SCBT FINANCIAL CORP
Form 10-Q
August 06, 2010
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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

June 30, 2010 Form 10-Q

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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,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**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		**Common Stock**				**Accumulated Other Comprehensive**	
	Shares	**Amount**	**Shares**	**Amount**	**Surplus**	**Retained Earnings**	**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**

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* - 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				Receiving Principal / Interest Contractually at 6/30/10?	Deferral / Default Statistics		
(Dollars in thousands)	Class	# of Issuers	Book Value	Fair Value	Unrealized Loss (1)	Credit Ratings (2)		Deferral / Defaults % of Total Collateral Balance (4)	Excess Subordination (5) Amount	% 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:

(Dollars in thousands)	June 30, 2010	June 30, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands)	**2010**	**2009**	**2010**	**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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2010**	**2009**	**2010**	**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			