

SCBT FINANCIAL CORP
Form 10-Q
November 09, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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
(State or other jurisdiction of incorporation)

57-0799315
(IRS Employer Identification No.)

520 Gervais Street

Columbia, South Carolina
(Address of principal executive offices)

29201
(Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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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, 2010
Common Stock, \$2.50 par value	12,785,554

Table of Contents

SCBT Financial Corporation and Subsidiary

September 30, 2010 Form 10-Q

INDEX

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets at September 30, 2010, December 31, 2009 and September 30, 2009</u>
	1
	<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009</u>
	2
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2010 and 2009</u>
	3
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>
	4
	<u>Notes to Condensed Consolidated Financial Statements</u>
	5-29
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	30-51
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	52
<u>Item 4.</u>	<u>Controls and Procedures</u>
	52
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	52
<u>Item 1A.</u>	<u>Risk Factors</u>
	52
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	54
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	54
<u>Item 4.</u>	<u>(Removed and Reserved)</u>
	54
<u>Item 5.</u>	<u>Other Information</u>
	54
<u>Item 6.</u>	<u>Exhibits</u>
	55

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

	September 30, 2010 (Unaudited)	December 31, 2009 (Note 1)	September 30, 2009 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 77,047	\$ 80,523	\$ 56,400
Interest-bearing deposits with banks	178	174	174
Federal funds sold and securities purchased under agreements to resell	90,800	24,211	118,791
Money market mutual funds	5,165		50
Total cash and cash equivalents	173,190	104,908	175,415
Investment securities:			
Securities held to maturity (fair value of \$21,058, \$21,901 and \$22,029, respectively)	19,941	21,538	21,540
Securities available for sale, at fair value	227,137	173,303	175,272
Other investments	21,116	16,271	15,416
Total investment securities	268,194	211,112	212,228
Loans held for sale	49,586	17,563	20,077
Loans:			
Covered under FDIC loss share agreements	369,272		
Not covered under FDIC loss share agreements	2,258,353	2,203,238	2,209,403
Less allowance for loan losses	(46,657)	(37,488)	(34,297)
Loans, net	2,580,968	2,165,750	2,175,106
FDIC receivable for loss share agreements	267,486		
Other real estate owned (covered of \$47,365, \$0, and \$0, respectively; and non-covered of \$15,657, \$3,102, and \$4,189)	63,022	3,102	4,189
Premises and equipment, net	86,396	71,829	72,523
Goodwill and other intangibles	73,037	65,695	65,827
Other assets	50,985	62,229	51,319
Total assets	\$ 3,612,864	\$ 2,702,188	\$ 2,776,684
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	\$ 472,753	\$ 346,248	\$ 335,565
Interest-bearing	2,547,393	1,758,391	1,791,554
Total deposits	3,020,146	2,104,639	2,127,119
Federal funds purchased and securities sold under agreements to repurchase	163,905	162,515	211,606
Other borrowings	62,183	143,624	144,048
Other liabilities	31,435	8,591	12,128
Total liabilities	3,277,669	2,419,369	2,494,901
Shareholders' equity:			

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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;

12,779,463, 12,739,533 and 12,712,476 shares issued and outstanding	31,949	31,849	31,781
Surplus	197,885	196,437	195,660
Retained earnings	104,730	59,915	60,561
Accumulated other comprehensive income (loss)	631	(5,382)	(6,219)
Total shareholders' equity	335,195	282,819	281,783
Total liabilities and shareholders' equity	\$ 3,612,864	\$ 2,702,188	\$ 2,776,684

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

Table of Contents

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,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$ 36,233	\$ 32,598	\$ 106,400	\$ 99,688
Investment securities:				
Taxable	2,526	1,991	7,780	6,505
Tax-exempt	243	243	672	709
Federal funds sold and securities purchased under agreements to resell	247	188	713	423
Total interest income	39,249	35,020	115,565	107,325
Interest expense:				
Deposits	7,374	7,070	21,507	24,999
Federal funds purchased and securities sold under agreements to repurchase	226	138	574	381
Other borrowings	638	1,431	2,682	4,547
Total interest expense	8,238	8,639	24,763	29,927
Net interest income	31,011	26,381	90,802	77,398
Provision for loan losses	10,328	6,990	43,615	16,554
Net interest income after provision for loan losses	20,683	19,391	47,187	60,844
Noninterest income:				
Gain on acquisition			98,081	
Service charges on deposit accounts	5,683	4,089	15,788	11,493
Bankcard services income	2,397	1,278	6,617	3,750
Mortgage banking income	2,600	1,451	5,429	4,846
Trust and investment services income	1,199	588	3,170	1,950
Securities gains		82		82
Total other-than-temporary impairment losses	(479)	(5,252)	(6,740)	(7,734)
Portion of impairment losses recognized in other comprehensive loss		3,048		4,986
Net impairment losses recognized in earnings	(479)	(2,204)	(6,740)	(2,748)
Other	1,096	307	3,531	1,110
Total noninterest income	12,496	5,591	125,876	20,483
Noninterest expense:				
Salaries and employee benefits	15,940	10,649	45,687	30,685
Federal Home Loan Bank advances prepayment fee			3,189	
Net occupancy expense	2,046	1,582	6,326	4,724
Furniture and equipment expense	1,963	1,507	5,537	4,566
Information services expense	2,157	1,381	6,684	4,109
FDIC assessment and other regulatory charges	1,354	956	3,904	4,473
OREO expense and loan related	1,861	2,497	2,416	4,538
Advertising and marketing	614	579	2,229	1,800
Professional fees	495	276	1,668	1,035
Amortization of intangibles	432	131	1,212	394
Merger-related expense	566		5,438	
Other	3,170	2,239	8,604	6,698
Total noninterest expense	30,598	21,797	92,894	63,022
Earnings:				

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Income before provision for income taxes	2,581	3,185	80,169	18,305
Provision for income taxes	794	1,014	28,846	6,229
Net income	1,787	2,171	51,323	12,076
Preferred stock dividends				1,115
Accretion on preferred stock discount				3,559
Net income available to common shareholders	\$ 1,787	\$ 2,171	\$ 51,323	\$ 7,402
Earnings per common share:				
Basic	\$ 0.14	\$ 0.17	\$ 4.07	\$ 0.62
Diluted	\$ 0.14	\$ 0.17	\$ 4.04	\$ 0.62
Dividends per common share	\$ 0.17	\$ 0.17	\$ 0.51	\$ 0.51
Weighted-average common shares outstanding:				
Basic	12,620	12,547	12,609	11,874
Diluted	12,711	12,605	12,715	11,922

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

Table of Contents**SCBT Financial Corporation and Subsidiary****Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)****Nine Months Ended September 30, 2010 and 2009***(Dollars in thousands, except per share data)*

	Preferred Stock		Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total								
	Shares	Amount	Shares	Amount												
Balance, December 31, 2008		\$	11,250,603	\$	28,127	\$	166,815	\$	59,171	\$	(9,185)	\$	244,928			
Comprehensive income:																
Net income													12,076	12,076		
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														4,940	4,940	
Noncredit portion of other-than-temporary impairment losses, net of tax														(3,091)	(3,091)	
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax														(166)	(166)	
Total comprehensive income															15,042	
Cash dividends on Series T preferred stock at annual dividend rate of 5%														3,559	(4,674)	(1,115)
Cash dividends declared at \$.51 per share															(6,012)	(6,012)
Issuance of Series T preferred 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)
Stock options exercised				9,702	24	123										147
Employee stock purchases				17,515	44	276										320
Restricted stock awards				89,402	224	(224)										
Common stock repurchased				(11,246)	(29)	(296)										(325)
Share-based compensation expense															1,096	1,096
Common stock issued in public offering				1,356,500	3,391	25,858										29,249
Balance, September 30, 2009		\$	12,712,476	\$	31,781	\$	195,660	\$	60,561	\$	(6,219)	\$	281,783			
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)										

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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

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

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 51,323	\$ 12,076
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,769	5,091
Provision for loan losses	43,615	16,554
Other-than-temporary impairment on securities	6,740	2,748
Gain on sale of securities		(82)
Gain on acquisition	(98,081)	
Share-based compensation expense	1,203	1,096
Loss on disposal of premises and equipment	36	103
Federal Home Loan Bank advances prepayment fee	3,189	
Accretion on FDIC indemnification asset	(1,448)	
Net amortization (accretion) of investment securities	590	(117)
Net change in loans held for sale	(32,023)	(4,335)
Net change in accrued income taxes	25,742	1,488
Net change in miscellaneous assets and liabilities	(13,872)	(1,321)
Net cash provided by (used in) operating activities	(6,217)	33,301
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale		2,410
Proceeds from maturities and calls of investment securities held to maturity	1,595	2,685
Proceeds from maturities and calls of investment securities available for sale	92,176	52,043
Proceeds from sales of other investment securities	1,113	451
Purchases of investment securities available for sale	(43,143)	(46,068)
Purchases of other investment securities		(1,088)
Net decrease in customer loans	2,255	92,891
Net cash received from acquisition	306,298	
Purchases of premises and equipment	(20,876)	(5,358)
Proceeds from sale of premises and equipment	45	2
Net cash provided by investing activities	339,463	97,968
Cash flows from financing activities:		
Net decrease in deposits	(92,998)	(26,155)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	224	18,119
Repayment of FHLB advances, including prepayment fee	(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	303	29,569
Common stock repurchased	(198)	(325)
Dividends paid on preferred stock		(1,115)
Dividends paid on common stock	(6,508)	(6,012)
Stock options exercised	240	147
Net cash used in financing activities	(264,964)	(5,319)
Net increase in cash and cash equivalents	68,282	125,950
Cash and cash equivalents at beginning of period	104,908	49,465
Cash and cash equivalents at end of period	\$ 173,190	\$ 175,415

Supplemental Disclosures:

Cash paid for:

Interest	\$	29,835	\$	32,303
Income taxes	\$	6,324	\$	5,455

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

Table of Contents

SCBT Financial Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

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

Table of Contents

Note 2 Summary of Significant Accounting Policies (continued)

Pursuant to an AICPA letter dated December 18, 2009, the AICPA summarized the view of the staff of the Securities and Exchange Commission (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 staff 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. The FDIC indemnification asset will be adjusted in a similar, consistent manner 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.

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 income statement.

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 FASB 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

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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 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,

Table of Contents

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.

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 FASB ASC Topic 805, the FDIC Indemnification Asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal. 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. Subsequent to September 30, 2010, the Bank settled the purchase of the assets above and settled other items that related to the January 29, 2010 acquisition, with a net payment to the FDIC of \$3.9 million on October 27, 2010. There was no income statement or equity impact of this settlement on the financial statements of the Bank. 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 third quarter of 2010, the Company continued to gather information regarding the initial fair value estimates of assets and liabilities acquired, but have identified

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no material adjustments as of September 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 pro forma information related to the CBT acquisition because of the pervasive federal assistance in the transaction.

As of September 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 \$566,000 and \$5.4 million in merger-related expense during the three months and nine months ended September 30, 2010, respectively.

Table of Contents**Note 4 Mergers and Acquisitions (continued)**

The following table presents the assets acquired and liabilities assumed as of January 29, 2010, as recorded 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 liabilities 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.

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- (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 fair value adjustments to OREO 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 Federal Home Loan Bank (FHLB) advances were completely paid off in early February 2010.
- (h) Adjustment reflects the fair value of leases assumed.

Table of Contents**Note 5 Investment Securities**

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010:				
State and municipal obligations	\$ 19,941	\$ 1,117	\$	\$ 21,058
December 31, 2009:				
State and municipal obligations	\$ 21,538	\$ 391	\$ (28)	\$ 21,901
September 30, 2009:				
State and municipal obligations	\$ 21,540	\$ 513	\$ (24)	\$ 22,029

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
September 30, 2010:				
Government-sponsored enterprises debt *	\$ 94,971	\$ 2,042	\$ (8)	\$ 97,005
State and municipal obligations	38,672	2,382	(155)	40,899
Mortgage-backed securities **	79,125	4,349	(23)	83,451
Trust preferred (collateralized debt obligations)	5,360	237	(154)	5,443
Corporate stocks	285	88	(34)	339
	\$ 218,413	\$ 9,098	\$ (374)	\$ 227,137
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
September 30, 2009:				
Government-sponsored enterprises debt *	\$ 37,671	\$ 301	\$ (38)	\$ 37,934
State and municipal obligations	23,593	557	(380)	23,770
Mortgage-backed securities **	100,222	5,006		105,228
Trust preferred (collateralized debt obligations)	14,259		(6,305)	7,954
Corporate stocks	369	75	(58)	386
	\$ 176,114	\$ 5,939	\$ (6,781)	\$ 175,272

* - 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, FHLB, and Federal Farm Credit Banks (FFCB).

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

Table of Contents**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
September 30, 2010:				
Federal Reserve Bank stock	\$ 5,987	\$	\$	\$ 5,987
Federal Home Loan Bank stock	13,797			13,797
Investment in unconsolidated subsidiaries	1,332			1,332
	\$ 21,116	\$	\$	\$ 21,116
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
September 30, 2009:				
Federal Reserve Bank stock	\$ 5,132	\$		