SCBT FINANCIAL CORP
Form 10-Q
November 08, 2011
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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 September 30, 2011**

**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 x 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 October 31, 2011 |
|---|---|
| Common Stock, $2.50 par value | 14,014,513 |

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**SCBT Financial Corporation and Subsidiary**

**September 30, 2011 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)*

| | September 30, 2011 (Unaudited) | December 31, 2010 (Note 1) | September 30, 2010 (Unaudited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | **$ 134,939** | $ 83,449 | $ 81,462 |
| Interest-bearing deposits with banks | **1,530** | 416 | 928 |
| Federal funds sold and securities purchased under agreements to resell | **22,300** | 153,234 | 90,800 |
| Total cash and cash equivalents | **158,769** | 237,099 | 173,190 |
| Investment securities: | | | |
| Securities held to maturity (fair value of $19,872, $20,150 and $21,058, respectively) | **18,699** | 19,941 | 19,941 |
| Securities available for sale, at fair value | **281,926** | 197,374 | 227,137 |
| Other investments | **20,422** | 20,597 | 21,116 |
| Total investment securities | **321,047** | 237,912 | 268,194 |
| Loans held for sale | **45,870** | 42,704 | 49,586 |
| Loans: | | | |
| Acquired | **418,045** | 321,038 | 369,272 |
| Less allowance for acquired loan losses | **(12,123)** | | |
| Non-acquired | **2,461,613** | 2,296,200 | 2,258,353 |
| Less allowance for non-acquired loan losses | **(49,110)** | (47,512) | (46,657) |
| Loans, net | **2,818,425** | 2,569,726 | 2,580,968 |
| FDIC receivable for loss share agreements | **274,658** | 212,103 | 267,486 |
| Other real estate owned (covered of $79,740, $69,317, and $47,365, respectively; and non-covered of $22,686, $17,264, and $15,657, respectively) | **102,426** | 86,581 | 63,022 |
| Premises and equipment, net | **90,020** | 87,381 | 86,396 |
| Goodwill | **62,888** | 62,888 | 62,888 |
| Other assets | **61,415** | 58,397 | 61,134 |
| Total assets | **$ 3,935,518** | $ 3,594,791 | $ 3,612,864 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | |
| Deposits: | | | |
| Noninterest-bearing | **$ 653,923** | $ 484,838 | $ 472,753 |
| Interest-bearing | **2,633,729** | 2,519,310 | 2,547,393 |
| Total deposits | **3,287,652** | 3,004,148 | 3,020,146 |
| Federal funds purchased and securities sold under agreements to repurchase | **184,403** | 191,017 | 163,905 |
| Other borrowings | **46,955** | 46,978 | 62,183 |
| Other liabilities | **34,786** | 22,691 | 31,435 |
| Total liabilities | **3,553,796** | 3,264,834 | 3,277,669 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Shareholders equity: | | | | | | |
| Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding | | | | | | |
| Common stock - $2.50 par value; authorized 40,000,000 shares; 14,004,372, 12,793,823 and 12,779,463 shares issued and outstanding | | **35,011** | | 31,985 | | 31,949 |
| Surplus | | **232,314** | | 198,647 | | 197,885 |
| Retained earnings | | **113,752** | | 103,117 | | 104,730 |
| Accumulated other comprehensive income (loss) | | **645** | | (3,792) | | 631 |
| Total shareholders equity | | **381,722** | | 329,957 | | 335,195 |
| Total liabilities and shareholders equity | **$** | **3,935,518** | $ | 3,594,791 | $ | 3,612,864 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Interest income:** | | | | |
| Loans, including fees | **$ 42,912** | $ 36,233 | **$ 120,735** | $ 106,400 |
| Investment securities: | | | | |
| Taxable | **2,023** | 2,526 | **5,621** | 7,780 |
| Tax-exempt | **211** | 243 | **662** | 672 |
| Federal funds sold and securities purchased under agreements to resell | **161** | 247 | **875** | 713 |
| Total interest income | **45,307** | 39,249 | **127,893** | 115,565 |
| **Interest expense:** | | | | |
| Deposits | **3,958** | 7,374 | **14,335** | 21,507 |
| Federal funds purchased and securities sold under agreements to repurchase | **118** | 226 | **420** | 490 |
| Other borrowings | **551** | 638 | **1,611** | 2,766 |
| Total interest expense | **4,627** | 8,238 | **16,366** | 24,763 |
| Net interest income | **40,680** | 31,011 | **111,527** | 90,802 |
| Provision for loan losses | **8,323** | 10,328 | **23,179** | 43,615 |
| Net interest income after provision for loan losses | **32,357** | 20,683 | **88,348** | 47,187 |
| **Noninterest income:** | | | | |
| Gains on acquisitions | **11,001** | | **16,529** | 98,081 |
| Service charges on deposit accounts | **6,050** | 5,683 | **16,695** | 15,788 |
| Bankcard services income | **2,980** | 2,397 | **8,684** | 6,617 |
| Mortgage banking income | **2,341** | 1,934 | **4,329** | 4,031 |
| Trust and investment services income | **1,453** | 1,199 | **4,227** | 3,170 |
| Securities gains | | | **333** | |
| Other-than-temporary impairment losses | **(100)** | (479) | **(100)** | (6,740) |
| Accretion (amortization) of FDIC indemnification asset | **(3,515)** | 530 | **(7,049)** | 1,466 |
| Other | **581** | 566 | **1,808** | 2,065 |
| Total noninterest income | **20,791** | 11,830 | **45,456** | 124,478 |
| **Noninterest expense:** | | | | |
| Salaries and employee benefits | **17,345** | 15,274 | **52,007** | 44,289 |
| OREO expense and loan related | **4,118** | 1,861 | **9,428** | 2,416 |
| Information services expense | **2,851** | 2,157 | **7,696** | 6,684 |
| Net occupancy expense | **2,443** | 2,046 | **7,365** | 6,326 |
| Furniture and equipment expense | **2,127** | 1,963 | **6,266** | 5,537 |
| Merger-related expense | **1,587** | 566 | **2,794** | 5,438 |
| FDIC assessment and other regulatory charges | **859** | 1,354 | **3,593** | 3,904 |
| Advertising and marketing | **824** | 614 | **2,022** | 2,229 |
| Amortization of intangibles | **517** | 432 | **1,468** | 1,212 |
| Professional fees | **377** | 495 | **1,311** | 1,668 |
| Federal Home Loan Bank advances prepayment fee | | | | 3,189 |
| Other | **4,110** | 3,170 | **12,480** | 8,604 |
| Total noninterest expense | **37,158** | 29,932 | **106,430** | 91,496 |
| **Earnings:** | | | | |
| Income before provision for income taxes | **15,990** | 2,581 | **27,374** | 80,169 |
| Provision for income taxes | **5,658** | 794 | **9,608** | 28,846 |

| | | | | |
|---|---|---|---|---|
| **Net income** | **$ 10,332** | $ 1,787 | **$ 17,766** | $ 51,323 |
| **Earnings per common share:** | | | | |
| Basic | **$ 0.75** | $ 0.14 | **$ 1.30** | $ 4.07 |
| Diluted | **$ 0.74** | $ 0.14 | **$ 1.28** | $ 4.04 |
| Dividends per common share | **$ 0.17** | $ 0.17 | **$ 0.51** | $ 0.51 |
| **Weighted-average common shares outstanding:** | | | | |
| Basic | **13,818** | 12,620 | **13,613** | 12,609 |
| Diluted | **13,884** | 12,711 | **13,689** | 12,715 |

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)**

**Nine Months Ended September 30, 2011 and 2010**

*(Dollars in thousands, except per share data)*

| | Preferred Stock | | Common Stock | | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Surplus | Earnings | Income (Loss) | Total |
| Balance, December 31, 2009 | | $ | 12,739,533 | $ 31,849 | $ 196,437 | $ 59,915 | $ (5,382) | $ 282,819 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 51,323 | | 51,323 |
| Change in net unrealized gain on securities available for sale, net of tax | | | | | | | 6,742 | 6,742 |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax | | | | | | | (729) | (729) |
| Total comprehensive income | | | | | | | | 57,336 |
| Cash dividends declared at $.51 per share | | | | | | (6,508) | | (6,508) |
| Employee stock purchases | | | 10,097 | 25 | 278 | | | 303 |
| Stock options exercised | | | 12,587 | 32 | 208 | | | 240 |
| Restricted stock awards | | | 22,698 | 57 | (57) | | | |
| Common stock repurchased | | | (5,452) | (14) | (184) | | | (198) |
| Share-based compensation expense | | | | | 1,203 | | | 1,203 |
| Balance, September 30, 2010 | | $ | 12,779,463 | $ 31,949 | $ 197,885 | $ 104,730 | $ 631 | $ 335,195 |
| Balance, December 31, 2010 | | $ | 12,793,823 | $ 31,985 | $ 198,647 | $ 103,117 | $ (3,792) | $ 329,957 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 17,766 | | 17,766 |
| Change in net unrealized gain on securities available for sale, net of tax | | | | | | | 4,916 | 4,916 |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax | | | | | | | (479) | (479) |
| Total comprehensive income | | | | | | | | 22,203 |
| Cash dividends declared at $.51 per share | | | | | | (7,131) | | (7,131) |
| Employee stock purchases | | | 11,673 | 29 | 313 | | | 342 |
| Stock options exercised | | | 24,102 | 60 | 363 | | | 423 |
| Restricted stock awards | | | 54,080 | 136 | (136) | | | |
| Common stock repurchased | | | (8,338) | (21) | (231) | | | (252) |
| Share-based compensation expense | | | | | 1,341 | | | 1,341 |
| Common stock issued in private placement offering | | | 1,129,032 | 2,822 | 32,017 | | | 34,839 |
| Balance, September 30, 2011 | | $ | 14,004,372 | $ 35,011 | $ 232,314 | $ 113,752 | $ 645 | $ 381,722 |

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)*

| | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | **$ 17,766** | $ 51,323 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **7,784** | 6,769 |
| Provision for loan losses | **23,179** | 43,615 |
| Deferred income taxes | **1,907** | (4,413) |
| Other-than-temporary impairment on securities | **100** | 6,740 |
| Gain on sale of securities | **(333)** | |
| Gains on acquisitions | **(16,529)** | (98,081) |
| Share-based compensation expense | **1,341** | 1,203 |
| Loss on disposal of premises and equipment | **61** | 36 |
| Federal Home Loan Bank advances prepayment fee | | 3,189 |
| Amortization (accretion) on FDIC indemnification asset | **7,049** | (1,466) |
| Accretion on acquired loans | **(11,905)** | 1,622 |
| Net amortization of investment securities | **1,136** | 590 |
| Net change in: | | |
| Loans held for sale | **(3,166)** | (32,023) |
| Accrued interest receivable | **593** | 2,820 |
| Prepaid assets | **2,748** | 3,055 |
| FDIC loss share receivable | **68,570** | 10,769 |
| Accrued interest payable | **(3,964)** | (5,072) |
| Accrued income taxes | **(1,325)** | 25,742 |
| Miscellaneous assets and liabilities | **17,112** | (19,391) |
| Net cash provided by (used in) operating activities | **112,124** | (2,973) |
| Cash flows from investing activities: | | |
| Proceeds from sales of investment securities available for sale | **52,282** | |
| Proceeds from maturities and calls of investment securities held to maturity | **1,240** | 1,595 |
| Proceeds from maturities and calls of investment securities available for sale | **70,222** | 92,176 |
| Proceeds from sales of other investment securities | **5,651** | 1,113 |
| Purchases of investment securities available for sale | **(108,366)** | (43,143) |
| Purchases of other investment securities | **(1,041)** | |
| Net increase in customer loans | **(37,540)** | (989) |
| Net cash received from acquisition | **136,716** | 306,298 |
| Purchases of premises and equipment | **(12,922)** | (20,876) |
| Proceeds from sale of premises and equipment | **26** | 45 |
| Net cash provided by investing activities | **106,268** | 336,219 |
| Cash flows from financing activities: | | |
| Net decrease in deposits | **(257,725)** | (92,998) |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | **(8,090)** | 224 |
| Repayment of FHLB advances | **(59,128)** | (166,027) |
| Common stock issuance | **35,181** | 303 |
| Common stock repurchased | **(252)** | (198) |
| Dividends paid on common stock | **(7,131)** | (6,508) |
| Stock options exercised | **423** | 240 |

| | | | | |
|---|---|---|---|---|
| Net cash used in financing activities | | **(296,722)** | | (264,964) |
| Net increase (decrease) in cash and cash equivalents | | **(78,330)** | | 68,282 |
| Cash and cash equivalents at beginning of period | | **237,099** | | 104,908 |
| Cash and cash equivalents at end of period | **$** | **158,769** | $ | 173,190 |
| | | | | |
| **Supplemental Disclosures:** | | | | |
| Cash paid for: | | | | |
| Interest | **$** | **18,614** | $ | 29,835 |
| Income taxes | **$** | **8,240** | $ | 6,324 |
| | | | | |
| Noncash investing activities: | | | | |
| Transfers of loans to foreclosed properties (covered of $22,038 and $30,643, respectively; and non-covered of $19,801 and $20,629, respectively) | **$** | **41,839** | $ | 51,272 |

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 nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The condensed consolidated balance sheet at December 31, 2010, 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 or SCBT ) Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the SEC ) on March 16, 2011, should be referenced when reading these unaudited condensed consolidated financial statements.

***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 acquisition 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 because 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, *Fair Value Measurements and Disclosures,* 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 FASB 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 flows. In accordance with FASB ASC Topic 310-30, the Company aggregated loans that have common risk characteristics into pools within the following loan categories: commercial loans greater than or equal to $1 million, 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 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. 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 view of the SEC 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 would not object to an accounting policy based on contractual cash flows (FASB ASC Topic 310-20 approach) or an accounting policy based on expected cash flows (FASB 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, net of the expected reimbursement from the FDIC through the loss share agreement. The FDIC indemnification asset will be adjusted in a similar, consistent manner with increases and decreases in expected cash flows through the income statement in non-interest income. The FDIC indemnification asset is also adjusted for reimbursable expenses through non-interest expense.

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.

The Company incurs expenses related to the assets indemnified by the FDIC and, pursuant to the loss share agreement, certain costs are reimbursable by the FDIC and are included in monthly and quarterly claims made by the Company. The estimates of reimbursements are netted against these covered expenses in the statements of income.

**Note 3 Recent Accounting and Regulatory Pronouncements**

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ( ASU No. 2011-04 ). ASU No. 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. Adoption of ASU 2011-04 is not expected to have a significant impact on the Company s financial statement disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ( ASU No. 2011-05 ). ASU No. 2011-05 requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011, with early adoption permitted. Management is evaluating the impact of this ASU on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU No 2011-08, Intangibles Goodwill and Other (Topic 350) ( ASU No. 2011-08 ). ASU 2011-08 allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management is evaluating the impact of this ASU on the Company s consolidated financial statements.

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**Note 3 Recent Accounting and Regulatory Pronouncements (continued)**

The enactment of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the Dodd-Frank Act ) will result in expansive changes in many areas affecting the financial services industry in general and the Company in particular. The legislation provides broad economic oversight, consumer financial services protection, investor protection, rating agency reform and derivative regulatory reform. Various corporate governance requirements will result in expanded proxy disclosures and shareholder rights. Additional provisions address the mortgage industry in an effort to strengthen lending practices. Deposit insurance reform has resulted in permanent FDIC protection for up to $250,000 of certain deposits and will require the FDIC s Deposit Insurance Fund to maintain 1.35 percent of insured deposits with the burden for closing any shortfall falling to banks with more than $10 billion in assets. Provisions within the Dodd-Frank Act will prohibit institutions that had more than $15 billion in assets on December 31, 2009 from including trust preferred securities ( TRUPs ) as Tier 1 capital beginning in 2013. One third will be phased out over the next two years ending in 2015. Financial institutions with less than $15 billion in total assets, such as the Company, may continue to count their pre-May 19, 2010, TRUPs as Tier 1 capital, but may not issue new Tier 1 capital TRUPs. The Dodd-Frank Act also requires new limits on interchange transaction fees that banks receive from merchants via card networks like Visa, Inc. and MasterCard, Inc. when a customer uses a debit card. In June 2011, the Federal Reserve approved a final debit card interchange rule in accordance with the Dodd-Frank Act. The final rule caps an issuer s base fee at 21 cents per transaction and allows an additional 5 basis point charge per transaction to help cover fraud losses. Although the rule technically does not apply to institutions with less than $10 billion in assets, such as the Bank, the price controls may affect institutions with less than $10 billion in assets, such as the Bank, which could be pressured by the marketplace to lower their own interchange rates. We believe that regulations promulgated under the Dodd-Frank Act also will ultimately impose significant new compliance costs associated with the new regulations. We will continue to monitor the regulations as they are implemented and will review our policies, products and procedures to insure full compliance but also attempt to minimize any negative impact on our operations. On July 21, 2011, the Federal Reserve s Final Rule repealing Regulation Q, which prohibited the payment of interest on demand deposits, became effective. As a result of this repeal, our Bank has the option of offering interest bearing demand deposits, and may incur increased interest costs for funding if we elect to offer such deposit accounts.

Effective December 31, 2010, SCBT adopted certain of the key provisions of Accounting Standards Update ( ASU ) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* ( ASU 2010-20 ). ASU 2010-20 amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users understanding of (1) the nature of an entity s credit risk associated with its financing receivables and (2) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and reasons for those changes. The new and amended disclosures in the ASU were effective December 31, 2010, and are included in Note 6 Loans and Allowance for Loan Losses. The disclosure for the activity in the allowance for credit losses for each period became effective for the first quarter of 2011. In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in ASU 2011-01 temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The update provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a TDR, both for purposes of recording impairment and disclosing TDRs. A restructuring of a credit arrangement constitutes a TDR if the restructuring constitutes a concession, and the debtor is experiencing financial difficulties. The clarifications for classification apply to all restructurings occurring on or after January 1, 2011. The measurement of impairment for those newly identified TDRs will be applied prospectively beginning in the third quarter of 2011. The related disclosures which were previously deferred are required for the interim reporting period ending September 30, 2011. The impact of adoption for SCBT is the inclusion of additional disclosures in SCBT s consolidated financial statements and the identification of three additional TDRs for a total of $1.1 million.

**Note 4 Mergers and Acquisitions**

Generally, acquisitions are 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.

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**Note 4 Mergers and Acquisitions (continued)**

*BankMeridian Acquisition*

On July 29, 2011, the Company s wholly-owned subsidiary, SCBT, N.A. (the Bank ), entered into a purchase and assumption ( P&A ) agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of BankMeridian, N.A., a full service community bank headquartered in Columbia, South Carolina. BankMeridian operated 3 branches in total in Columbia, Spartanburg, and Hilton Head, South Carolina.

Pursuant to the P&A agreement, SCBT, N.A. received a discount of $30.8 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and SCBT, N.A. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses. 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 assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) 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 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 transferable 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 assets fluctuate, 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 agreement. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of BankMeridian as a part of the P&A agreement. However, the Bank has the option to purchase the real estate and furniture and equipment from the FDIC. The term of this option expired approximately 90 days from the date of the acquisition. In September of 2011, the Bank consolidated the main BankMeridian location in Columbia into the Bank s main Columbia location, and opted to not acquire this facility. The Bank also plans to consolidate its Spartanburg and Hilton Head locations into the locations assumed in the BankMeridian transaction during the fourth quarter of 2011. The result of these actions will be no additional branch locations for the Bank.

As of September 30, 2011, there have been no adjustments or changes to the initial fair values related to the BankMeridian acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Additionally, disclosure of pro forma financial information is made more difficult by the troubled nature of BankMeridian prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

During the three months and nine months ended September 30, 2011, noninterest income included a pre-tax gain of $11.0 million which resulted from the acquisition of BankMeridian. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of BankMeridian prior to the acquisition. The Company recognized $578,000 in merger-related expense from the BankMeridian acquisition during the three months and nine months ended September 30, 2011.

Included in the initial fair value of the FDIC indemnification asset recognized below is an expected true up with the FDIC, where there is an estimated payment to the FDIC of approximately $1.0 million at the end of the loss share agreement (in 10 years). The actual payment will be determined at the end of the loss sharing agreement term and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. This true up estimate will be eliminated if the actual losses were to exceed management s current estimate by an additional $10.0 million.

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**Note 4 Mergers and Acquisitions (continued)**

The following table presents the assets acquired and liabilities assumed as of July 29, 2011, as recorded by BankMeridian on the acquisition date and as adjusted for purchase accounting adjustments.

| (Dollars in thousands) | As Recorded by BankMeridian | Balances Kept by FDIC | Balances Acquired from FDIC | Fair Value Adjustments | As Recorded by SCBT |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 28,363 | $ 23 | $ 28,386 | $ | $ 28,386 |
| Investment securities | 35,671 | (77) | 35,594 | (242)(a) | 35,352 |
| Loans | 145,290 | 9,021 | 154,311 | (59,330)(b) | 94,981 |
| Premises and equipment | 1,320 | (1,316) | 4 | 15(c) | 19 |
| Intangible assets | | | | 551(d) | 551 |
| FDIC receivable for loss sharing agreement | | | | 50,753(e) | 50,753 |
| Other real estate owned and repossessed assets | 13,932 | 669 | 14,601 | (9,775)(f) | 4,826 |
| Other assets | 1,126 | 492 | 1,618 | (761)(g) | 857 |
| Total assets | $ 225,702 | $ 8,812 | $ 234,514 | $ (18,789) | $ 215,725 |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $ 12,431 | $ (12) | $ 12,419 | $ | $ 12,419 |
| Interest-bearing | 192,551 | (4,609) | 187,942 | 220(h) | 188,162 |
| Total deposits | 204,982 | (4,621) | 200,361 | 220 | 200,581 |
| Other borrowings | 20,000 | | 20,000 | 790(i) | 20,790 |
| Other liabilities | 1,016 | (142) | 874 | | 874 |
| Total liabilities | 225,998 | (4,763) | 221,235 | 1,010 | 222,245 |
| Net assets acquired over (under) liablities assumed | $ (296) | $ 13,575 | $ 13,279 | $ (19,799) | $ (6,520) |
| Excess of assets acquired over (under) liabilities assumed | $ (296) | $ 13,575 | $ 13,279 | | |
| Aggregate fair value adjustments | | | | $ (19,799) | |
| | | | | | |
| Cash received from the FDIC | | | | | |