SCBT FINANCIAL CORP
Form 10-Q
August 08, 2008
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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, 2008

OR

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

Commission file number 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(800) 277-2175

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 July 31, 2008**
Common Stock, $2.50 par value	10,211,549

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SCBT Financial Corporation and Subsidiaries

June 30, 2008 Form 10-Q

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2008 (Unaudited)	December 31, 2007 (Note 1)	June 30, 2007 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 59,805**	$ 62,595	$ 57,710
Interest-bearing deposits with banks	**849**	3,437	2,929
Federal funds sold and securities purchased under agreements to resell	**44,351**	29,301	37,500
Total cash and cash equivalents	**105,005**	95,333	98,139
Investment securities:			
Securities held to maturity (fair value of $24,697, $21,215 and $15,685, respectively)	**25,017**	21,457	15,816
Securities available for sale, at fair value	**215,834**	223,380	208,340
Other investments	**15,540**	13,472	10,686
Total investment securities	**256,391**	258,309	234,842
Loans held for sale	**19,015**	17,351	28,092
Loans	**2,246,353**	2,083,047	1,806,000
Less allowance for loan losses	**(28,760)**	(26,570)	(23,369)
Loans, net	**2,217,593**	2,056,477	1,782,631
Premises and equipment, net	**57,698**	55,454	51,182
Goodwill	**62,888**	61,709	32,313
Other assets	**55,797**	52,550	47,752
Total assets	**$ 2,774,387**	$ 2,597,183	$ 2,274,951
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 322,209**	$ 315,791	$ 285,155
Interest-bearing	**1,734,637**	1,612,098	1,498,114
Total deposits	**2,056,846**	1,927,889	1,783,269
Federal funds purchased and securities sold under agreements to repurchase	**322,682**	296,186	200,989
Other borrowings	**160,249**	143,860	100,882
Other liabilities	**13,147**	14,183	19,975
Total liabilities	**2,552,924**	2,382,118	2,105,115
Shareholders equity:			
Common stock - $2.50 par value; authorized 40,000,000 shares; 10,203,497, 10,160,432 and 9,195,057 shares issued and outstanding	**25,509**	25,401	22,988
Surplus	**141,439**	140,652	108,055

Retained earnings		**59,147**		50,499		42,846
Accumulated other comprehensive loss		**(4,632)**		(1,487)		(4,053)
Total shareholders equity		**221,463**		215,065		169,836
Total liabilities and shareholders equity	**$**	**2,774,387**	$	2,597,183	$	2,274,951

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

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Interest income:				
Loans	**$ 35,016**	$ 33,363	**$ 71,801**	$ 65,498
Investment securities:				
Taxable	**2,696**	2,519	**5,596**	4,836
Tax-exempt	**493**	314	**921**	643
Federal funds sold and securities purchased under agreements to resell	**269**	490	**658**	1,069
Deposits with banks	**15**	42	**47**	82
Total interest income	**38,489**	36,728	**79,023**	72,128
Interest expense:				
Deposits	**11,850**	12,995	**25,296**	25,487
Federal funds purchased and securities sold under agreements to repurchase	**1,350**	2,240	**3,677**	4,545
Other borrowings	**1,727**	1,729	**3,574**	3,498
Total interest expense	**14,927**	16,964	**32,547**	33,530
Net interest income:				
Net interest income	**23,562**	19,764	**46,476**	38,598
Provision for loan losses	**2,332**	800	**3,577**	1,582
Net interest income after provision for loan losses	**21,230**	18,964	**42,899**	37,016
Noninterest income:				
Service charges on deposit accounts	**4,032**	3,639	**7,837**	7,043
Bankcard services income	**1,276**	1,038	**2,432**	2,015
Mortgage banking income	**1,240**	1,091	**2,270**	2,102
Trust and investment services income	**681**	651	**1,377**	1,274
Securities gains	**340**	42	**340**	42
Other	**558**	609	**1,376**	1,207
Total noninterest income	**8,127**	7,070	**15,632**	13,683
Noninterest expense:				
Salaries and employee benefits	**10,863**	9,894	**22,084**	19,296
Furniture and equipment expense	**1,573**	1,388	**3,090**	2,768
Net occupancy expense	**1,494**	1,237	**2,992**	2,338
Advertising and marketing	**1,092**	842	**2,011**	1,448
Professional fees	**507**	525	**1,041**	1,009
Amortization of intangibles	**145**	125	**289**	252
Other	**4,021**	3,619	**8,317**	7,570
Total noninterest expense	**19,695**	17,630	**39,824**	34,681
Earnings:				
Income before provision for income taxes	**9,662**	8,404	**18,707**	16,018
Provision for income taxes	**3,513**	2,833	**6,595**	5,237
Net income	**$ 6,149**	$ 5,571	**$ 12,112**	$ 10,781
Earnings per share:				
Basic	**$ 0.61**	$ 0.61	**$ 1.20**	$ 1.17
Diluted	**$ 0.60**	$ 0.60	**$ 1.18**	$ 1.17
Dividends per share	**$ 0.17**	$ 0.17	**$ 0.34**	$ 0.34

Weighted-average common shares outstanding:				
Basic	**10,110**	9,190	**10,105**	9,184
Diluted	**10,253**	9,220	**10,239**	9,214

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

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)

Six Months Ended June 30, 2008 and 2007

(Dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2006	8,719,146	$ 21,798	$ 92,099	$ 51,508	$ (3,517)	$ 161,888
Comprehensive income:						
Net income				10,781		10,781
Change in net unrealized loss on securities available for sale, net of tax effects					(536)	(536)
Total comprehensive income	10,245					
Cash dividends declared at $.34 per share				(3,096)		(3,096)
Stock options exercised	5,830	15	94			109
Employee stock purchases	4,835	12	136			148
Restricted stock awards	31,956	80	(80)			
Common stock repurchased	(2,474)	(6)	(86)			(92)
Share-based compensation expense			634			634
Common stock dividend of 5%, record date, March 9, 2007	435,764	1,089	15,258	(16,347)		
Balance, June 30, 2007	9,195,057	$ 22,988	$ 108,055	$ 42,846	$ (4,053)	$ 169,836
Balance, December 31, 2007	10,160,432	$ 25,401	$ 140,652	$ 50,499	$ (1,487)	$ 215,065
Comprehensive income:						
Net income				12,112		12,112
Change in net unrealized loss on securities available for sale, net of tax effects					(3,145)	(3,145)
Total comprehensive income						8,967
Cash dividends declared at $.34 per share				(3,464)		(3,464)
Stock options exercised	4,419	11	87			98
Employee stock purchases	5,972	15	145			160
Restricted stock awards	34,964	88	(88)			
Common stock repurchased	(2,290)	(6)	(66)			(72)
Share-based compensation expense			709			709
Balance, June 30, 2008	10,203,497	$ 25,509	$ 141,439	$ 59,147	$ (4,632)	$ 221,463

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

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	**$ 12,112**	$ 10,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,449**	2,053
Provision for loan losses	**3,577**	1,582
Gain on sale of securities	**(340)**	(42)
Share-based compensation expense	**709**	634
Loss on disposal of premises and equipment		33
Net accretion of investment securities	**(143)**	(111)
Net change in loans held for sale	**(1,664)**	(4,856)
Net change in miscellaneous assets and liabilities	**(3,953)**	3,046
Net cash provided by operating activities	**12,747**	13,120
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	**2,012**	
Proceeds from maturities and calls of investment securities held to maturity	**3,140**	3,040
Proceeds from maturities and calls of investment securities available for sale	**52,945**	18,966
Proceeds from sales of other investment securities	**1,216**	4,093
Purchases of investment securities held to maturity	**(6,679)**	(752)
Purchases of investment securities available for sale	**(52,345)**	(46,129)
Purchases of other investment securities	**(2,944)**	(4,571)
Net increase in customer loans	**(164,693)**	(46,050)
Purchases of premises and equipment	**(4,314)**	(3,982)
Proceeds from sale of premises and equipment		41
Net cash used in investing activities	**(171,662)**	(75,344)
Cash flows from financing activities:		
Net increase in deposits	**128,957**	76,554
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**22,515**	(1,616)
Proceeds from FHLB advances	**170,400**	155,000
Repayment of FHLB advances	**(150,007)**	(145,050)
Common stock issuance	**160**	148
Common stock repurchased	**(72)**	(92)
Dividends paid	**(3,464)**	(3,096)
Stock options exercised	**98**	109
Net cash provided by financing activities	**168,587**	81,957
Net increase in cash and cash equivalents	**9,672**	19,733
Cash and cash equivalents at beginning of period	**95,333**	78,406
Cash and cash equivalents at end of period	**$ 105,005**	$ 98,139
Supplemental Disclosures:		
Cash paid for:		
Interest	**$ 32,969**	$ 30,924
Income taxes	**$ 6,907**	$ 5,526

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

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SCBT Financial Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The condensed consolidated balance sheet at December 31, 2007, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation s (the Company) annual report on Form 10-K for the year ended December 31, 2007 should be referenced when reading these unaudited condensed consolidated financial statements.

Note 2 Recent Accounting Pronouncements

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

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

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

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

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Note 2 Recent Accounting Pronouncements (continued)

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

The Company will be required to prospectively apply Statement 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of Statement 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. The Company is currently evaluating the effects the Statement will have on the financial condition, results of operations, liquidity and the disclosures that will be presented in the consolidated financial statements.

Note 3 Adjustment Related to Goodwill

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

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

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

Balance, June 30, 2008	$	62,888

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Note 4 Mergers and Acquisitions

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

(Dollars in thousands)	Beginning Balance December 31, 2007	Purchase Adjustments	Amounts Charged to Earnings	Amounts Paid	Ending Balance June 30, 2008
Severance and related costs	$ 491	$	$	$ (408)	$ 83
Professional fees	680	(5)		(675)	
Contract termination costs	105	(5)		(99)	
Other merger-related expenses	125	(6)		(120)	
Totals	$ 1,401	$ (16)	$	$ (1,302)	$ 83

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

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Note 5 Loans and Allowance for Loan Losses

The Company s loan portfolio is comprised of the following:

(Dollars in thousands)	June 30, 2008	December 31, 2007	June 30, 2007
Real estate:			
Commercial	**$ 1,224,757**	$ 1,075,423	$ 875,021
Consumer residential mortgage	**266,096**	256,609	232,044
Consumer construction and development	**187,390**	202,413	189,277
Commercial	**222,218**	245,069	204,881
Home equity loans	**199,191**	164,104	138,673
Consumer	**105,878**	117,650	127,924
Other loans	**40,823**	21,779	38,180
Total loans	**2,246,353**	2,083,047	1,806,000
Less, allowance for loan losses	**(28,760)**	(26,570)	(23,369)
Loans, net	**$ 2,217,593**	$ 2,056,477	$ 1,782,631

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

(Dollars in thousands)	June 30, 2008	June 30, 2007
Balance at beginning of period	**$ 26,570**	$ 22,668
Loans charged-off	**(1,884)**	(1,413)
Recoveries of loans previously charged-off	**497**	532
Net charge-offs	**(1,387)**	(881)
Provision for loan losses	**3,577**	1,582
Balance at end of period	**$ 28,760**	$ 23,369

At June 30, 2008 and 2007, there were $9.1 million and $388,000, respectively, of loans classified as impaired under the definition outlined in SFAS No. 114 *Accounting By Creditors For Impairment of a Loan*. Specific reserves allocated to these impaired loans totaled $320,000 and $146,000 at June 30, 2008 and 2007, respectively. At June 30, 2008, there were approximately $2.0 million of impaired loans with specific reserves of approximately $320,000. At June 30, 2008, there were approximately $6.8 million in impaired loans for which no specific reserve had been recognized. The average recorded investments in impaired loans for the quarters ended June 30, 2008 and 2007 were $573,000 and $55,000, respectively.

Note 6 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)	June 30, 2008	December 31, 2007	June 30, 2007
Certificates of deposit	**$ 1,020,414**	$ 886,330	$ 809,936
Interest-bearing demand deposits	**567,510**	588,289	572,344
Demand deposits	**322,209**	315,791	285,155
Savings deposits	**145,262**	137,129	114,544
Other time deposits	**1,451**	350	1,290
Total deposits	**$ 2,056,846**	$ 1,927,889	$ 1,783,269

The aggregate amount of time deposits in denominations of $100,000 or more at June 30, 2008, December 31, 2007, and June 30, 2007 was $500.1 million, $427.2 million and $369.1 million, respectively.

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Note 7 Retirement Plans

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

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)	**2008**	**2007**	**2008**	**2007**
Service cost	**$ 165**	$ 167	**$ 331**	$ 333
Interest cost	**258**	231	**516**	461
Expected return on plan assets	**(336)**	(301)	**(671)**	(601)
Amortization of prior service cost	**(43)**	(43)	**(86)**	(86)
Recognized net actuarial loss	**79**	104	**157**	209
Net periodic pension expense	**$ 123**	$ 158	**$ 247**	$ 316

The Company contributed $195,000 and $390,000 to the pension plan for the three and six months ended June 30, 2008 and anticipates making similar additional quarterly contributions during the remainder of the year.

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

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

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Note 8 Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands)	**2008**	**2007**	**2008**	**2007**
Basic earnings per share:				
Net income	**$ 6,149**	$ 5,571	**$ 12,112**	$ 10,781
Weighted-average basic shares	**10,110**	9,190	**10,105**	9,184
Basic earnings per share	**$ 0.61**	$ 0.61	**$ 1.20**	$ 1.17
Diluted earnings per share:				
Net income	**$ 6,149**	$ 5,571	**$ 12,112**	$ 10,781
Weighted-average basic shares	**10,110**	9,190	**10,105**	9,184
Effect of dilutive securities	**143**	30	**133**	30
Weighted-average dilutive shares	**10,253**	9,220	**10,239**	9,214
Diluted earnings per share	**$ 0.60**	$ 0.60	**$ 1.18**	$ 1.17

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2008**	**2007**	**2008**	**2007**
Number of shares	45,545	41,445	58,145	41,445
Range of exercise prices	$34.65 - $39.74	$37.70 - $39.74	$32.25 - $39.74	$37.70 - $39.74

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Note 9 Share-Based Compensation

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

Stock Options

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

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

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value (000 s)
Outstanding at January 1, 2008	336,384	$ 26.33		
Granted	29,482	31.50		
Exercised	(4,419)	22.20		
Expired/Forfeited	(222)	27.14		
Outstanding at June 30, 2008	361,225	26.77	5.84	$ 1,460
Exercisable at June 30, 2008	286,148	24.82	5.16	$ 1,459
Weighted-average fair value of options granted during the year	$ 10.77			

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

Six Months Ended

	June 30, 2008	2007
Dividend yield	**1.87%**	1.88%
Expected life	**6 years**	7 years
Expected volatility	**37%**	18%
Risk-free interest rate	**3.44%**	4.65%

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Note 9 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. Grants to non-employee directors typically vest within a 12-month period.

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

Restricted Stock	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2008	69,919	$	31.75
Granted	34,964		31.09
Vested	(13,080)		34.39
Forfeited			
Nonvested at June 30, 2008	91,803		31.13

As of June 30, 2008, there was $2.7 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.57 years. The total fair value of shares vested during the six months ended June 30, 2008 was $843,000.

Note 10 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, 2008, commitments to extend credit and standby letters of credit totaled $523.0 million. The Company does not anticipate any material losses as a result of these transactions.

Note 11 Fair Value

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

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

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

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

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Note 11 Fair Value (continued)

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

Investment Securities

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

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 and are at cost.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records 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 records the impaired loan as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	**Fair Value June 30, 2008**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale	$ 215,834	$ 527	$ 215,307	$

There were no gains or losses for the six months ended June 30, 2008 included in earnings that are attributable to the change in unrealized gains or losses of the Company s securities available for sale at June 30, 2008.

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Note 11 Fair Value (continued)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

(Dollars in thousands)	Fair Value June 30, 2008	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,700	$	$ 1,700	$

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

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

Overview

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

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

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

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

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

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

Results of Operations

We measure our progress based on soundness, profitability, and growth. Strong loan growth, solid asset quality and careful expense control led to higher consolidated net income for the second quarter of 2008 despite an extremely challenging banking and economic environment. Taxable equivalent net interest margin compressed by 4 basis points compared to the same quarter in June 30, 2007, and by 1 basis point for the six months ended June 30, 2008 compared to June 30, 2007. This minimal decline was the result of aggressively managing our deposit funding sources, continued solid asset quality and strong loan growth. Our focus on expense control during the second quarter led to a lower efficiency ratio of 62.27% as compared to 65.34% in the second quarter of 2007.

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Our company achieved an increase in consolidated net income compared to the second quarter of 2007, while maintaining strong credit quality and growing our loan portfolio. The following key operating highlights for the second quarter of 2008 are outlined below:

- Consolidated net income increased 10.4% to $6.1 million in the second quarter of 2008 (which includes $273,000 related to TSB), as compared to $5.6 million in the second quarter of 2007.

- Diluted earnings per share (EPS) remained at $0.60 for the second quarter of 2008. An increase in common shares issued and outstanding due to the TSB acquisition caused diluted EPS to remain unchanged even though consolidated net income increased from the second quarter of 2007.

- A 15.0% increase in noninterest income, increases in earning assets due to strong loan growth, and careful control of noninterest expense led to higher consolidated net income for the second quarter of 2008. While our provision for loan losses increased during the second quarter, we were able to offset the increase by focusing on expense control during a challenging economic environment.

- We experienced a decrease of 9 basis points in return on average assets (ROAA) and 214 basis points in return on average equity (ROAE) compared to the quarter ended June 30, 2007, due primarily to the acquisition of TSB during the latter part of the fourth quarter of 2007. This acquisition increased both assets and equity faster than the earnings increased. In a linked quarter comparison, ROAA and ROAE increased by 1 basis point and 12 basis points, respectively, for the quarter ended June 30, 2008 compared to the quarter ended March 31, 2008.

- Return on average tangible equity increased on a linked quarter comparison by 5 basis points for the quarter ended June 30, 2008 compared to the quarter ended March 31, 2008, but decreased on a quarter-to-quarter comparison by 75 basis points, also due to the acquisition of TSB.

	Three Months Ended June 30,		Six Months Ended June 30,	
Selected Figures and Ratios	**2008**	**2007**	**2008**	**2007**
Return on average assets (annualized)	**0.91%**	1.00%	**0.91%**	0.98%
Return on average equity (annualized)	**11.13%**	13.27%	**11.07%**	13.08%
Return on average tangible equity (annualized)	**16.18%**	16.93%	**16.15%**	17.03%
Average shareholders equity (in thousands)	**$ 222,274**	$ 168,376	**$ 221,463**	$ 166,273

Net Interest Income and Margin

Summary

We have been able to increase non-taxable equivalent net interest income despite the Federal Reserve s dramatic rate reductions of 225 basis points during the first six months of 2008. Non-taxable equivalent and taxable equivalent net margin compressed by 4 basis points from the second quarter of 2007; however, we experienced margin expansion of 2 basis points from the first quarter of 2008. Margin compression on a quarter-to-quarter comparison was largely driven by the volume increase in new loans priced at lower market interest rates during the three months ended June 30, 2008, even as we aggressively reduced our pricing on deposits and made use of other funding sources. Compared to the first quarter of 2008, the expansion was partially driven by reducing deposit and funding rates in step with the Fed Funds rate more quickly than average yields on interest-earning assets.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2008**	**2007**	**2008**	**2007**
Non-TE net interest income	**$ 23,562**	$ 19,764	**$ 46,476**	$ 38,598
Non-TE yield on interest-earning assets	**6.16%**	7.08%	**6.39%**	7.04%
Non-TE rate on interest-bearing liabilities	**2.78%**	3.84%	**3.06%**	3.83%
Non-TE net interest margin	**3.77%**	3.81%	**3.76%**	3.77%
TE net interest margin	**3.81%**	3.85%	**3.80%**	3.81%

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Non-taxable equivalent net interest income increased 19.2% in the second quarter of 2008 compared to the same period in 2007. Some key highlights are outlined below:

- Average earning assets increased 20.8% to $2.51 billion in the second quarter of 2008 compared to the same period last year due to the acquisition of TSB which increased average earning assets by $199.4 million for the second quarter of 2008. Excluding TSB, the increase is primarily reflected within commercial real estate loans of the loan portfolio and investment securities.

- Non-taxable equivalent yield on interest-earning assets for the second quarter of 2008 decreased 92 basis points from the comparable period in 2007, and by 47 basis points compared to the first quarter of 2008. The yield on a portion of our earning assets adjusts simultaneously, but to varying degrees of magnitude, with changes in the general level of interest rates.

- The average cost of interest-bearing liabilities for the second quarter of 2008 decreased 106 basis points from the same period in 2007, and by 56 basis points compared to the first quarter of 2008. This is a reflection of the impact of the Company s adjusting rates on all deposit accounts as quickly as we could in the first quarter of 2008, given the dramatic reduction in interest rates by the Federal Reserve Board.

- Taxable equivalent net interest margin decreased by 4 basis points to 3.81% for the second quarter of 2008, compared to 3.85% for the second quarter of 2007. Compared to the first quarter of 2008, taxable equivalent net interest margin expanded by 2 basis points primarily attributable to the rapid pace of the Federal Reserve s rate cuts and our growth in loans.

Loans

Loans acquired in the TSB merger and growth in core commercial real estate loans drove the increase in total loans (excluding mortgage loans held for sale) in the second quarter of 2008 from the comparable period in 2007. Total loans grew 24.4% from the balance at June 30, 2007 and an annualized 18.9% from the balance at March 31, 2008. Total loans, net of deferred loan costs and fees, at June 30, 2008 were $2.2 billion compared to $1.8 billion at June 30, 2007. The increase was driven in part by $156.2 million in loans acquired in the TSB merger. Excluding the TSB acquisition, our loans grew $284.2 million, or 15.7%, from the amount at June 30, 2007.

Loans are our largest category of earning assets and commercial real estate loans represented approximately 40.9% of our total loans as of June 30, 2008. Commercial real estate in Note 4 (*Loans and Allowance for Loan Losses*) to the consolidated financial statements also includes owner occupied commercial real estate not reflected in the percentage above. At June 30, 2008, consumer construction and development loans represented 8.3% of our total loan portfolio. Consumer construction and development loans were comprised of $132.9 million in lot loans and $54.5 million in construction loans, which represented 5.9% and 2.4%, respectively, of our total loan portfolio.

	Three Months Ended	**Six Months Ended**

(Dollars in thousands)	June 30, 2008	2007	June 30, 2008	2007
Average total loans	**$ 2,188,036**	$ 1,783,715	**$ 2,154,925**	$ 1,774,970
Interest income on total loans	**34,737**	32,929	**71,122**	64,725
Non-TE yield	**6.39%**	7.40%	**6.64%**	7.35%

Interest earned on loans increased 5.5% in the second quarter of 2008 compared to the second quarter of 2007. Some key highlights for the quarter ended June 30, 2008 are outlined below:

- Average total loans in the second quarter of 2008 increased 22.7%, as compared to the second quarter of 2007, leading to a volume-driven increase in interest income even though the average yield fell.

- Commercial real estate loans (including owner occupied commercial real estate) increased $349.7 million, or 40.0%, to $1.2 billion from June 30, 2007. Core commercial real estate loans increased $257.0 million, or 29.4%, from the same quarter in 2007.

- Commercial non-real estate loans increased $17.3 million, or 8.5%, to $222.2 million from the amount at June 30, 2007. Core commercial non-real estate loans decreased $7.1 million, or 3.5%, from the same quarter in 2007.

- Our non-taxable equivalent yield decreased by 101 basis points compared to the yield for the second quarter of 2007.

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Investment Securities

We use investment securities, our second largest category of earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At June 30, 2008, the composition of the portfolio remained relatively consistent with the composition at June 30, 2007. During the second quarter of 2008, we continued to slightly lengthen the average life of the portfolio in response to the Federal Reserve s easing cycle that started in late 2007. At June 30, 2008, investment securities were $256.4 million, compared to $258.5 million at December 31, 2007 and $234.8 million at June 30, 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2008**	**2007**	**2008**	**2007**
Average investment securities	**$ 247,759**	$ 227,343	**$ 253,035**	$ 220,722
Interest income on investment securities	**3,189**	2,833	**6,517**	5,479
Non-TE yield	**5.18%**	5.00%	**5.18%**	5.00%

Interest earned on investment securities increased 12.6% in the second quarter of 2008 compared to the second quarter of 2007. The increase resulted from a 16 basis point increase on the yield on taxable investment securities and a 4.0% increase in balances of average taxable investment securities. The average yield of tax-exempt investment securities increased 27 basis points and the average balance increased 49.2% from the second quarter of 2007. The increase in the average balances of securities primarily resulted from the acquisition of TSB during the latter part of the fourth quarter of 2007.

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

At June 30, 2008, we had 95 securities available for sale in an unrealized loss position, which totaled $5.2 million. Information pertaining to our securities available for sale with gross unrealized losses at June 30, 2008 and December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
June 30, 2008:				
Government-sponsored enterprises	**$ 62**	**$ 6,530**	**$**	**$**
State and municipal	**316**	**9,650**		
Mortgage-backed	**1,205**	**63,146**	**68**	**1,438**
FHLMC preferred*	**2,020**	**8,230**		
Trust preferred	**1,113**	**7,362**	**336**	**2,645**
Other corporate bonds	**34**	**343**		
	$ 4,750	**$ 95,261**	**$ 404**	**$ 4,083**

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

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

During the second quarter of 2008, 29 additional securities moved into an unrealized loss position, of which four were trust preferred securities which totaled $1.1 million. The majority of our unrealized losses as of June 30, 2008 continue to result from changes in six Freddie Mac preferred securities and five trust preferred securities due to significant changes in market interest rates and increased spreads to U.S. Treasury securities. All of these investment securities continue to perform as scheduled. We have the ability and intent to hold all securities within the portfolio until the maturity or until the value recovers, therefore, we do not consider these investments to be other-than-temporarily impaired at June 30, 2008. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for other-than-temporary impairment related to securities available for sale would not impact cash flow, tangible capital or liquidity.

Subsequent to June 30, 2008, the market value of the Freddie Mac preferred securities continued their decline. At July 31, 2008, the Freddie Mac preferred securities and trust preferred securities had gross unrealized losses of $4.2 million and $1.3 million, respectively, in a continuous unrealized loss position less than twelve months.

During the second quarter of 2008, we sold an equity security which resulted in a realized gain of $340,000.

Interest-Bearing Liabilities

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

(Dollars in thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Average interest-bearing liabilities	**$ 2,158,405**	$ 1,772,683	**$ 2,138,516**	$ 1,765,578

Interest expense	**14,927**	16,964	**32,547**	33,530
Average rate	**2.78%**	3.84%	**3.06%**	3.83%

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Interest expense on interest-bearing liabilities decreased 12.0% in the second quarter of 2008 compared to the second quarter of 2007, driven largely by a decrease in the average rates on transaction and money market balances and federal funds purchased and securities sold under agreements to repurchase. In addition, we experienced a 106 basis point decrease in the average rate on all interest-bearing liabilities with decreases in every category. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended June 30, 2008 grew 16.8% compared to the same period in 2007.

- Interest-bearing deposits grew 15.8% to $1.7 billion at June 30, 2008 from the period end balance at June 30, 2007, and increased $34.0 million, or 8.0% annualized from the balance at December 31, 2007.

- The average rate on transaction and money market account deposits for the three months ended June 30, 2008 decreased 116 basis points from the comparable period in 2007, which caused interest expense to decrease by $1.6 million for the second quarter of 2008.

- Average federal funds purchased and securities sold under agreements to repurchase increased 46.4%, up $91.7 million from the average balance in the second quarter of 2007. The Federal Reserve has held the federal funds rate to 2.00%, and we continued to elect to meet a greater portion of our funding needs through these non-deposit sources. The average rate for the three months ended June 30, 2008 decreased 267 basis points from the comparable period in 2007, which caused interest expense to decrease by $890,000.

- Interest expense on average interest-bearing liabilities decreased $2.0 million, or 12.0%, for the three months ended June 30, 2008 from the comparable period in 2007 even though total interest-bearing liabilities increased $385.7 million for the second quarter of 2008. This resulted from a 106 basis point drop in the average rate on total interest-bearing liabilities.

Noninterest-Bearing Deposits

Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide our banks with interest-free sources of funds. Average noninterest-bearing deposits grew $36.4 million, or 13.1%, to $313.9 million in the second quarter of 2008 compared to the second quarter of 2007. From the first quarter of 2008, average noninterest-bearing deposits grew $9.3 million, or 3.1%.

For the six months ended June 30, 2008, new demand deposit transaction accounts grew by 22.2% compared to the same period in 2007. We grew new business demand deposit accounts by 14.4% during the six months ended June 30, 2008 compared to the prior period in 2007. Our customers opened approximately 9,500 new demand deposit checking accounts (approximately 7,600 personal accounts and 1,900 business accounts) during the first six months of 2008 compared to the first six months of 2007. New savings accounts during the first six months of 2008 grew 37.4% to approximately 3,700, as compared to new savings accounts during the first six months of 2007.

Provision for Loan Losses and Nonperforming Assets

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

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

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

(Dollars in thousands)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Balance at beginning of period	**$ 27,335**	$ 22,955	**$ 26,570**	$ 22,668
Loans charged-off	**(1,153)**	(684)	**(1,884)**	(1,413)
Recoveries	**246**	298	**497**	532
Net charge-offs	**(907)**	(386)	**(1,387)**	(881)
Provision for loan losses	**2,332**	800	**3,577**	1,582
Balance at end of period	**$ 28,760**	$ 23,369	**$ 28,760**	$ 23,369
Total loans:				
At period end	**$ 2,246,353**	$ 1,806,000	**$ 2,246,353**	$ 1,806,000
Average	**2,188,036**	1,783,715	**2,154,925**	1,774,970
As a percentage of average loans (annualized):				
Net charge-offs	**0.17%**	0.09%	**0.13%**	0.10%
Provision for loan losses	**0.43%**	0.18%	**0.33%**	0.18%
Allowance as a percentage of period end loans	**1.28%**	1.29%	**1.28%**	1.29%
Allowance as a percentage of period end non-performing loans (NPLs)	**388.96%**	542.20%	**388.96%**	542.20%

The provision for loan losses as a percent of average loans reflects an increase due to an increase in our nonperforming assets and an increase in net charge-offs during the second quarter of 2008 compared to year end 2007. Additionally, there is continued concern about the economy as a whole and the market conditions throughout the Southeast. The allowance for loan losses as a percent of total loans has slightly decreased due to the inclusion of the TSB loan portfolio where the allowance for loan losses to loans was lower, which is reflective of its minimal net charge offs, lower relative level of non-performing loans (assets), and fewer past due loans to date, historically.

The table below summarizes our nonperforming assets (NPAs).

(Dollars in thousands)	June 30, 2008	December 31, 2007	June 30, 2007
Non accrual loans	**$ 6,897**	$ 5,353	$ 3,315
Accruing loans past due 90 days or more	**497**	985	995
Total nonperforming loans	**7,394**	6,338	4,310
Other real estate owned (OREO)	**1,140**	490	771
Other nonperforming assets	**181**	82	
Total nonperforming assets	**$ 8,715**	$ 6,910	$ 5,081
Total NPLs as a % of total loans	**0.33%**	0.30%	0.24%
Total NPAs as a % of total loans and OREO	**0.39%**	0.33%	0.28%
Total NPAs as a % of total assets	**0.31%**	0.27%	0.22%

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

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

Noninterest Income

(Dollars in thousands)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Service charges on deposit accounts	**$ 4,032**	$ 3,639	**$ 7,837**	$ 7,043
Mortgage banking income	**1,240**	1,091	**2,270**	2,102
Bankcard services income	**1,276**	1,038	**2,432**	2,015
Trust and investment services income	**681**	651	**1,377**	1,274
Securities gains, net	**340**	42	**340**	42
Other	**558**	609	**1,376**	1,207
Total noninterest income	**$ 8,127**	$ 7,070	**$ 15,632**	$ 13,683

Noninterest income increased 15.0% in the second quarter of 2008 as compared to the same period in 2007. The quarterly increases are the result of the following:

- Service charges on deposit accounts increased 10.8%, driven primarily by an increase in non-sufficient funds and return check charges.

- Mortgage banking income increased 13.7%, driven by a slight increase in service release premiums for the second quarter. Production in secondary market mortgages continues to slow down compared to the second quarter of 2007 due to the overall slowdown within the real estate industry and the industry-wide tightening of credit relative to mortgage lending.

- Bankcard services income increased 22.9%, driven largely by the number of new accounts opened in the second quarter and more customers using our debit cards. Debit card income and credit card income contributed 63.4% and 25.4%, respectively, of the total increase in bankcard services income.

- Trust and investment services income increased 4.6%, driven primarily by an increase in trust assets under management to approximately $170.6 million, which led to higher trust income during the second quarter of 2008. Compared to the first quarter of 2008, trust assets under management decreased by $12.3 million primarily as a result of a few large relationships moving their accounts and several clients selling trust assets to pay their tax obligations.

- We sold shares of an equity security and recorded a pre-tax gain of $340,000 during the second quarter of 2008.

- Other noninterest income decreased 8.4%, primarily driven by our decision to bring the bank certified check product in-house.

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Noninterest Expense

(Dollars in thousands)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007