2010
Common Stock, $2.50 par value	12,778,658

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SCBT Financial Corporation and Subsidiaries

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2010 (Unaudited)	December 31, 2009 (Note 1)	June 30, 2009 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 72,574**	$ 80,523	$ 80,822
Interest-bearing deposits with banks	**182**	174	220
Federal funds sold and securities purchased under agreements to resell	**112,122**	24,211	40,050
Money market mutual funds	**2,147**		36,000
Total cash and cash equivalents	**187,025**	104,908	157,092
Investment securities:			
Securities held to maturity (fair value of $20,584, $21,901 and $21,748, respectively)	**20,092**	21,538	22,356
Securities available for sale, at fair value	**251,644**	173,303	153,643
Other investments	**22,181**	16,271	15,416
Total investment securities	**293,917**	211,112	191,415
Loans held for sale	**22,724**	17,563	53,853
Loans:			
Covered under FDIC loss share agreements	**413,549**		
Not covered under FDIC loss share agreements	**2,227,442**	2,203,238	2,236,162
Less allowance for loan losses	**(46,167)**	(37,488)	(32,431)
Loans, net	**2,594,824**	2,165,750	2,203,731
FDIC receivable for loss share agreements	**265,890**		
Other real estate owned (covered of $31,750, $0, and $0, respectively; and non-covered of $9,803, $3,102 and $9,165, respectively)	**41,553**	3,102	9,165
Premises and equipment, net	**84,206**	71,829	73,404
Goodwill and other intangibles	**73,468**	65,695	65,958
Other assets	**55,039**	62,229	52,691
Total assets	**$ 3,618,646**	$ 2,702,188	$ 2,807,309
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 465,594**	$ 346,248	$ 322,270
Interest-bearing	**2,546,273**	1,758,391	1,858,096
Total deposits	**3,011,867**	2,104,639	2,180,366
Federal funds purchased and securities sold under agreements to repurchase	**177,281**	162,515	187,677
Other borrowings	**62,557**	143,624	144,430
Other liabilities	**32,338**	8,591	15,084
Total liabilities	**3,284,043**	2,419,369	2,527,557
Shareholders equity:			

Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding						
Common stock - $2.50 par value; authorized 40,000,000 shares; 12,773,855, 12,739,533 and 12,696,849 shares issued and outstanding		**31,935**		31,849		31,742
Surplus		**197,305**		196,437		195,181
Retained earnings		**105,115**		59,915		60,550
Accumulated other comprehensive income (loss)		**248**		(5,382)		(7,721)
Total shareholders equity		**334,603**		282,819		279,752
Total liabilities and shareholders equity	**$**	**3,618,646**	$	2,702,188	$	2,807,309

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

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest income:				
Loans, including fees	**$ 35,994**	$ 33,373	**$ 70,167**	$ 67,090
Investment securities:				
Taxable	**2,740**	2,144	**5,254**	4,514
Tax-exempt	**164**	231	**429**	466
Federal funds sold and securities purchased under agreements to resell	**214**	109	**466**	235
Total interest income	**39,112**	35,857	**76,316**	72,305
Interest expense:				
Deposits	**7,077**	8,188	**14,132**	17,929
Federal funds purchased and securities sold under agreements to repurchase	**184**	118	**349**	243
Other borrowings	**691**	1,532	**2,044**	3,116
Total interest expense	**7,952**	9,838	**16,525**	21,288
Net interest income	**31,160**	26,019	**59,791**	51,017
Provision for loan losses	**12,509**	4,521	**33,287**	9,564
Net interest income after provision for loan losses	**18,651**	21,498	**26,504**	41,453
Noninterest income:				
Gain on acquisition			**98,081**	
Service charges on deposit accounts	**5,582**	3,819	**10,105**	7,404
Bankcard services income	**2,348**	1,290	**4,147**	2,472
Mortgage banking income	**1,660**	2,134	**2,842**	3,395
Trust and investment services income	**1,187**	671	**1,971**	1,362
Total other-than-temporary impairment losses	**(675)**	(2,482)	**(6,261)**	(2,482)
Portion of impairment losses recognized in other comprehensive loss		1,938		1,938
Net impairment losses recognized in earnings	**(675)**	(544)	**(6,261)**	(544)
Other	**1,319**	391	**2,495**	803
Total noninterest income	**11,421**	7,761	**113,380**	14,892
Noninterest expense:				
Salaries and employee benefits	**15,656**	9,517	**29,747**	20,036
Federal Home Loan Bank advances prepayment fee			**3,189**	
Net occupancy expense	**1,937**	1,559	**4,280**	3,142
Furniture and equipment expense	**1,907**	1,499	**3,573**	3,059
Information services expense	**2,157**	1,286	**4,528**	2,728
FDIC assessment and other regulatory charges	**1,227**	2,333	**2,550**	3,517
OREO expense and loan related	**825**	1,367	**555**	2,041
Advertising and marketing	**1,028**	571	**1,615**	1,221
Professional fees	**616**	443	**1,173**	759
Amortization of intangibles	**432**	132	**781**	263
Merger-related expense	**964**		**4,872**	
Other	**2,628**	2,331	**5,432**	4,459
Total noninterest expense	**29,377**	21,038	**62,295**	41,225
Earnings:				
Income before provision for income taxes	**695**	8,221	**77,589**	15,120

Provision for income taxes		**120**		2,836		**28,053**		5,215
Net income		**575**		5,385		**49,536**		9,905
Preferred stock dividends				450				1,115
Accretion on preferred stock discount				3,410				3,559
Net income available to common shareholders	**$**	**575**	$	1,525	**$**	**49,536**	$	5,231
Earnings per common share:								
Basic	**$**	**0.05**	$	0.13	**$**	**3.93**	$	0.45
Diluted	**$**	**0.05**	$	0.13	**$**	**3.90**	$	0.45
Dividends per common share	**$**	**0.17**	$	0.17	**$**	**0.34**	$	0.34
Weighted-average common shares outstanding:								
Basic		**12,612**		11,827		**12,599**		11,516
Diluted		**12,738**		11,871		**12,713**		11,560

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

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)

Six Months Ended June 30, 2010 and 2009

(Dollars in thousands, except per share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008		$	11,250,603	$ 28,127	$ 166,815	$ 59,171	$ (9,185)	$ 244,928
Comprehensive income:								
Net income						9,905		9,905
Change in pension liability for plan curtailment, net of tax							1,283	1,283
Change in net unrealized gain on securities available for sale, net of tax							1,382	1,382
Noncredit portion of other-than-temporary impairment losses not recognized in earnings, net of tax							(1,201)	(1,201)
Total comprehensive income								11,369
Cash dividends on Series T preferred stock at annual dividend rate of 5%		3,559				(4,674)		(1,115)
Cash dividends declared at $.34 per share						(3,852)		(3,852)
Issuance of Series T preferred stock and warrants to purchase common stock, net of issuance costs	64,779	61,220			3,412			64,632
Repurchase of Series T preferred stock and warrants	(64,779)	(64,779)			(1,400)			(66,179)
Employee stock purchases			9,089	23	139			162
Restricted stock awards			86,560	217	(217)			
Common stock repurchased			(5,903)	(16)	(163)			(179)
Share-based compensation expense					753			753
Common stock issued in public offering			1,356,500	3,391	25,842			29,233
Balance, June 30, 2009		$	12,696,849	$ 31,742	$ 195,181	$ 60,550	$ (7,721)	$ 279,752
Balance, December 31, 2009		$	12,739,533	$ 31,849	$ 196,437	$ 59,915	$ (5,382)	$ 282,819
Comprehensive income:								
Net income						49,536		49,536
Change in net unrealized gain on securities available for sale, net of tax							6,153	6,153
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax							(523)	(523)
Total comprehensive income								55,166

Cash dividends declared at $.34 per share				(4,336)		(4,336)
Employee stock purchases	5,294	13	129			142
Stock options exercised	11,782	30	196			226
Restricted stock awards	22,698	57	(57)			
Common stock repurchased	(5,452)	(14)	(184)			(198)
Share-based compensation expense			784			784
Balance, June 30, 2010	$ 12,773,855	$ 31,935	$ 197,305	$ 105,115	$ 248	$ 334,603

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

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income	**$ 49,536**	$ 9,906
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,316**	3,388
Provision for loan losses	**33,287**	9,564
Other-than-temporary impairment on securities	**6,261**	544
Gain on acquisition	**(98,081)**	
Share-based compensation expense	**784**	753
Federal Home Loan Bank advances prepayment fee	**3,189**	
Accretion on FDIC indemnification asset	**(918)**	
Net amortization (accretion) of investment securities	**358**	(207)
Net change in loans held for sale	**(5,161)**	(38,112)
Net change in accrued income taxes	**24,929**	
Net change in miscellaneous assets and liabilities	**(1,364)**	(1,998)
Net cash provided by (used in) operating activities	**17,136**	(16,162)
Cash flows from investing activities:		
Proceeds from maturities and calls of investment securities held to maturity	**1,445**	1,870
Proceeds from maturities and calls of investment securities available for sale	**49,083**	39,244
Proceeds from sales of other investment securities	**49**	451
Purchases of investment securities available for sale	**(24,685)**	(9,709)
Purchases of other investment securities		(1,088)
Net (increase) decrease in customer loans	**(5,234)**	71,257
Net cash received from acquisition	**306,298**	
Purchases of premises and equipment	**(4,497)**	(4,588)
Net cash provided by investing activities	**322,459**	97,437
Cash flows from financing activities:		
Net (increase) decrease in deposits	**(101,277)**	27,093
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**13,992**	(5,443)
Repayment of FHLB advances	**(166,027)**	(18,000)
Issuance of preferred stock and warrants, net of issuance costs		64,632
Repurchase of preferred stock and warrants		(66,179)
Common stock issuance	**142**	29,395
Common stock repurchased	**(198)**	(179)
Dividends paid on preferred stock		(1,115)
Dividends paid on common stock	**(4,336)**	(3,852)
Stock options exercised	**226**	
Net cash provided by (used in) financing activities	**(257,478)**	26,352
Net increase in cash and cash equivalents	**82,117**	107,627
Cash and cash equivalents at beginning of period	**104,908**	49,465
Cash and cash equivalents at end of period	**$ 187,025**	$ 157,092
Supplemental Disclosures:		
Cash paid for:		
Interest	**$ 16,277**	$ 22,244

Income taxes	**$**	**6,324**	$	5,154

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

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SCBT Financial Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

Note 2 Summary of Significant Accounting Policies

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

The following accounting policies were adopted during the fiscal year 2010.

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

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

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

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

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Note 2 Summary of Significant Accounting Policies (continued)

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

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company s initial investment in the loans should be accreted into interest income on a level-yield basis over the life of the loan. Decreases in cash flows expected to be collected should be recognized as impairment through the provision for loan losses. The FDIC indemnification asset will be adjusted accordingly with increases and decreases in expected cash flows.

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

Note 3 Recent Accounting Pronouncements

In July 2010, the FASB issued an update to the accounting standards governing the disclosures associated with credit quality and the allowance for loan losses. This new guidance requires additional disclosures related to the allowance for loan losses with the objective of providing financial statement users with greater transparency about an entity s loan loss reserves and overall credit quality. Additional disclosures include showing on a disaggregated basis the aging of receivables, credit quality indicators, and troubled debt restructures with their effect on the allowance for loan losses. The provisions of this standard are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this standard will not have a material impact on the Company s financial position and results of operations; however, it will increase the amount of disclosures in the notes to the consolidated financial statements.

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

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

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

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Note 4 Mergers and Acquisitions

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

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

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of CBT as a part of the P&A Agreement. However, the Bank had the option to purchase the real estate, furniture and equipment from the FDIC. The term of this option expired on April 29, 2010, 90 days from the date of the acquisition. On April 28, 2010, the Bank notified the FDIC that it planned to acquire seven bank facilities with an appraised value of approximately $10.9 million. In addition, the Bank notified the FDIC that it plans to purchase approximately $700,000 of furniture or equipment related to 27 locations being retained by the Bank. The Bank will settle this purchase along with other settlement items identified by September 30, 2010 and currently expects to pay $4.7 million as of June 30, 2010. These 27 banking facilities include both leased and owned locations. In late May and early June of 2010, the Bank closed 10 bank branches, 1 trust office, and converted the operating system of the acquired Georgia franchise.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. Both the purchased assets and liabilities assumed are recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, especially the loan portfolio and foreclosed real estate, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. During the second quarter of 2010, the Company continued to gather information regarding the initial fair value estimates of assets and liabilities acquired, but have identified no material adjustments as of June 30, 2010. The purchase accounting adjustments and the loss sharing arrangement with the FDIC will significantly impact the effects of the acquired entity on the ongoing operations of the Company. Disclosure of pro forma financial information is also made more difficult by the troubled nature of CBT prior to the date of the combination. The Company has omitted certain financial information of CBT required by Rule 3-05 of Regulation S-X and the related pro forma financial information under Article 11 of Regulation S-X pursuant to the guidance provided in SEC Staff Accounting Bulletin 1:K, *Financial Statements of Acquired Troubled Financial Institutions* (SAB 1:K). SAB 1:K provides relief from the requirements of Rule 3-05 in certain instances, such as the CBT transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution that involves pervasive federal assistance and audited financial statements of the troubled financial institution are not reasonably available.

As of June 30, 2010, noninterest income includes a pre-tax gain of $98.1 million which resulted from the acquisition of CBT. The amount of the gain is equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed. The Company recognized $964,000 and $4.9 million in merger-related expense during the three months and six months ended June 30, 2010, respectively.

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Note 4 Mergers and Acquisitions (continued)

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

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

Explanation of fair value adjustments

Adjustment reflects:

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

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

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

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

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

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

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

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

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Note 5 Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010:				
State and municipal obligations	**$ 20,092**	**$ 506**	**$ (14)**	**$ 20,584**
December 31, 2009:				
State and municipal obligations	$ 21,538	$ 391	$ (28)	$ 21,901
June 30, 2009:				
State and municipal obligations	**$ 22,356**	**$ 88**	**$ (696)**	**$ 21,748**

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010:				
Government-sponsored enterprises debt *	**$ 111,383**	**$ 1,909**	**$ (2)**	**$ 113,290**
State and municipal obligations	**40,495**	**1,330**	**(373)**	**41,452**
Mortgage-backed securities **	**85,789**	**4,998**		**90,787**
Trust preferred (collateralized debt obligations)	**5,883**		**(123)**	**5,760**
Corporate stocks	**285**	**89**	**(19)**	**355**
	$ 243,835	**$ 8,326**	**$ (517)**	**$ 251,644**
December 31, 2009:				
Government-sponsored enterprises debt *	$ 36,785	$ 166	$ (336)	$ 36,615
State and municipal obligations	26,727	489	(411)	26,805
Mortgage-backed securities **	99,192	4,182	(106)	103,268
Trust preferred (collateralized debt obligations)	12,042		(5,792)	6,250
Corporate stocks	285	80		365
	$ 175,031	$ 4,917	$ (6,645)	$ 173,303
June 30, 2009:				
Government-sponsored enterprises debt *	**$ 11,477**	**$ 246**	**$**	**$ 11,723**
State and municipal obligations	**19,146**	**70**	**(1,100)**	**18,116**
Mortgage-backed securities **	**109,736**	**4,003**		**113,739**
Trust preferred (collateralized debt obligations)	**16,447**		**(6,745)**	**9,702**
Corporate stocks	**369**	**208**	**(214)**	**363**
	$ 157,175	**$ 4,527**	**$ (8,059)**	**$ 153,643**

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

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

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Note 5 Investment Securities (continued)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010:				
Federal Reserve Bank stock	**$ 5,987**	**$**	**$**	**$ 5,987**
Federal Home Loan Bank stock	**14,862**			**14,862**
Investment in unconsolidated subsidiaries	**1,332**			**1,332**
	$ 22,181	**$**	**$**	**$ 22,181**
December 31, 2009:				
Federal Reserve Bank stock	$ 5,987	$	$	$ 5,987
Federal Home Loan Bank stock	8,952			8,952
Investment in unconsolidated subsidiaries	1,332			1,332
	$ 16,271	$	$	$ 16,271
June 30, 2009:				
Federal Reserve Bank stock	**$ 5,132**	**$**	**$**	**$ 5,132**
Federal Home Loan Bank stock	**8,952**			**8,952**
Investment in unconsolidated subsidiaries	**1,332**			**1,332**
	$ 15,416	**$**	**$**	**$ 15,416**

The Company has determined that the investment in Federal Reserve Bank stock and Federal Home Loan Bank stock is not other than temporarily impaired as of June 30, 2010 and ultimate recoverability of the par value of these investments is probable. See Item 2 in MD&A under Other Investments.

The amortized cost and fair value of debt securities at June 30, 2010 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Held to Maturity		**Securities Available for Sale**	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 489	$ 494	$ 3,911	$ 4,029
Due after one year through five years	260	260	41,361	42,070
Due after five years through ten years	3,322	3,443	45,033	46,607
Due after ten years	16,021	16,387	153,530	158,938
	$ 20,092	$ 20,584	$ 243,835	$ 251,644

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Note 5 Investment Securities (continued)

Information pertaining to the Company s securities available for sale with gross unrealized losses at June 30, 2010, December 31, 2009 and June 30, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
June 30, 2010:				
Securities Held to Maturity				
State and municipal obligations	**$**	**$**	**$ 14**	**$ 808**
Securities Available for Sale				
Government-sponsored enterprises debt	**$ 2**	**$ 2,574**	**$**	**$**
State and municipal obligations	**55**	**2,563**	**319**	**4,322**
Trust preferred (collateralized debt obligations)			**122**	**2,450**
Corporate stocks	**19**	**150**		
	$ 76	**$ 5,287**	**$ 441**	**$ 6,772**
December 31, 2009:				
Securities Held to Maturity				
State and municipal obligations	$ 28	$ 4,308	$	$
Securities Available for Sale				
Government-sponsored enterprises debt	$ 336	$ 21,117	$	$
State and municipal obligations	13	3,281	398	4,400
Mortgage-backed securities	106	9,388		
Trust preferred (collateralized debt obligations)			5,792	6,250
	$ 455	$ 33,786	$ 6,190	$ 10,650
June 30, 2009:				
Securities Held to Maturity				
State and municipal obligations	$ 696	$ 16,747	$	$
Securities Available for Sale				
State and municipal obligations	$ 1,100	$ 14,520	$	$
Trust preferred (collateralized debt obligations)			6,745	9,702
Corporate stocks	214	163		
	$ 1,314	$ 14,683	$ 6,745	$ 9,702

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Note 5 Investment Securities (continued)

The following table presents a roll forward of recognized charges to earnings on certain trust preferred securities for the three and six months ended June 30, 2010:

(Dollars in thousands)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Balance at beginning of period	$ 10,418	$ 4,922
Additional fair market value losses on debt securities for which other-than-temporary impairment was previously recognized		
PreTSL IX B-3	29	1,258
PreTSL X B-1	334	1,550
PreTSL X B-3	95	431
PreTSL XI B-1	81	1,569
PreTSL XIII B-2	30	459
PreTSL XIV	96	894
Net fair market value losses recognized in earnings	665	6,161
Balance at end of period	$ 11,083	$ 11,083

In the second quarter of 2010, the Company continued to evaluate its pooled trust preferred collateralized debt obligations (TRUPs) for other-than-temporary impairment (OTTI). As of June 30, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments,* in FASB ASC 320-10-65-1 which requires that credit-related OTTI on debt securities be recognized in earnings while noncredit-related OTTI on debt securities not expected to be sold be recognized in other comprehensive income. During the first quarter of 2010, the Company concluded that there appears to have been a change in the fundamental behavior and inclination of some issuers toward earlier deferrals or defaults on their payments in the trust preferred pools and as a result the performance of the pools has decreased the probability that the Company would be able to recognize cash flows in excess of the estimated fair value of the securities. In addition, the Company may decide to liquidate these securities before anticipated recovery given the impact of the changes in the nature of the Company s balance sheet and levels of classified assets to capital resulting from the CBT acquisition. As a result of this analysis, the Company changed its intent and expectations relative to these securities, and has written these securities down to fair market value (reflecting both credit and non-credit related considerations). Therefore, a $665,000 charge was recognized in earnings during the second quarter of 2010 to write these securities down to their estimated fair value of $3.3 million as of June 30, 2010, compared to a $5.5 million charge during the first quarter of 2010. These earnings charges were taken on six of the eight TRUPs, as presented in the table above. PreTSL XVI C was fully written off as of December 31, 2009. All future fair market value losses in these securities will be charged to earnings, and any gains will be recorded through other comprehensive income, net of tax.

MMCaps I A is a senior security in a pool where deferral/default experience has been more predictable, and the Company currently expects to collect all contractual principal and interest. Any unrealized gain or loss related to this security has been recorded through other comprehensive income (equity), net of tax.

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

At June 30, 2010, the book value of the Company s TRUPs totaled $5.9 million with an estimated fair value of $5.8 million. One of these securities is a senior tranche (MMCaps I A) and the remaining seven securities are mezzanine tranches. During the second quarter of 2010, Moody s downgraded PreTSL X B-1and X B-3 to C from a Ca credit rating.

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Note 5 Investment Securities (continued)

As of June 30, 2010, the following table provides detail of the Company s pooled TRUPs:

			Current Information for the Securities						Deferral / Default Statistics	
(Dollars in thousands)	Class	# of Issuers	Book Value	Fair Value	Unrealized Loss (1)	Credit Ratings (2)	Receiving Principal / Interest Contractually at 6/30/10?	Deferral / Defaults % of Total Collateral Balance (4)	Excess Subordination (5) Amount	Excess Subordination (5) % of Current Performing Collateral
PreTSL IX B-3	Mezzanine	44	$ 1,036	$ 1,036	$	Ca / C	Yes / No (3)	29.2%	$	0.0%
PreTSL X B-1	Mezzanine	53	134	134		C / C	Yes / No (3)	44.3%		0.0%
PreTSL X B-3	Mezzanine	53	38	38		C / C	Yes / No (3)	44.3%		0.0%
PreTSL XI B-1	Mezzanine	60	1,095	1,095		Ca / C	Yes / Yes	23.7%		0.0%
PreTSL XIII B-2	Mezzanine	64	385	385		Ca / C	Yes / Yes	21.6%		0.0%
PreTSL XIV B-2	Mezzanine	62	622	622		Ca / C	Yes / No (3)	22.9%		0.0%
PreTSL XVI C	Mezzanine	46				Ca / C	Yes / No (3)	37.0%		0.0%
MMCaps I A	Senior	27	2,572	2,450	(122)	A3 / A	Yes / Yes	20.7%	56,019	26.2%
Total			$ 5,882	$ 5,760	$ (122)					

Notes to table above:

(1) Unrealized loss greater than twelve months.

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

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

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

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

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Note 6 Loans and Allowance for Loan Losses

The Company s loan portfolio is comprised of the following:

(Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Loans covered under loss share agreements	**$ 413,549**	$	$
Loans not covered under loss share agreements:			
Commercial non-owner occupied real estate:			
Construction and land development	**443,758**	467,284	489,730
Commercial non-owner occupied	**294,804**	303,650	318,909
Total commercial non-owner occupied real estate	**738,562**	770,934	808,639
Consumer real estate:			
Consumer owner occupied	**304,598**	284,484	289,423
Home equity loans	**251,951**	248,639	239,250
Total consumer real estate	**556,549**	533,123	528,673
Commercial owner occupied real estate	**498,879**	469,101	456,973
Commercial and industrial	**212,863**	214,174	214,384
Other income producing property	**126,004**	137,736	136,098
Consumer	**63,133**	68,770	79,386
Other loans	**31,452**	9,400	12,009
Total loans not covered under loss share agreements	**2,227,442**	2,203,238	2,236,162
Less, allowance for loan losses	**(46,167)**	(37,488)	(32,431)
Loans, net	**$ 2,594,824**	$ 2,165,750	$ 2,203,731

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

	June 30, 2010		
(Dollars in thousands)	Impaired Acquired Loans	All Other Acquired Loans	Total
Loans covered under loss share agreements:			
Commercial real estate:			
Construction and land development	$ 58,933	$ 24,222	$ 83,155
Commercial real estate	48,180	71,110	119,290
Total commercial real estate	107,113	95,332	202,445
Consumer real estate:			
Consumer owner occupied	77,295	58,890	136,185
Home equity loans	4,669	6,241	10,910
Total consumer real estate	81,964	65,131	147,095
Commercial and industrial	15,678	29,087	44,765
Consumer	9,447	6,849	16,296
Other loans		2,948	2,948
Total loans covered under loss share agreements	$ 214,202	$ 199,347	$ 413,549

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Note 6 Loans and Allowance for Loan Losses (continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans impaired at acquisition date and all other acquired loans as of June 30, 2010 are as follows:

(Dollars in thousands)	Impaired Loans	Non-impaired Loans	Total
Contractually-required principal and interest	$ 386,729	$ 268,488	$ 655,217
Non-accretable difference	(169,778)	(60,359)	(230,137)
Cash flows expected to be collected	216,951	208,129	425,080
Accretable yield	(2,749)	(8,782)	(11,531)
Fair value	$ 214,202	$ 199,347	$ 413,549

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

The following are changes in the carrying value of acquired loans at acquisition date during the six months ended June 30, 2010:

(Dollars in thousands)	Impaired Loans	Non-impaired Loans
Balance, December 31, 2009	$	$
Fair value of acquired impaired loans	233,236	226,229
Reductions for payments and foreclosures	(19,034)	(26,882)
Balance, June 30, 2010	$ 214,202	$ 199,347

An analysis of the changes in the allowance for loan losses for non-covered loans is as follows:

	June 30,	
(Dollars in thousands)	2010	2009
Balance at beginning of period	**$ 37,488**	$ 31,525
Loans charged-off	**(25,543)**	(9,518)
Recoveries of loans previously charged-off	**935**	860
Net charge-offs	**(24,608)**	(8,658)
Provision for loan losses	**33,287**	9,564
Balance at end of period	**$ 46,167**	$ 32,431

At June 30, 2010 and 2009, there were $54.7 million and $23.3 million, respectively, of non-covered loans classified as impaired because it is probable that the Company will be unable to collect all principal and interest payments due according to the terms of the related loan agreements. Specific reserves allocated to these impaired non-covered loans totaled $7.7 million and $2.5 million at June 30, 2010 and 2009, respectively. At June 30, 2010, there were approximately $33.3 million of impaired non-covered loans with specific reserves. At June 30, 2010, there were approximately $21.4 million of impaired non-covered loans for which there are no specific reserves. The average recorded investments in impaired non-covered loans for the quarters ended June 30, 2010 and 2009 were $43.7 million and $19.2 million, respectively.

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Note 7 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)		June 30, 2010		December 31, 2009		June 30, 2009
Certificates of deposit	**$**	**1,276,085**	$	863,507	$	1,026,260
Interest-bearing demand deposits		**1,072,842**		731,060		671,635
Demand deposits		**465,594**		346,248		322,270
Savings deposits		**194,749**		163,348		158,519
Other time deposits		**2,597**		476		1,682
Total deposits	**$**	**3,011,867**	$	2,104,639	$	2,180,366

The aggregate amounts of time deposits in denominations of $100,000 or more at June 30, 2010, December 31, 2009, and June 30, 2009 were $593.7 million, $441.7 million and $523.5 million, respectively. The Company did not have brokered certificates of deposit at June 30, 2010 and December 31, 2009. The Company had brokered certificates of deposits of $10.0 million at June 30, 2009.

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

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

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

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

The Company recognized a charge of approximately $3.3 million for the three months ended June 30, 2009 in the form of an accelerated dividend to account for the difference between the original purchase price for the preferred stock and its redemption price. In addition to this charge, the Company recognized a dividend on the preferred stock including the accretion on the preferred stock discount of approximately $549,000, for a total effective dividend of approximately $3.9 million for the three months ended June 30, 2009, charged to net income available to common shareholders.

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Note 9 Retirement Plans

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

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of June 30, 2010.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2010**	**2009**	**2010**	**2009**
Service cost	**$**	$ 189	**$**	$ 378
Interest cost	**270**	289	**540**	578
Expected return on plan assets	**(377)**	(352)	**(754)**	(704)
Amortization of prior service cost		(43)		(86)
Recognized net actuarial loss	**65**	121	**130**	242
Net periodic pension expense (benefit)	**$ (42)**	$ 204	**$ (84)**	$ 408

The Company contributed $228,000 and $472,000 to the pension plan for the three and six months ended June 30, 2010 and anticipates making similar additional quarterly contributions during the remainder of the year.

Electing employees are eligible to participate in the employees savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. The Company matches 50% of these contributions up to a 6% employee contribution for employees hired before January 1, 2006 who were age 45 and higher with five or more vesting years of service. The Company matches 100% of these contributions up to a 6% employee contribution for current employees under age 45 or with less than five years of service. Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees savings plan and the Company matches 100% of the employees contributions up to 6% of salary. Effective April 1, 2009, the Company temporarily suspended the employer match contribution to all participants in the plan. Effective January 1, 2010, the Company reinstated an employer match so that participating employees would receive a 50% matching of their 401(k) plan contributions, up to 4% of salary.

Employees can enter the savings plan on or after the first day of each month. 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.

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Note 10 Earnings Per Share

Basic earnings per share are calculated by dividing net income available to common shareholders 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 six months ended June 30:

(Dollars and shares in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Basic earnings per share:				
Net income available to common shareholders	**$ 575**	$ 1,525	**$ 49,536**	$ 5,231
Weighted-average basic shares	**12,612**	11,827	**12,599**	11,516
Basic earnings per share	**$ 0.05**	$ 0.13	**$ 3.93**	$ 0.45
Diluted earnings per share:				
Net income available to common shareholders	**$ 575**	$ 1,525	**$ 49,536**	$ 5,231
Weighted-average basic shares	**12,612**	11,827	**12,599**	11,516
Effect of dilutive securities	**126**	44	**114**	44
Weighted-average dilutive shares	**12,738**	11,871	**12,713**	11,560
Diluted earnings per share	**$ 0.05**	$ 0.13	**$ 3.90**	$ 0.45

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 period as follows:

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Number of shares	96,110	261,023	121,842	259,810
Range of exercise prices	$31.10 - $40.99	$23.50 - $39.74	$31.10 - $40.99	$24.13 - $39.74

Note 11 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.

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Note 11 Share-Based Compensation (continued)

Stock Options

With the exception of non-qualified stock 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 pro 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 s)
Outstanding at January 1, 2010	348,575	$ 27.84		
Granted	55,857	33.47		
Exercised	(11,782)	19.07		
Expired/Forfeited	(2,003)	28.80		
Outstanding at June 30, 2010	390,647	28.90	5.47	$ 2,670
Exercisable at June 30, 2010	291,681	27.72	4.33	$ 2,319
Weighted-average fair value of options granted during the year	$ 13.90			

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:

	Six Months Ended June 30, 2010	2009
Dividend yield	**2.00%**	2.00%
Expected life	**6 years**	6 years
Expected volatility	**50%**	45%
Risk-free interest rate	**2.73%**	1.82%

As of June 30, 2010, there was $989,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.65 years as of June 30, 2010. The total fair value of shares vested during the six months ended June 30, 2010 was $301,000.

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Note 11 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 six months ended June 30, 2010 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, 2010	151,883	$ 29.66
Granted	23,162	38.25
Vested	(14,641)	28.88
Forfeited	(464)	32.49
Nonvested at June 30, 2010	159,940	30.97

As of June 30, 2010, there was $3.6 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 4.7 years as of June 30, 2010. The total fair value of shares vested during the six months ended June 30, 2010 was $423,000.

Note 12 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 June 30, 2010, commitments to extend credit and standby letters of credit totaled $589.4 million. The Company does not anticipate any material losses as a result of these transactions.

On April 28, 2010, the Company notified the FDIC that it planned to acquire certain CBT bank facilities. See Note 4 Mergers and Acquisitions for further discussion.

Note 13 Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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. FASB ASC 820 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.

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Note 13 Fair Value (continued)

FASB ASC 820 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.

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. 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 3 securities under the three-tier fair value hierarchy because of an absence of observable inputs for these and similar securities in the debt markets. The Company has determined that (1) there are few observable transactions and market quotations available and they are not reliable for purposes of determining fair value at June 30, 2010, and (2) an income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used for periods prior to December 31, 2008. This income valuation approach requires numerous steps in determining fair value. These steps include estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumption.

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 using estimated fair value methodologies. 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 June 30, 2010, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. 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 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.

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Note 13 Fair Value (continued)

Other Real Estate Owned (OREO)

OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). Covered OREO would be considered Level 3 in the fair value hierarchy because management has applied a significant discount due to the size and over supply of inventory in the north Georgia marketplace. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense.

Derivative Financial Instruments

Fair value is estimated using pricing models of derivatives with similar characteristics, thus classifying the derivatives within Level 2 of the fair value hierarchy (see Note 15 Derivative Financial Instruments for additional information).

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Value June 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 113,290	$	$ 113,290	$
State and municipal obligations	41,452		41,452	
Mortgage-backed securities	90,786		90,786	
Trust preferred (collateralized debt obligations)	5,760			5,760
Corporate stocks	356	321	35	
Total securities available for sale	$ 251,644	$ 321	$ 245,563	$ 5,760
Liabilities				
Derivative financial instruments	$ 831	$	$ 831	$

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Note 13 Fair Value (continued)

(Dollars in thousands)	Fair Value December 31, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 36,615	$	$ 36,615	$
State and municipal obligations	26,805		26,805	
Mortgage-backed securities	103,268		103,268	
Trust preferred (collateralized debt obligations)	6,250			6,250
Corporate stocks	365	330	35	
Total securities available for sale	$ 173,303	$ 330	$ 166,723	$ 6,250
Liabilities				
Derivative financial instruments	$ 21	$	$ 21	$

(Dollars in thousands)	Fair Value June 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 11,723	$	$ 11,723	$
State and municipal obligations	18,116		18,116	
Mortgage-backed securities	113,739		113,739	
Trust preferred (collateralized debt obligations)	9,702			9,702
Corporate stocks	363	328	35	
Total securities available for sale	$ 153,643	$ 328	$ 143,613	$ 9,702

Changes in Level 1, 2 and 3 Fair Value Measurements

There were no transfers between the fair value hierarchy levels during the six months ended June 30, 2010.

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses below include changes in fair value due in part to observable factors that are part of the valuation methodology.

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Note 13 Fair Value (continued)

A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the six months ended June 30, 2010 is as follows:

(Dollars in thousands)	**Assets**	**Liabilities**
Fair value, January 1, 2010	$ 6,250	$
Change in unrealized loss recognized in other comprehensive income	5,670	
Other-than-temporary impairment losses recognized in income	(6,160)	
Purchases, issuances and settlements, net		
Transfers in and/or out of level 3		
Fair value, June 30, 2010	$ 5,760	$
Total unrealized gains (losses), net of tax, included in accumulated other comprehensive income related to financial assets and liabilities still on the consolidated balance sheet at June 30, 2010	$ (77)	$

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

(Dollars in thousands)	**Fair Value June 30, 2010**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Covered under FDIC loss share agreements:				
Impaired loans	**$ 214,202**	**$**	**$**	**$ 214,202**
OREO	**31,750**			**31,750**
Not covered under FDIC loss share agreements:				
Impaired loans	**41,781**		**32,108**	**9,673**
OREO	**9,803**		**9,803**	

(Dollars in thousands)	**Fair Value December 31, 2009**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

Impaired loans	$ 23,276	$	$ 14,809	$ 8,467
OREO	3,102		3,102	

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Note 13 Fair Value (continued)

(Dollars in thousands)	Fair Value June 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 11,357	$	$ 8,557	$ 2,800
OREO	9,165		9,165	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2010, December 31, 2009 and June 30, 2009. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents The carrying amount is a reasonable estimate of fair value.

Investment Securities Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based on their redemption provisions. The carrying value of the Company s investment in unconsolidated subsidiaries approximates fair value. See Note 3 Investment Securities for additional information.

Loans For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are estimated using discounted cash flow analyses based on the Company s current rates offered for new loans of the same type, structure and credit quality. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered by the Company for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities The fair values disclosed for demand deposits (e.g., interest and non-interest bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase The carrying amount of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

Other Borrowings The fair value of other borrowings is estimated using discounted cash flow analysis on the Company s current incremental borrowing rates for similar types of instruments.

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Note 13 Fair Value (continued)

Accrued Interest The carrying amounts of accrued interest approximate fair value.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees The fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The estimated fair value, and related carrying amount, of the Company s financial instruments are as follows:

	June 30, 2010		December 31, 2009	
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 187,025**	**$ 187,025**	$ 104,908	$ 104,908
Investment securities	**293,917**	**294,409**	211,112	211,475
Loans, net of allowance for loan losses, and loans held for sale	**2,617,548**	**2,561,652**	2,183,313	2,142,404
FDIC receivable for loss share agreements	**265,890**	**265,890**		
Accrued interest receivable	**13,600**	**13,600**	9,880	9,880
Financial liabilities:				
Deposits	**3,011,867**	**3,024,711**	2,104,639	2,109,983
Federal funds purchased and securities sold under agreements to repurchase	**177,281**	**177,281**	162,515	162,515
Other borrowings	**62,557**	**56,604**	143,624	132,049
Accrued interest payable	**6,152**	**6,152**	3,059	3,059
Derivative financial instruments	**831**	**831**	21	21
Off balance sheet financial instruments:				
Commitments to extend credit	**578,828**	**566,468**	469,841	461,038
Standby letters of credit and financial guarantees	**10,565**	**10,565**	9,725	9,725

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Note 14 Accumulated Other Comprehensive Income (Loss)

The components of the change in other comprehensive income (loss) and the related tax effects were as follows:

	June 30,					
	2010			2009		
(Dollars in thousands)	**Pre-tax Amount**	**Tax Effect**	**Net of Tax Amount**	**Pre-tax Amount**	**Tax Effect**	**Net of Tax Amount**
Change in pension liability for plan curtailment	**$**	**$**	**$**	$ 1,974	$ (691)	$ 1,283
Change in net unrealized gain on securities available for sale	**9,540**	**(3,387)**	**6,153**	2,229	(847)	1,382
Noncredit portion of other-than-temporary impairment losses:						
Total other-than-temporary impairment losses	**(6,261)**	**2,264**	**(3,997)**	(2,482)	943	(1,539)
Less, reclassification adjustment of credit portion included in net income	**6,261**	**(2,264)**	**3,997**	544	(206)	338
Net noncredit portion of other-than-temporary impairment losses				(1,938)	737	(1,201)
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges	**(811)**	**288**	**(523)**			
Other comprehensive income	**$ 8,729**	**$ (3,099)**	**$ 5,630**	$ 2,265	$ (801)	$ 1,464

The components of accumulated other comprehensive income (loss), net of tax, were as follows:

(Dollars in thousands)	**Benefit Plans**	**Unrealized (Losses) Gains on Securities Available for Sale**	**Noncredit Other-Than-Temporary Impairment Losses**	**Cash Flow Hedges**	**Total**
Balance at December 31, 2009	$ (4,302)	$ 2,474	$ (3,540)	$ (14)	$ (5,382)
Change in net unrealized loss on securities available for sale		6,153			6,153
Reclassification of noncredit other-than-temporary impairment losses on available-for-sale securities		(3,540)	3,540		
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges				(523)	(523)
Balance at June 30, 2010	$ (4,302)	$ 5,087	$	$ (537)	$ 248

Note 15 Derivative Financial Instruments

The Company is exposed to interest rate risk in the course of its business operations and manages a portion of this risk through the use of a derivative financial instrument, in the form of an interest rate swap (cash flow hedge). The Company accounts for its interest rate swap in accordance with FASB ASC 815, Derivatives and Hedging, which requires that all derivatives be recognized as assets or liabilities in the balance sheet at fair value. For more information regarding the fair value of the Company s derivative financial instruments, see Note 13 to these financial statements.

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Note 15 Derivative Financial Instruments (continued)

The Company utilizes the interest rate swap agreement to essentially convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). For derivatives designated as hedging exposure to variable cash flows of a forecasted transaction (cash flow hedge), the effective portion of the derivative s gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. Any ineffective portion of the gain or loss is reported in earnings immediately. For derivatives that are not designated as hedging instruments, changes in the fair value of the derivatives are recognized in earnings immediately.

In applying hedge accounting for derivatives, the Company establishes a method for assessing the effectiveness of the hedging derivative and a measurement approach for determining any ineffective aspect of the hedge upon the inception of the hedge.

Cash Flow Hedge of Interest Rate Risk

During 2009, the Company entered into a forward starting interest rate swap agreement with a notional amount of $8.0 million to manage interest rate risk due to periodic rate resets on an $8.0 million portion of its junior subordinated debt in the form of trust preferred securities. The Company has hedged the variable rate cash flows of subordinated debt against future interest rate increases by using an interest rate swap that effectively fixed the rate on the debt beginning on June 15, 2010, at which time the debt contractually converted from a fixed interest rate to a variable interest rate. This hedge expires on June 15, 2019. The notional amount on which the interest payments are based will not be exchanged. This derivative contract calls for the Company to pay a fixed rate of 4.06% on $8.0 million notional amount and receive a variable rate of three-month LIBOR on the $8.0 million notional.

The Company recognized an after-tax unrealized loss on its cash flow hedge in other comprehensive income of $523,000 for the six months ended June 30, 2010. The Company recognized an $831,000 cash flow hedge liability in other liabilities on the balance sheet at June 30, 2010. There was no ineffectiveness in the cash flow hedge during the six months ended June 30, 2010.

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivative dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivative dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty s exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of June 30, 2010, the Company was required to post $150,000 as collateral. Also, the Company has a netting agreement with the counterparty.

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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, 2009.

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 subsidiary, SCBT, N.A. (the bank), a national bank that opened for business in 1934. We operate as NCBT, a division of the bank, in Mecklenburg County of North Carolina and Community Bank & Trust (CBT), a division of the bank, in northeast Georgia. We do not engage in any significant operations other than the ownership of our banking subsidiary.

At June 30, 2010, we had approximately $3.6 billion in assets and 967 full-time equivalent employees. Through our banking subsidiary 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 June 30, 2010 as compared to the quarter ended June 30, 2009 and also analyzes our financial condition as of June 30, 2010 as compared to December 31, 2009 and June 30, 2009. 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.

Recent Events

On January 29, 2010, the bank entered into a purchase and assumption agreement (the P&A Agreement), including loss share arrangements, with the Federal Deposit Insurance Corporation (FDIC) to purchase certain assets and assume substantially all of the deposits and certain liabilities of Community Bank & Trust, N.A. (CBT), a full service Georgia state-chartered community bank headquartered in Cornelia, Georgia. CBT operated 38 locations, including 36 branches, one loan production office and one trust office in the Northeast region of Georgia. In late May and early June of 2010, we closed 10 bank branches, one trust office and converted the operating system of the acquired Georgia franchise. Please reference Note 4 Mergers and Acquisitions in the unaudited condensed consolidated financial statements within PART I, Item 1 Financial Statements.

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Government Actions

In October 2008, the Emergency Economic Stabilization Act (EESA) was enacted. Among other things, the EESA increased FDIC deposit insurance on most accounts from $100,000 to $250,000. The increased coverage is now permanent with the enactment of the Act below. In addition, we are voluntarily participating in the FDIC s Transaction Account Guarantee Program. Under this program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount of the account. On April 13, 2010, the FDIC approved an interim rule that extends the Transaction Account Guarantee Program to December 31, 2010. We have elected to continue our voluntary participation in the program. Coverage under the program is in addition to and separate from the basic coverage available under the FDIC s general deposit insurance rules. We believe participation in the program is enhancing our ability to retain customer deposits.

On July 21, 2010, the U.S. President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, a comprehensive regulatory framework that will affect every financial institution in the U.S. The act includes, among other measures, changes to the deposit insurance and financial regulatory systems, enhanced bank capital requirements and provisions designed to protect consumers in financial transactions. Regulatory agencies will implement new regulations in the future which will establish the parameters of the new regulatory framework and provide a clearer understanding of the legislation s effect on banks. We are in the process of evaluating this new legislation and determining the extent to which it will impact our current and future operations. However, the manner and degree to which it affects our business will be significantly impacted by the implementing regulations that are ultimately adopted. Accordingly, at the present time we cannot fully assess the impact that the act will have on us.

For additional information on recent government actions, please reference the caption Government Actions within PART I, Item 1 Business in our Annual Report on Form 10-K for the year ended December 31, 2009.

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, 2009. 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 bank s 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 in this MD&A and Allowance for Loan Losses in Note 1 to the audited consolidated financial statements on Form 10-K for the year ended December 31, 2009 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 has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the

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reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has one reporting unit.

Our stock price has historically traded above its book value and tangible book value. The lowest trading price during the first six months of 2010 the stock traded was $27.59 per share, and the stock price closed on June 30, 2010 at $35.22, above book value and tangible book value. In the event our stock were to trade below its book value at any time during the reporting period, we would perform an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2010, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, included in other assets in the condensed consolidated balance sheets, consist of costs that resulted from the acquisition of deposits from other commercial banks or the estimated fair value of these assets acquired through business combinations. Core deposit intangibles 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, pension plan and post-retirement benefits, and certain assets and liabilities related to the FDIC-assisted transaction. 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. In situations where it is more likely than not that a deferred tax asset is not realizable, a valuation allowance is recorded. 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 quarterly 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 outlook for receiving the contractual cash flows of the investments, (4) the anticipated outlook for changes in the general level of interest rates, and (5) 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 or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value. Based on the analysis of our pooled trust preferred collateralized debt obligations, we have changed our intent and expectations relative to these securities, and have written these securities down to fair market value (reflecting both credit and non-credit related considerations). We may decide to liquidate these securities before anticipated recovery given the impact of the changes in the nature of our balance sheet and levels of classified assets to capital resulting from the CBT acquisition. For further discussion of the Company s evaluation of securities for other-than-temporary impairment, see Note 5 to the unaudited condensed consolidated financial statements.

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

We account for acquisitions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk.

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Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in ASC Topic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,* formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance.

In accordance with FASB ASC Topic 805, the FDIC Indemnification Asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal.

For further discussion of the Company s loan accounting and acquisitions, see Note 2 Summary of Significant Accounting Policies, Note 4 Mergers and Acquisitions to the unaudited condensed consolidated financial statements and Note 6 Loans and Allowance for Loan Losses.

Results of Operations

We reported consolidated net income available to common shareholders of $575,000, or diluted earnings per share (EPS) of $0.05, for the second quarter of 2010 as compared to consolidated net income available to common shareholders of $1.5 million, or diluted EPS of $0.13, in the comparable period of 2009. The decrease primarily resulted from the net result of an increase in the provision for loan losses, an increase in noninterest expense related to the addition of the Georgia franchise, an increase in net interest income, an increase in noninterest income due to the acquisition of CBT and within legacy SCBT, and second quarter 2009 results including dividends paid on preferred stock and accretion on preferred stock discount incurred due to the redemption of preferred stock issued as part of our participation in the U.S. Treasury TARP Capital Program.

For the six months ended June 30, 2010, we reported consolidated net income available to common shareholders of $49.5 million, or diluted EPS of $3.90, as compared to consolidated net income available to common shareholders of $5.2 million, or diluted EPS of $0.45, in the comparable period of 2009. The increase resulted from the gain on the acquisition of CBT offset by an increase in the provision for loan losses, an increase in OTTI charges related to pooled trust preferred securities, the prepayment fee for the early pay-off of legacy SCBT Federal Home Loan Bank (FHLB) advances, and CBT merger-related expenses.

We believe our legacy SCBT asset quality continues to be at manageable levels despite the increase of nonperforming assets as a percentage of total assets (excluding covered assets) to 2.37% at June 30, 2010 compared to 1.46% at June 30, 2009. Nonperforming assets not covered under FDIC loss share agreements increased 62.4% from the fourth quarter of 2009 and 109.1% from the second quarter of 2009. Net charge-offs as a percentage of average loans increased to 1.41% from 1.26% in the fourth quarter of 2009 and 0.74% in the second quarter of 2009. The allowance for loan losses increased to 2.07% of total loans at June 30, 2010 compared to 1.70% at December 31, 2009 and 1.45% at June 30, 2009. Our allowance provides 0.61 times coverage of nonperforming loans at June 30, 2010, lower from 0.75 times at December 31, 2009 and from 1.08 times at June 30, 2009. During the second quarter of 2010, our OREO not covered under FDIC loss share agreements increased by $6.7 million from the end of the fourth quarter of 2009, but increased only slightly by $638,000 from June 30, 2009.

In connection with the CBT acquisition during the six months ended June 30, 2010, we entered into loss sharing agreements with the FDIC. Pursuant to the terms of the loss sharing agreements, the FDIC s obligation to reimburse us for losses with respect to certain loans and foreclosed real estate purchased (covered assets or covered loans), begins with the first dollar incurred. The FDIC agreed to reimburse us for (1) 80% of the losses incurred up to $233.0 million and (2) 95% of losses in excess of $233.0 million. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery.

Compared to the second quarter of 2009, our loan portfolio has increased 18.1% to $2.6 billion driven by the addition of $413.5 million (balance as of June 30, 2010) in acquired loans covered under FDIC loss sharing agreements. Excluding the acquisition of CBT, our loan portfolio remained relatively consistent with the second quarter of 2009. For the six months ended June 30, 2010, we originated approximately $197.1 million of mortgage loans in the secondary market, down from $468.9 million of mortgage loans during the six months ended June 30, 2009. We have experienced a slowing of the refinancing activity from the second quarter of 2009 partially due to fewer qualified borrowers within the secondary mortgage markets.

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Non-taxable equivalent net interest income for the quarter increased 19.8%. Non-taxable equivalent net interest margin increased by 14 basis points to 3.99% from the most recent quarter of March 31, 2010 and decreased by 4 basis points from the second quarter of 2009. The decline from the second quarter of 2009 was caused mostly by an increase in interest-earning assets at lower yields contributed by CBT. Compared to the first quarter of 2010, excess liquidity resulting from the FDIC-assisted acquisition reduced our net interest margin by an estimated 13 basis points during the quarter. Our quarterly efficiency ratio increased to 67.31% compared to 58.10% in the fourth quarter of 2009 and 60.88% for the second quarter of 2009. The increase in the efficiency ratio reflects higher noninterest expense as we continue to integrate the Georgia franchise.

The following are key operating highlights for the second quarter of 2010:

- Consolidated net income available to common shareholders decreased to $575,000 in the second quarter of 2010 from $1.5 million in the second quarter of 2009. The decrease primarily resulted from the net result of an increase in the provision for loan losses, an increase in noninterest expense related to the addition of the Georgia franchise, an increase in net interest income, an increase in noninterest income due to the acquisition of CBT and within legacy SCBT, and second quarter 2009 results including dividends paid on preferred stock and accretion on preferred stock discount incurred due to the redemption of preferred stock issued as part of our participation in the U.S. Treasury TARP Capital Program.

- Diluted EPS decreased to $0.05 for the second quarter of 2010 as compared to $0.13 for the comparable period in 2009. Basic EPS decreased to $0.05 for the second quarter of 2010 as compared to $0.13 for the comparable period in 2009. The decrease in both diluted and basic EPS reflects an increase in the provision for loan losses and an increase in noninterest expense mostly attributed to the Georgia franchise.

- OTTI of $675,000 during the quarter ended June 30, 2010 primarily related to pooled trust preferred securities.

- Provision for loan losses increased to $12.5 million for the second quarter of 2010 as compared to $10.2 million in the fourth quarter of 2009 and $4.5 million in the second quarter of 2009. The provision for loan losses as a percent of average loans increased due to higher nonperforming loans and charge-offs during the quarter ended June 30, 2010 as compared to the year ended December 31, 2009 and the second quarter of 2009. The allowance for loan losses as a percent of total loans increased to 2.07% as compared to 1.45% at the end of the second quarter of 2009. The rise in nonperforming loans in the second quarter of 2010 lowered the coverage of nonperforming loans provided by the allowance from 108.33% at June 30, 2009 to 60.83% at June 30, 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
Selected Figures and Ratios	**2010**	**2009**	**2010**	**2009**
Return on average assets (annualized)	**0.06%**	0.77%	**2.79%**	0.70%
Return on average equity (annualized)	**0.69%**	7.23%	**29.70%**	6.67%
Return on average tangible equity (annualized)*	**1.42%**	9.43%	**38.23%**	8.70%
Dividend payout ratio **	**4.43%**	52.02%	**8.59%**	47.75%
Equity to assets ratio	**9.25%**	9.97%	**9.25%**	9.97%
Average shareholders equity (in thousands)	**$ 336,424**	$ 298,849	**$ 336,369**	$ 299,668

* - Ratio is a non-GAAP financial measure. The section titled Reconciliation of Non-GAAP to GAAP below provides a table that reconciles non-GAAP measures to GAAP measures.

** - See explanation of the decrease in dividend payout ratio below.

- For the three months ended June 30, 2010, return on average assets (ROAA), return on average equity (ROAE) and return on average tangible equity decreased compared to the same quarter in 2009. The decrease was driven by a 62.3% decline in net income available to common shareholders from the comparable quarter in 2009 and an increase in average assets due to the acquisition of CBT.

- Dividend payout ratio decreased to 4.43% for the three months ended June 30, 2010 compared with 142.65% for the three months ended March 31, 2010 and 52.02% for the three months ended June 30, 2009. The decrease in the ratio reflects the substantial gain in the first quarter of 2010 generated by the acquisition of CBT. We pay cash dividends on common shares out of earnings generated in the preceding quarter; therefore, the dividend payout ratio is calculated by dividing total dividends paid during the second quarter of 2010 by the total net income available to common shareholders reported in the first quarter of 2010.

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- Equity to assets ratio decreased to 9.25% at June 30, 2010 compared with 10.47% at December 31, 2009 and 9.97% at June 30, 2009. The decrease in the equity to assets ratio reflects a 28.9% increase in assets compared to the 19.6% increase in equity as a result of the CBT acquisition.

- Average shareholders equity increased $37.6 million, or 12.6%, from second quarter ended June 30, 2009 driven by the increase in shareholders equity related to the gain on the CBT acquisition.

Reconciliation of Non-GAAP to GAAP

	Three Months Ended June 30,				Six Months Ended June 30,			
		2010		2009		2010		2009
Return on average tangible equity (non-GAAP)		**1.42%**		9.43%		**38.23%**		8.70%
Effect to adjust for intangible assets		**-0.73%**		-2.20%		**-8.53%**		-2.03%
Return on average equity (GAAP)		**0.69%**		7.23%		**29.70%**		6.67%
Adjusted average shareholders equity (non-GAAP)	**$**	**262,809**	$	232,847	**$**	**263,899**	$	233,600
Intangible assets		**(73,615)**		(66,002)		**(72,470)**		(66,068)
Average shareholders equity (GAAP)	**$**	**336,424**	$	298,849	**$**	**336,369**	$	299,668
Adjusted net income (non-GAAP)	**$**	**932**	$	5,471	**$**	**50,035**	$	10,077
Amortization of intangibles		**(432)**		(132)		**(781)**		(263)
Tax effect		**75**		46		**282**		91
Net income (GAAP)	**$**	**575**	$	5,385	**$**	**49,536**	$	9,905

The return on average tangible equity is a non-GAAP financial measure and excludes the effect of the average balance of intangible assets and adds back the after-tax amortization of intangibles to GAAP basis net income. Management believes that this non-GAAP tangible measure provides additional useful information, particularly since this measure is widely used by industry analysts following companies with prior merger and acquisition activities. Non-GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the company s performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the company s results or financial condition as reported under GAAP.

Net Interest Income and Margin

Summary

Our taxable equivalent (TE) net interest margin declined slightly from the second quarter of 2009; however, it improved from the first quarter of 2010 resulting from a reduction of excess liquidity, generated from the FDIC-assisted acquisition on January 29, 2010, from the first quarter of

2010. Management utilized the excess liquidity to pay down FHLB advances; in addition we managed liquidity and margin compression by adjusting the rates on time deposits. Non-taxable equivalent (non-TE) and TE net interest margin increased by 14 basis points and 15 basis points, respectively, from the quarter ended March 31, 2010. Non-TE and TE net interest margin increased by 4 basis points and 3 basis points, respectively, from the quarter ended June 30, 2009.

The margin expansion from the quarter ended March 31, 2010 resulted from a decline in the impact of excess liquidity from the FDIC-assisted acquisition from 20 basis points in the first quarter of 2010 to 13 basis points in the second quarter of 2010. The margin expansion was also driven by a decline in average rates on interest-earning liabilities and an increase in the volume of interest-earning assets compared to the prior quarter ended March 31, 2010. While the average balance of total loans (excluding mortgage loans held for sale) increased $137.8 million from the first quarter of 2010 as a result of the acquisition, the average yield on total loans declined by 8 basis points from the first quarter of 2010.

Even though net interest income increased, the slight margin contraction from the second quarter of 2009 was driven by a higher average balance of interest-earning assets related to the CBT acquisition. Non-TE net interest income increased from the second quarter of 2009 as a result of a volume increase in interest-earning assets to more than offset the 55 basis point decrease in the average yield and a 70 basis point decrease in the average rate on interest-bearing liabilities to more than offset the increase in volume. The increase in interest income was driven by a 13.6% increase in the volume of total loans to more than offset the average yields declining by 34 basis points from the second quarter of 2009. The decrease in interest expense was driven by an average rate decrease of 127 basis points on certificates of deposits and other time deposits which more than offset the 26.6% increase in the average balance from the second quarter of 2009.

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(Dollars in thousands)	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Non-TE net interest income	**$ 31,160**	$ 26,019	**$ 59,791**	$ 51,017
Non-TE yield on interest-earning assets	**5.01%**	5.56%	**5.00%**	5.58%
Non-TE rate on interest-bearing liabilities	**1.12%**	1.82%	**1.21%**	1.95%
Non-TE net interest margin	**3.99%**	4.03%	**3.92%**	3.93%
TE net interest margin	**4.04%**	4.07%	**3.97%**	3.97%

Non-taxable equivalent net interest income increased $5.1 million, or 19.8%, in the second quarter of 2010 compared to the same period in 2009. Some key highlights are outlined below:

- Average interest-earning assets increased 21.0% to $3.1 billion in the second quarter of 2010 compared to the same period last year due largely to the acquisition of CBT.

- Non-taxable equivalent yield on interest-earning assets for the second quarter of 2010 decreased 55 basis points from the comparable period in 2009, and increased by 1 basis point compared to the first quarter of 2010. 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 second quarter of 2010 decreased 70 basis points from the same period in 2009, and by 17 basis points compared to the first quarter of 2010. This is a reflection of the impact of average yields on certificates of deposits repricing lower since the first quarter of 2010 and second quarter of 2009 and the payoff of FHLB advances during the first quarter of 2010.

- Taxable equivalent net interest margin decreased by 3 basis points in the second quarter of 2010, compared to the second quarter of 2009. Compared to the first quarter of 2010, taxable equivalent net interest margin increased by 15 basis points.

Loans

Total loans, net of deferred loan costs and fees, (excluding mortgage loans held for sale) increased by $404.8 million, or 18.1%, at June 30, 2010 as compared to the same period in 2009. The increase resulted from the addition of loans covered under FDIC loss share agreements in the CBT acquisition. Non-covered loans or legacy SCBT loans decreased by $8.7 million, or 0.4%, at June 30, 2010 as compared to the same period in 2009. The decrease was driven by reductions in construction and land development loans of $46.0 million, commercial non-owner occupied loans of $24.1 million, consumer non real estate loans of $16.3 million, and other income producing property of $10.1 million. Offsetting these reductions was some loan growth in commercial owner occupied loans of $41.9 million and consumer real estate loans of $27.9 million.

The following table presents a summary of the loan portfolio by category:

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(Dollars in thousands)	June 30, 2010	% of Total	December 31, 2009	% of Total	June 30, 2009	% of Total
Loans covered under loss share agreements	**$ 413,549**	**15.7%**	$	0.0%	$	0.0%
Loans not covered under loss share agreements:						
Commercial non-owner occupied real estate:						
Construction and land development	**443,758**	**16.8%**	467,284	21.2%	489,730	21.8%
Commercial non-owner occupied	**294,804**	**11.2%**	303,650	13.8%	318,909	14.3%
Total commercial non-owner occupied real estate	**738,562**	**28.0%**	770,934	35.0%	808,639	36.2%
Consumer real estate:						
Consumer owner occupied	**304,598**	**11.5%**	284,484	12.9%	289,423	12.9%
Home equity loans	**251,951**	**9.5%**	248,639	11.3%	239,250	10.7%
Total consumer real estate	**556,549**	**21.1%**	533,123	24.2%	528,673	23.6%
Commercial owner occupied real estate	**498,879**	**18.9%**	469,101	21.3%	456,973	20.4%
Commercial and industrial	**212,863**	**8.1%**	214,174	9.7%	214,384	9.6%
Other income producing property	**126,004**	**4.8%**	137,736	6.3%	136,098	6.1%
Consumer non real estate	**63,133**	**2.4%**	68,770	3.1%	79,386	3.6%
Other	**31,452**	**1.2%**	9,400	0.4%	12,009	0.5%
Total loans not covered under loss share agreements	**2,227,442**	**84.3%**	2,203,238	100.0%	2,236,162	100.0%
Total loans (net of unearned income)	**$ 2,640,991**	**100.0%**	$ 2,203,238	100.0%	$ 2,236,162	100.0%

Note: Loan data excludes mortgage loans held for sale.

Loans are our largest category of earning assets and commercial non-owner occupied real estate loans represented 28.0% of total loans as of June 30, 2010, a decrease from 36.2% of total loans at the end of the same period for 2009 and 35.0% of total loans at the year ended December 31, 2009. At June 30, 2010, construction and land development loans represented 16.8% of our total loan portfolio, a decrease from 21.8% of our total loan portfolio at June 30, 2009. At June 30, 2010, construction and land development loans consisted of $264.9 million in land and lot loans and $178.8 million in construction loans, which represented 11.9% and 8.0%, respectively, of our total non-covered loan portfolio. At December 31, 2009, construction and land development loans consisted of $275.8 million in land and lot loans and $191.5 million in construction loans, which represented 12.5% and 8.7%, respectively, of our total non-covered loan portfolio.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Average total loans	**$ 2,625,640**	$ 2,268,292	**$ 2,557,122**	$ 2,287,699
Interest income on total loans	**35,796**	32,849	**69,848**	66,030
Non-TE yield	**5.47%**	5.81%	**5.51%**	5.82%

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Interest earned on loans increased 9.0% in the second quarter of 2010 compared to the second quarter of 2009. Some key highlights for the quarter ended June 30, 2010 are outlined below:

- Our non-taxable equivalent yield on total loans decreased 34 basis points during the second quarter of 2010 while average total loans increased 15.8%, as compared to the second quarter of 2009. The increase in average total loans was a result of the acquired covered loan portfolio. The covered loan portfolio has an effective yield of approximately 5.0% which along with the decline in legacy SCBT loan volume at higher rates combined with variable rate loan resets resulted in the average yield on loans falling from the same period one year ago.

- Loans covered under loss share agreements of $413.5 million were acquired during the first quarter of 2010 as part of the FDIC-assisted acquisition of CBT.

- Construction and land development loans decreased $46.0 million, or 9.4%, to $443.8 million from the ending balance at June 30, 2009. We have continued to focus on reducing these types of loans in our portfolio given the current economic environment.

- Commercial non-owner occupied loans decreased $24.1 million, or 7.6%, to $294.8 million from the ending balance at June 30, 2009.

- Consumer real estate loans increased $27.9 million, or 5.3%, to $556.5 million from the ending balance at June 30, 2009. The increase resulted from a $15.2 million, or 5.2%, in consumer owner occupied loans and a $12.7 million, or 5.3%, increase in home equity loans (HELOCs) from the balance at June 30, 2009.

- Commercial owner occupied loans increased $41.9 million, or 9.2%, to $498.9 million from the ending balance at June 30, 2009.

- Other income producing property loans decreased $10.1 million, or 7.4%, to $126.0 million from the ending balance at June 30, 2009.

- Consumer non real estate loans decreased $16.3 million, or 20.5%, to $63.1 million from the ending balance at June 30, 2009.

- Commercial loans and HELOCs with interest rate floors locked in above 5.00% had a balance of $426.1 million which has helped keep our non-TE yield up even as interest rates have declined since June 30, 2009.

The balance of mortgage loans held for sale decreased $31.1 million from December 31, 2009 to $22.7 million at June 30, 2010, as compared to the balance of mortgage loans held for sale at June 30, 2009 of $53.9 million. This decrease partially reflects the tightening of loan underwriting standards within the secondary mortgage market.

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 June 30, 2010, the composition of the portfolio changed somewhat from the composition at June 30, 2009. During the 12-month period, net of the securities acquired in the CBT acquisition, we placed some increased emphasis on municipal securities and somewhat less on government-sponsored enterprise securities during this period in order to take advantage of relatively attractive yields in the tax-exempt sector. The acquired CBT investment portfolio was more heavily weighted with GSE (agency) debentures than with the mortgage-backed and municipal securities it contained. At June 30, 2010, investment securities totaled $293.9 million, compared to $211.1 million at December 31, 2009 and $191.4 million at June 30, 2009. The growth in investment securities was the result of the CBT acquisition and resulted in average and period end balances increasing by 53.3% and 53.5%, respectively, from June 30, 2009.

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Average investment securities	**$ 305,536**	$ 199,293	**$ 293,776**	$ 206,531
Interest income on investment securities	**2,904**	2,375	**5,683**	4,980
Non-TE yield	**3.81%**	4.78%	**3.91%**	4.88%

Interest earned on investment securities increased 22.3% in the second quarter of 2010 compared to the second quarter of 2009. The increase resulted from a 53.3% increase in balances of average investment securities resulting largely from the acquisition of CBT.

Our holdings of government-sponsored enterprise debt, state and municipal obligations, mortgage-backed securities, and corporate stocks at June 30, 2010 had fair market values that, on a net basis, exceeded their book values and result in an

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unrealized gain. During the second quarter of 2010, we recognized an OTTI on six securities in the trust preferred securities (collateralized debt obligations) category (see Note 5 Investment Securities). Our holdings in trust preferred securities (collateralized debt obligations) at June 30, 2010 had fair market values that were on a net basis, below their book values which result in an unrealized loss. The following table provides a summary of the credit ratings for our investment portfolio (including held-to-maturity and available-for-sale securities) at the end of the second quarter of 2010:

(Dollars in thousands)	Amortized Cost	Fair Value	Other Comprehensive Income	Other-Than-Temporary Impairment *	AAA - A	BBB	BB or Lower	Not Rated
June 30, 2010:								
Government-sponsored enterprises debt	$ 111,383	$ 113,290	$ 1,907	$	$ 111,383	$	$	$
State and municipal obligations	60,587	62,036	1,449		56,134	2,133		2,320
Mortgage-backed securities **	85,789	90,787	4,998					
Trust preferred securities (collateralized debt obligations)	5,883	5,760	(123)	(11,083)	2,573		3,310	
Corporate stocks	285	355	70					285
	$ 263,927	$ 272,228	$ 8,301	$ (11,083)	$ 170,090	$ 2,133	$ 3,310	$ 2,605

* - Represents the total other-than-temporary impairment recognized life to date.

** - Agency mortgage-backed securities (MBS) are guaranteed by the issuing government-sponsored entity (GSE) as to the timely payments of principal and interest. Except for Government National Mortgage Association (GNMA) securities, which have the full faith and credit backing of the United States Government, the GSE alone is responsible for making payments on this guaranty. While the rating agencies have not rated any of the MBS issued, senior debt securities issued by GSEs are rated consistently as Triple-A. Most market participants consider agency MBS as carrying an implied AAA rating because of the guarantees of timely payments and selection criteria of mortgages backing the securities. We do not own any private label mortgage-backed securities.

At June 30, 2010, we had twenty-seven securities available for sale in an unrealized loss position, which totaled $517,000. The largest single position that had an unrealized loss position was our single-A rated, senior tranche pooled trust preferred security. The price of this security continued to be highly impacted by the disruption in the banking industry and by the current collapse of liquidity and trading in the market for these types of securities.

During the second quarter of 2010 as compared to the fourth quarter of 2009, the total number of securities with an unrealized loss position decreased by seventeen securities.

As of June 30, 2010, management had determined based on its analysis of available evidence and our intent and expectations there had been an adverse change on six pooled trust preferred securities (PreTSL IX B-3, X B-1, X B-3, XI B-1, XIII B-2, and XIV B-2). During the second quarter of 2010, we recognized, in accordance with FASB Accounting Standards Codification 320-10-65-1, a $665,000 fair market value loss on these six pooled trust preferred securities. As of June 30, 2010, management determined based on available evidence that there had not been an adverse change in the discounted present value of expected cash flows from the other pooled trust preferred security since the last valuation date. See Note 5 Investment Securities to the unaudited condensed consolidated financial statements.

All other securities available for sale, excluding the six pooled trust preferred securities, in an unrealized loss position as of June 30, 2010 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary as we have the ability and intent to hold these securities within the portfolio until the maturity or until the value recovers. 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 OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

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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Other Investments

Other investment securities include primarily our investments in Federal Reserve Bank stock and Federal Home Loan Bank of Atlanta (FHLB) stock, each with no readily determinable market value. The amortized cost and fair value of all these securities are equal at June 30, 2010. As of June 30, 2010, the investment in FHLB stock represented approximately $14.9 million, or 0.4% as a percentage of total assets. The following factors have been evaluated and considered in determining the carrying amount of the FHLB stock:

- We evaluate ultimate recoverability of the par value.
- We currently have sufficient liquidity or have access to other sources of liquidity to meet all operational needs in the foreseeable future, and would not have the need to dispose of this stock below the recorded amount.
- Historically, the FHLB does not allow for discretionary purchases or sales of this stock. Redemptions of the stock occur at the discretion of the FHLB, subsequent to the maturity or redemption of outstanding advances held by the member institutions. Subsequent to June 30, 2010, the FHLB redeemed approximately $535,000 of our investment, at par value, on July 15, 2010 and announced on July 29, 2010 that an additional amount would be repurchased by the FHLB on August 17, 2010.
- We have reviewed the assessments by rating agencies, which have concluded that debt ratings are likely to remain unchanged and the FHLB has the ability to absorb economic losses, given the expectation that the various FHLBanks have a very high degree of government support.
- The unrealized losses related to the securities owned by the FHLBanks are manageable given the capital levels of these organizations.
- All of the FHLBs are meeting their debt obligations.
- Our holdings of FHLB stock are not intended for the receipt of dividends or stock growth, but for the purpose and right to receive advances, or funding. We deem the FHLB s process of determining after each quarter end whether it will pay a dividend and, if so, the amount, as essentially similar to standard practice by most dividend-paying companies. Based on the FHLB s performance over the past four consecutive quarters, starting with the second quarter 2009, the FHLB has announced a dividend payment after each quarter s performance, with the most recent dividend payment on May 18, 2010 related to the first quarter 2010. Subsequent to June 30, 2010, the FHLB announced a dividend for the second quarter of 2010 and paid the dividend on July 30, 2010.

For the reasons above, we have concluded that our holdings of FHLB stock are not other than temporarily impaired as of June 30, 2010 and ultimate recoverability of the par value of this investment is probable.

Interest-Bearing Liabilities

Interest-bearing liabilities include interest-bearing transaction accounts, savings 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 June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Average interest-bearing liabilities	**$ 2,836,414**	$ 2,173,910	**$ 2,763,523**	$ 2,203,984
Interest expense	**7,952**	9,838	**16,525**	21,288
Average rate	**1.12%**	1.82%	**1.21%**	1.95%

The average balance of interest-bearing liabilities increased in the second quarter of 2010 compared to the second quarter of 2009. The decrease in interest expense was largely driven by a decline in the average rates on CDs and other time deposits. Overall, we experienced a 70 basis point decrease in the average rate on all interest-bearing liabilities. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended June 30, 2010 grew 39.3% from the same period in 2009.

- Interest-bearing deposits grew 37.0% to $2.5 billion at June 30, 2010 from the period end balance at June 30, 2009, resulting largely from a $912.5 million, or 35.8%, increase related to the CBT acquisition. Excluding the acquisition, interest-bearing deposits decreased by $224.3 million resulting largely from the anticipated run-off of time deposits.

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- The average rate on transaction and money market account deposits for the three months ended June 30, 2010 increased 22 basis points from the comparable period in 2009, which contributed to an increase of $1.1 million in interest expense for the second quarter of 2010. The increase was also volume driven as the average balance increased $403.7 million to $1.0 billion at June 30, 2010 compared the same quarter in 2009.

- Average certificates and other time deposits increased 26.6%, up $274.6 million from the average balance in the second quarter of 2009. Interest expense on certificates and other time deposits decreased $2.3 million mainly as a result of a 127 basis point decrease in the interest rate for the three months ended June 30, 2010 as compared to the same period in 2009.

- Other borrowings decreased 58.1%, down $86.9 million from the average balance in the second quarter of 2009. We repaid the entire balance of FHLB advances near the end of the first quarter of 2010.

- A decline in interest rates contributed significantly to a $1.9 million, or 19.2%, reduction in interest expense on average interest-bearing liabilities for the three months ended June 30, 2010 from the comparable period in 2009.

Noninterest-Bearing Deposits

Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide our bank with interest-free sources of funds. Average noninterest-bearing deposits increased $148.9 million, or 46.4%, to $470.0 million in the second quarter of 2010 compared to $321.0 million at June 30, 2009. From the fourth quarter of 2009, average noninterest-bearing deposits grew $123.4 million, or 35.6%. Excluding deposits acquired in the CBT acquisition, period end noninterest-bearing deposits increased $47.3 million, or 14.7%, from the balance at June 30, 2009.

Provision for Loan Losses and Nonperforming Assets

We have established an allowance for loan losses (ALLL) 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 ALLL 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 ALLL as estimated at any point in time.

In addition, regulatory agencies, as an integral part of the examination process, periodically review our bank s 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.

Loans acquired in the CBT acquisition were recorded at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. As a result, the loans acquired are excluded from the calculation of the allowance for loan losses and thus no provision for loan losses is recorded for these loans in the current period consolidated financial statements. Under current accounting principles, information regarding our estimate of loan fair values may be adjusted for a period of up to one year as we continue to refine its estimate of expected future cash flows in the acquired portfolio. If we determine that losses arose after the acquisition date, the additional losses will be reflected as a provision for loan losses. See Note 2 in the notes to the unaudited condensed consolidated financial statements for further discussion of the method of accounting for acquired loans.

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The following table presents a summary of the changes in the ALLL on non-covered loans for the three and six months ended June 30, 2010 and 2009:

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Balance at beginning of period	**$ 41,397**	$ 32,094	**$ 37,488**	$ 31,525
Loans charged-off	**(8,173)**	(4,525)	**(25,543)**	(9,518)
Recoveries	**434**	341	**935**	860
Net charge-offs	**(7,739)**	(4,184)	**(24,608)**	(8,658)
Provision for loan losses	**12,509**	4,521	**33,287**	9,564
Balance at end of period	**$ 46,167**	$ 32,431	**$ 46,167**	$ 32,431
Total non-covered loans:				
At period end	**$ 2,227,442**	$ 2,236,162	**$ 2,227,442**	$ 2,236,162
Average	**2,198,417**	2,268,292	**2,191,840**	2,287,699
As a percentage of average non-covered loans (annualized):				
Net charge-offs	**1.41%**	0.74%	**2.26%**	0.76%
Provision for loan losses	**2.28%**	0.80%	**3.06%**	0.84%
Allowance for loan losses as a percentage of period end non-covered loans	**2.07%**	1.45%	**2.07%**	1.45%
Allowance for loan losses as a percentage of period end non-performing non-covered loans (NPLs)	**60.83%**	108.33%	**60.83%**	108.33%

The provision for loan losses as a percent of average non-covered loans reflects an increase due to an increase in our nonperforming assets and an increase in net charge-offs during the second quarter of 2010 compared to the same quarter in 2009. Fifty-one percent of the charge-off amount for the second quarter of 2010 is comprised of 10 loans ranging from approximately $155,000 to $1,843,000. Of the total net charge-offs during the quarter, 44.4% or $3.4 million were construction and land development loans, 11.7% or $907,000 were commercial owner-occupied loans, 17.1% or $1.3 million were consumer owner-occupied loans (including home equity loans), 6.7% or $522,000 were commercial and industrial loans, 5.1% or $396,000 were commercial non-owner occupied loans, and 10.1% or $780,000 were other income producing property loans. We remain aggressive in charging off loans resulting from the decline in the appraised value of the underlying collateral (real estate) and the overall concern that borrowers will be unable to meet the contractual payments of principal and interest. Additionally, there continues to be concern about the economy as a whole and the market conditions throughout the Southeast in 2010. With the rise in nonperforming loans during the quarter, the ratio of the allowance to cover these loans decreased from 108% at June 30, 2009 to 61% at June 30, 2010.

We increased the ALLL compared to the second quarter of 2009 due to the increase in risk within the overall loan portfolio. On a general basis, we consider three-year historical loss rates, economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and/or adjusted each reporting period to account for management s assessment of loss within the loan portfolio.

The three-year historical loss rate on an overall basis increased from June 30, 2009 due to the increase in loan losses we experienced in the second quarter of 2010 when compared to the removal of much lower historical losses three years ago. This resulted in an increase of 30 basis points in the ALLL, given the rise in losses throughout the portfolio. Compared to the first quarter of 2010, the increase was 7 basis points.

Economic risk increased during the second quarter of 2010 as compared to 2009 due to rise in unemployment, rise in foreclosures, and the decline in home sales within our markets by 4 basis points. There was an improvement during the second quarter of 2010 in home sales, and therefore, this factor was reduced by 1 basis point from the level at the end of the first quarter. The other two factors remained level with the first quarter.

Model risk declined 2 basis points compared to the second quarter of 2009, and one basis point from the first quarter of 2010. This risk comes from the fact that our ALLL model is not all-inclusive. Risk inherent with new products, new markets, and timeliness of information are examples of this type of exposure. Management has reduced this factor since our model has been used for two and a half years and we believe adequately addresses this inherent risk in our loan portfolio.

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Operational risk consists of the underwriting, documentation, closing and servicing associated with any loan. This risk is managed through policies and procedures, portfolio management reports, best practices and the approval process. The risk factors evaluated include the following: exposure outside our deposit footprint, changes in underwriting standards, levels of past due loans, loan growth, supervisory loan to value exceptions, results of external loan reviews, our centralized loan documentation process and significant loan concentrations. We believe that the overall operational risk has decreased during the second quarter of 2010, due primarily to the approximate decline in 30-89 days past due loans of 50%, the level of classified assets remaining constant, exposure outside of the depository footprint being limited with Silverton Bank, N.A. loans reviewed specifically, lower exposure to certain loan concentrations and supervisory loan to value exceptions given the increase in capital during the first half of 2010. This resulted in a decrease of 7 basis points of overall operational risk. Compared to the second quarter of 2009, operational risk has increased by 6 basis points.

On a specific reserve basis, the allowance for loan losses increased by approximately $3.7 million from December 31, 2009. This is the result of a much larger increase in loan balances being evaluated for specific reserves during the quarter, which grew from $34.7 million to $54.7 million at June 30, 2010.

In terms of the conditions and how the allowance has changed since December 31, 2009, we continue to build the allowance for loan losses by increasing the provision for loan losses due to more loans being identified and evaluated for specific reserves, the continued higher level of net charge offs, the continued high unemployment rates, weakened real estate markets, and overall recessionary pressures within our markets. Offsetting these increases are favorable home sales statistics, favorable decline in 30-89 past due statistics, reduced supervisory loan to value exceptions and reduced loan concentrations.

During the six months ended June 30, 2010, the growth in our total nonperforming assets (NPAs) was reflective of the continued pressure on the real estate market and economy, along with nonperforming assets covered under FDIC loss share agreements. The table below summarizes our NPAs.

(Dollars in thousands)	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**
Nonaccrual loans (1)	**$ 75,313**	$ 53,730	$ 49,492	$ 36,605	$ 29,379
Accruing loans past due 90 days or more	**582**	107	241	585	559
Total nonperforming loans	**75,895**	53,837	49,733	37,190	29,938
Other real estate owned (OREO) (2)	**9,803**	9,319	3,102	4,189	9,165
Other nonperforming assets (3)	**159**	19	31	13	
Restructured loans				1,974	1,951
Total nonperforming assets excluding covered assets	**85,857**	63,175	52,866	43,366	41,054
Covered OREO	**31,750**	32,076			
Other covered nonperforming assets	**34**				
Total nonperforming assets including covered assets	**$ 117,641**	$ 95,251	$ 52,866	$ 43,366	$ 41,054
Excluding Covered Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	**3.84%**	2.89%	2.40%	1.96%	1.83%
Total NPAs as a percentage of total assets	**2.37%**	1.72%	1.96%	1.56%	1.46%
Total NPLs as a percentage of total loans (4)	**3.41%**	2.47%	2.26%	1.68%	1.34%
Including Covered Assets					

Total NPAs as a percentage of total loans and repossessed assets (4)	**4.38%**	3.59%	2.40%	1.96%	1.83%
Total NPAs as a percentage of total assets	**3.25%**	2.60%	1.96%	1.56%	1.46%
Total NPLs as a percentage of total loans (4)	**2.87%**	2.06%	2.26%	1.68%	1.34%

(1) Covered loans that were impaired at the date of the CBT acquisition are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. Excludes the contractual outstanding balance of covered loans that are contractually past due totaling $246.1 million as of June 30, 2010, excludes valuation discount.

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

(3) Consist of non-real estate foreclosed assets, such as repossessed vehicles.

(4) Loan data excludes mortgage loans held for sale.

Excluding the loans covered by loss share agreements, total nonaccrual loans were $75.9 million, or 3.41% of total loans, an increase of $45.9 million, or 153.5%, from June 30, 2009. The increase in nonaccrual loans was driven by an increase in commercial nonaccrual loans of $41.0 million and an increase in consumer nonaccrual loans of $4.9 million. Excluding covered properties, OREO increased $638,000 from June 30, 2009.

Nonaccrual non-covered loans increased by approximately $22.1 million during the second quarter of 2010 from the level at March 31, 2010, which was primarily driven by nine relationships (10 loans) totaling $18.4 million. Two of these relationships originated in 2005; three in 2006; three in 2007; and one in February 2008 and collateral are comprised primarily of commercial and residential real estate on the coast of South Carolina. The Company currently holds specific reserves totaling $3.8 million on nine loans and one of the loans fully paid off in July of 2010. Six of the loans have appraisals from 2010 and three from 2009.

At June 30, 2010, non-covered OREO increased by $6.7 million from December 31, 2009. At June 30, 2010, non-covered OREO consisted of 52 properties with an average value of $189,000 up from $124,000 at December 31, 2009, when we had 25 properties. We added 27 properties into non-covered OREO during the second quarter of 2010 at $2.9 million and sold 10 properties with a basis of $1.6 million. We recorded a net loss of $77,000 for the quarter. Our OREO balance of $9.8 million, at June 30, 2010, is comprised of 36% in the Low Country region, 26% in the Georgetown/Myrtle Beach region, 11% in the Beaufort (Hilton Head) region, 7% in the Midlands (Columbia) region and 7% in the Upstate (Greenville) region.

Overall, we continue to believe that the loan portfolio remains manageable 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. 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.

Silverton Bank Loan Participations

On Friday, May 1, 2009, Silverton Bank, N.A. (Silverton), in Atlanta, Georgia was closed by the Office of the Comptroller of the Currency (OCC) and subsequently the FDIC was named receiver. We had four loan participations acquired in bank acquisitions. The original loan balance of these loan participations totaled $6.4 million. At December 31, 2009, these assets (two nonaccrual loans and two OREO properties) had a recorded balance of $872,000, or 14% of the original loan balance.

During 2010, we received payments of $703,000 for the assets which were classified as OREO. These payments have resulted in the company recognizing a $623,000 gain on sale of one property which had a basis of $61,000, at the date sold. The other property has a remaining carrying value of $181,000 and represents approximately 18% of the original loan balance. Two loans remain on nonaccrual status and have a carrying value of $613,000 or 20% of the original loan balance at June 30, 2010.

We have no other exposure to the Silverton closure other than these already reflected on our balance sheet at June 30, 2010.

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Potential Problem Loans

Potential problem loans (excluding covered loans), which are not included in nonperforming loans, amounted to approximately $19.8 million, or 0.89%, of total non-covered loans outstanding at June 30, 2010, compared to $20.0 million, or 0.89%, of total non-covered loans outstanding at June 30, 2009. Potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms.

Noninterest Income

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Gain on acquisition	**$**	$	**$ 98,081**	$
Service charges on deposit accounts	**5,582**	3,819	**10,105**	7,404
Bankcard services income	**2,348**	1,290	**4,147**	2,472
Mortgage banking income	**1,660**	2,134	**2,842**	3,395
Trust and investment services income	**1,187**	671	**1,971**	1,362
Total other-than-temporary impairment losses	**(675)**	(2,482)	**(6,261)**	(2,482)
Portion of impairment losses recognized in other comprehensive loss		1,938		1,938
Net impairment losses recognized in earnings	**(675)**	(544)	**(6,261)**	(544)
Other	**1,319**	391	**2,495**	803
Total noninterest income	**$ 11,421**	$ 7,761	**$ 113,380**	$ 14,892

Noninterest income increased 47.2% in the second quarter of 2010 as compared to the same period in 2009. The quarterly increase in total noninterest income primarily resulted from the following:

- Service charges on deposit accounts increased 46.2%, driven largely by $1.6 million in additional NSF fees from the CBT division in Northeast Georgia. Legacy SCBT service charges on deposit accounts increased 6.3%, or $241,000. Service charges on deposit accounts could be negatively affected by changes in Regulation E which go into effect during the third quarter of 2010.

- Bankcard services income increased 82.0%, largely driven by additional debit card and surcharge ATM income of $654,000 from the CBT division. Legacy SCBT bankcard services income increased 25.6%, or $331,000.

- Trust and investment services income increased 76.9%, mostly driven by a $358,000 increase in investment services fees generated from legacy SCBT.

- Net impairment losses recognized in earnings were lower during the second quarter of 2010 compared to the same quarter in 2009. We recorded $675,000 of OTTI primarily on six pooled trust preferred securities for the three months ended June 30, 2010 (additional detailed discussion of OTTI can be found in Note 5 Investment Securities).

- Other noninterest income increased 237.3%, primarily driven by the addition of $928,000 in other noninterest income contributed by CBT, including accretion related to the FDIC indemnification asset of $567,000, increase in commissions from Harland of $76,000, increase in wire fees of $38,000, and safe deposit box rental of $28,000.

Noninterest income increased during the six months ended June 30, 2010 as compared to the same period in 2009. The increase reflected the $98.1 million, or after-tax $62.5 million, gain on acquisition of CBT on January 29, 2010. Not including the gain on acquisition, noninterest income increased 2.7% during the six months ended June 30, 2010 as compared to the same period in 2009.

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Noninterest Expense

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Salaries and employee benefits	**$ 15,656**	$ 9,517	**$ 29,747**	$ 20,036
Federal Home Loan Bank advances prepayment fee			**3,189**	
Net occupancy expense	**1,937**	1,559	**4,280**	3,142
Furniture and equipment expense	**1,907**	1,499	**3,573**	3,059
Information services expense	**2,157**	1,286	**4,528**	2,728
FDIC assessment and other regulatory charges	**1,228**	2,333	**2,550**	3,517
OREO expense and loan related	**825**	1,367	**555**	2,041
Advertising and marketing	**1,027**	571	**1,615**	1,221
Business development and staff related	**795**	449	**1,602**	890
Professional fees	**616**	443	**1,173**	759
Amortization of intangibles	**432**	132	**781**	263
Merger-related expense	**964**		**4,872**	
Other	**1,833**	1,882	**3,830**	3,569
Total noninterest expense	**$ 29,377**	$ 21,038	**$ 62,295**	$ 41,225

Noninterest expense increased 39.6% in the second quarter of 2010 as compared to the same period in 2009. The quarterly increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased 64.5%, driven mainly by $3.5 million contributed by CBT. Excluding CBT, salaries and employee benefits expense increased 27.3% resulting from phasing in employee incentive compensation, the 401(k) match reinstated at a 50% match of contributions up to 4% of salary, the pension plan curtailment gain recorded in 2009 and general salary increases.

- Information services expense increased 67.7%, driven by adding the expense from CBT which contributed $666,000 for the period. Excluding CBT, information services expense increased 15.9%.

- FDIC assessment and other regulatory charges decreased 47.4%, driven by lower FDIC assessments during the quarter as a result of a special assessment in 2009.

- OREO expense and loan related expense decreased 39.7%, mostly driven by a lower net loss on property sold in legacy SCBT during the quarter.

- Merger-related expense was $964,000 as a result of the CBT transaction and consisted of direct and incremental costs related to the closing and related integration activities.

Noninterest expense increased 51.1% during the six months ended June 30, 2010 as compared to the same period in 2009. The increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased 48.5%, driven mainly by $5.8 million contributed by CBT. Excluding CBT, salaries and employee benefits expense increased 19.7% resulting from phasing in employee incentive compensation, the 401(k) match reinstated at a 50% match of contributions up to 4% of salary, the pension plan curtailment gain recorded in 2009 and general salary increases.

- Federal Home Loan Bank advances prepayment fee was incurred, driven by the decision to completely pay off legacy SCBT s FHLB advances. Paying off the FHLB advances has allowed us to lower our cost of funds.

- Net occupancy expense increased 36.2%, driven by adding the expense from CBT which contributed $1.1 million for the period. Excluding CBT, net occupancy expense would have slightly decreased.

- Information services expense increased 66.0%, driven by adding the expense from CBT which contributed $798,000 for the period. Excluding CBT, information services expense would have decreased 12.3%.

- FDIC assessment and other regulatory charges decreased 27.5%, driven by lower FDIC assessments as a result of the special assessment in 2009.

- OREO expense and loan related expense decreased 72.8%, mostly driven by a gain on a property sold in legacy SCBT during the first quarter of 2010 and lower losses during the second quarter of 2010 as compared to the comparable period in 2009. Despite the gain in the first quarter and lower OREO expense in the second quarter, we believe that our OREO expense could continue to remain elevated and could rise as problem loans are foreclosed on and we dispose of these assets during the second half of 2010.

- Business development and staff related expense increased 80.0%, driven largely by higher recruitment costs related to hiring new employees at legacy SCBT.

- Professional fees increased 54.6%, driven by higher audit and accounting fees, legal, and consulting fees.

Income Tax Expense

Our effective income tax rate increased to 36.2% for the six months ended June 30, 2010, as compared to 34.5% for the comparable period of 2009. The higher effective tax rate in 2010 reflects an increase related to the allocation of income to the state of Georgia, which has a higher tax rate than South Carolina and a decrease in tax free income as a percentage of pre-tax income.

Our effective income tax rate decreased to 17.3% for the quarter ended June 30, 2010 compared to 34.5% for the quarter ended June 30, 2009 due to lower pre-tax income for the quarter and because of a greater proportion of tax exempt income which lowered the effective rate.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends, and during 2009 raising additional common equity in the capital markets. As of June 30, 2010, shareholders equity was $334.6 million, an increase of $51.8 million, or 18.3%, from $282.8 million at December 31, 2009. The increase in shareholders equity largely resulted from the after-tax gain on acquisition of $62.5 million during the first quarter of 2010. Shareholders equity increased $54.9 million, or 19.6%, from $279.8 million at June 30, 2009. The increase reflects the gain on acquisition. Our equity-to-assets ratio decreased to 9.25% at June 30, 2010 from 9.97% at the end of the comparable period of 2009.

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 OCC, 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.

In conjunction with the risk-based capital 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.

The Company s capital adequacy ratios for the following periods are reflected below:

Capital Adequacy Ratios	June 30, 2010	December 31, 2009	June 30, 2009
Tier 1 risk-based capital	13.50%	12.47%	12.01%
Total risk-based capital	15.42%	14.42%	13.93%
Tier 1 leverage	8.43%	9.89%	9.63%

Compared to December 31, 2009, our Tier 1 risk-based capital and total risk-based capital have increased due primarily to the impact of the gain related to the FDIC-assisted acquisition of CBT. Our Tier 1 leverage ratio decreased primarily because of the significant increase in average assets from the CBT acquisition during the quarter. This was consistent with what management expected given the acquisition. Our capital ratios are currently well in excess of the minimum standards and continue to be in the well capitalized regulatory classification.

Liquidity

Liquidity refers to our ability 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. Our Asset Liability Management Committee (ALCO) is charged with the responsibility of monitoring these policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk

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management. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

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 bank,

• Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our bank s asset/liability management and net interest margin requirements, and

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

On January 29, 2010, we acquired CBT in an FDIC-assisted deal which provided approximately $312.2 million in cash and cash equivalents at January 29, 2010. Deposits in the amount of $1.0 billion were also assumed. Of this amount, $96.0 million were in the form of highly liquid transaction accounts. Certificates of deposit and interest-bearing deposits comprised $912.5 million of total deposits, or 90.5%. In accordance with the P&A Agreement and the desire to lower our cost of funds, we decided to lower rates on all time deposits for depositors who had no other relationship with us other than their time deposit products. As anticipated, we experienced approximately $200 million in run-off of time deposit account balances between the acquisition date and June 30, 2010. Our liquidity position could continue to be affected by potential run-off of deposits in these northeast Georgia markets.

The FDIC-assisted acquisition of CBT was the largest factor that contributed to the increase in our liquidity position at June 30, 2010 from our position at June 30, 2009. On January 29, 2010, we acquired $80.6 million in cash and cash equivalents, excluding cash paid by the FDIC to consummate the acquisition, as well as $105.6 million of investment securities. Total cash received and due from the FDIC was $231.6 million which included $73.6 million paid to our bank to compensate for the liabilities assumed in excess of assets acquired and the $158.0 million asset discount bid. We received $225.7 million in cash from the FDIC on February 1, 2010 and recorded a $5.9 million receivable due from the FDIC which will be a part of the final settlement with the FDIC. We have not sold any of the acquired investment securities subsequent to the acquisition date; however, one government-sponsored enterprise debt security of $1.0 million was called on February 19, 2010 at par. The remaining securities provide periodic cash flows in the form of principal and interest payments.

Net of the acquisition, our legacy SCBT loan portfolio declined by approximately $8.7 million, or about 0.4%. We also increased our liquidity position in May 2009 with the sale of 1,356,500 shares of our common stock in a public offering, resulting in net proceeds of $29.2 million. Total cash and cash equivalents was $187.0 million at June 30, 2010 as compared to $104.9 million at December 31, 2009 and $157.1 million at June 30, 2009.

At June 30, 2010, we had no brokered deposits, a reduction from $10.0 million at June 30, 2009. Total deposits increased 38.1% to $3.0 billion resulting from the CBT acquisition; however, excluding CBT, total deposits declined $177.0 million, or 8.1%. Excluding CBT, we increased our noninterest-bearing deposit balance by $47.3 million, or 14.7%, at June 30, 2010 as compared to the balance at June 30, 2009. Federal funds purchased and securities sold under agreements to repurchase decreased $10.4 million, or 5.5%, from the balance at June 30, 2009; however, increased $14.5 million, or 10.3%, from the balance at December 31, 2009. Other borrowings declined by $81.9 million, or 56.7%, from June 30, 2009 due to the repayment of all FHLB borrowings. During the first quarter of 2010, we repaid the FHLB $162.8 million which includes FHLB advances acquired in the FDIC-assisted acquisition of CBT. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to emphasize shorter maturities of such funds. Our approach may provide an opportunity to sustain a low funding rate or possibly 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, balances at the Federal Reserve Bank, 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 bank s desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our bank s federal funds sold position, or balances at the Federal Reserve Bank, if any, serves as the primary source of immediate liquidity. At June 30, 2010, our bank had total federal funds credit lines of $335.0 million with no outstanding advances. If additional liquidity were needed, the bank 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. At June 30, 2010, our bank had $53.4 million of credit available at the Federal Reserve Bank s discount window, but had no outstanding advances as of the end of the quarter. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At June 30, 2010, our bank had a total FHLB credit facility of $184.3 million with total outstanding letters of credit consuming $21.7 million and no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

Our contingency funding plan incorporates 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 bank maintains various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, our bank 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 bank. This could increase our bank s cost of funds, impacting net interest margins and net interest spreads.

Deposit and Loan Concentrations

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 June 30, 2010, 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 represent 25% of total risk-based capital, or $86.6 million at June 30, 2010. Based on these criteria, we had two such credit concentrations in our legacy SCBT portfolio at June 30, 2010, including $273.0 million of loans to borrowers engaged in other activities related to real estate and $95.0 million of loans to religious organizations. We were unable to include the CBT loan portfolio as a result of limitations in the loan data of the acquired institution s loan system.

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, 2009 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 bank s ability to meet its obligations when they come due;*
- ***Price risk*** *focusing on changes in market factors that may affect the value of financial instruments which are marked-to-market periodically;*
- ***Transaction risk*** *arising from problems with service or product delivery;*

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- ***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;*

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

- ***Noninterest income risk*** *resulting from the effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions; and*

- ***Economic downturn risk*** *resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.*

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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 June 30, 2010 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2009.

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 second quarter of 2010 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

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, 2009, 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 and risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

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Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) and (b) not applicable

(c) Issuer Purchases of Registered 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 second quarter of 2010:

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
April 1 - April 30	3,782*	$ 39.97		147,872
May 1 - May 31				147,872
June 1 - June 30				147,872
Total	3,782			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. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS

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	Section 1350 Certifications of Principal Executive Officer and 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: August 6, 2010	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. President and Chief Executive Officer
Date: August 6, 2010	/s/ Donald E. Pickett Donald E. Pickett Executive Vice President and Chief Financial Officer
Date: August 6, 2010	/s/ Karen L. Dey Karen L. Dey Senior Vice President and Controller (Principal Accounting Officer)

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Exhibit Index

Exhibit No.	Description
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	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer