

SCBT FINANCIAL CORP  
Form 10-Q  
November 08, 2007

**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, 2007

OR

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**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated  
filer.

(See definition of "accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.)

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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Class	Outstanding as of October 31, 2007
Common Stock, \$2.50 par value	9,210,164

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**SCBT Financial Corporation and Subsidiaries**  
**September 30, 2007 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)*

	September 30, 2007 <i>(Unaudited)</i>	December 31, 2006 <i>(Note 1)</i>	September 30, 2006 <i>(Unaudited)</i>
<b>ASSETS</b>			
Cash and cash equivalents:			
Cash and due from banks	\$ 46,930	\$ 45,460	\$ 61,048
Interest-bearing deposits with banks	2,831	2,946	12,931
Federal funds sold and securities purchased under agreements to resell	10,600	30,000	32,700
Total cash and cash equivalents	<b>60,361</b>	78,406	106,679
Investment securities:			
Securities held to maturity (fair value of \$16,014, \$18,271 and \$14,506, respectively)	15,962	18,112	14,330
Securities available for sale, at fair value	216,693	182,113	185,801
Other investments	10,235	10,166	12,475
Total investment securities	<b>242,890</b>	210,391	212,606
Loans held for sale	13,921	23,236	22,624
Loans	1,842,230	1,760,860	1,682,257
Less unearned income	(4)	(30)	(40)
Less allowance for loan losses	(23,822)	(22,668)	(21,675)
Loans, net	<b>1,818,404</b>	1,738,162	1,660,542
Premises and equipment, net	52,504	48,904	47,969
Goodwill	32,313	32,313	32,313
Other assets	46,850	47,001	36,317
Total assets	<b>\$ 2,267,243</b>	\$ 2,178,413	\$ 2,119,050
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Noninterest-bearing	\$ 293,388	\$ 256,717	\$ 273,329
Interest-bearing	1,520,454	1,449,998	1,384,087
Total deposits	<b>1,813,842</b>	1,706,715	1,657,416
Federal funds purchased and securities sold under agreements to repurchase			
	172,496	203,105	147,955
Other borrowings	88,865	90,416	140,457
Other liabilities	16,568	16,289	12,891
Total liabilities	<b>2,091,771</b>	2,016,525	1,958,719
Shareholders' equity:			
Common stock - \$2.50 par value; authorized 40,000,000 shares; 9,201,820, 8,719,146 and 8,705,416 shares issued and outstanding	23,005	21,798	21,764

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Surplus	<b>108,367</b>	92,099	91,559
Retained earnings	<b>46,923</b>	51,508	48,233
Accumulated other comprehensive loss	<b>(2,823)</b>	(3,517)	(1,225)
Total shareholders' equity	<b>175,472</b>	161,888	160,331
Total liabilities and shareholders' equity	<b>\$ 2,267,243</b>	\$ 2,178,413	\$ 2,119,050

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Loans, including fees	\$ 35,242	\$ 31,267	\$ 102,348	\$ 88,211
Investment securities:				
Taxable	2,646	2,273	7,482	6,264
Tax-exempt	308	303	951	865
Federal funds sold and securities purchased under agreements to resell				
	498	168	1,567	825
Deposits with banks	83	74	165	158
Total interest income	<b>38,777</b>	<b>34,085</b>	<b>112,513</b>	<b>96,323</b>
Interest expense:				
Deposits	13,925	10,757	39,412	28,397
Federal funds purchased and securities sold under agreements to repurchase				
	2,132	1,566	6,677	4,549
Other borrowings	1,322	1,984	4,820	5,658
Total interest expense	<b>17,379</b>	<b>14,307</b>	<b>50,909</b>	<b>38,604</b>
Net interest income:				
Net interest income	21,398	19,778	61,604	57,719
Provision for loan losses	1,161	1,048	2,743	3,716
Net interest income after provision for loan losses	<b>20,237</b>	<b>18,730</b>	<b>58,861</b>	<b>54,003</b>
Noninterest income:				
Service charges on deposit accounts	3,909	3,512	10,952	9,988
Secondary market mortgage fees	1,374	1,509	4,759	4,040
Bankcard services income	1,051	880	3,067	2,518
Trust and investment services income	697	556	1,971	1,573
Securities gains (losses), net	--	--	42	--
Other	649	370	1,971	1,405
Total noninterest income	<b>7,680</b>	<b>6,827</b>	<b>22,762</b>	<b>19,524</b>
Noninterest expense:				
Salaries and employee benefits	11,171	10,226	33,475	30,053
Furniture and equipment expense	1,369	1,181	3,963	3,505
Net occupancy expense	1,247	1,088	3,585	3,148
Advertising and marketing	985	747	2,432	2,182
Professional fees	513	519	1,522	1,507
Amortization	215	204	641	602
Other	3,809	3,646	11,379	9,734
Total noninterest expense	<b>19,309</b>	<b>17,611</b>	<b>56,997</b>	<b>50,731</b>
Earnings:				
Income before provision for income taxes	<b>8,608</b>	<b>7,946</b>	<b>24,626</b>	<b>22,796</b>

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Provision for income taxes		<b>2,966</b>		2,686		<b>8,203</b>		7,749
Net income	\$	<b>5,642</b>	\$	5,260	\$	<b>16,423</b>	\$	15,047
Earnings per share:								
Basic	\$	<b>0.61</b>	\$	0.58	\$	<b>1.79</b>	\$	1.65
Diluted	\$	<b>0.61</b>	\$	0.57	\$	<b>1.78</b>	\$	1.63
Dividends per share	\$	<b>0.17</b>	\$	0.17	\$	<b>0.51</b>	\$	0.51
Weighted-average common shares outstanding:								
Basic		<b>9,201</b>		9,134		<b>9,190</b>		9,118
Diluted		<b>9,212</b>		9,235		<b>9,221</b>		9,208

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)**  
**Nine Months Ended September 30, 2007 and 2006**  
*(Dollars in thousands, except per share data)*

	Common Stock			Retained	Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Earnings	Loss	Total
Balance, December 31, 2005	8,644,883	\$ 21,612	\$ 90,481	\$ 37,614	\$ (1,304)	\$ 148,403
Comprehensive income:						
Net income	--	--	--	15,047	--	15,047
Change in net unrealized gain on securities available for sale, net of tax effects	--	--	--	--	79	79
Total comprehensive income						15,126
Cash dividends declared at \$.51 per share	--	--	--	(4,428)	--	(4,428)
Stock options exercised	36,437	91	570	--	--	661
Employee stock purchases	6,422	16	170	--	--	186
Restricted stock awards	27,835	70	(70)	--	--	--
Common stock repurchased	(10,161)	(25)	(341)	--	--	(366)
Share-based compensation expense	--	--	749	--	--	749
Balance, September 30, 2006	8,705,416	\$ 21,764	\$ 91,559	\$ 48,233	\$ (1,225)	\$ 160,331
Balance, December 31, 2006	8,719,146	\$ 21,798	\$ 92,099	\$ 51,508	\$ (3,517)	\$ 161,888
Comprehensive income:						
Net income	--	--	--	16,423	--	16,423
Change in net unrealized gain on securities available for sale, net of tax effects	--	--	--	--	694	694
Total comprehensive income						17,117
Cash dividends declared at \$.51 per share	--	--	--	(4,661)	--	(4,661)
Stock options exercised	7,451	20	125	--	--	145
Employee stock purchases	9,577	23	325	--	--	348
Restricted stock awards	32,356	81	(81)	--	--	--

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Common stock repurchased	(2,474)	(6)	(86)	--	--	(92)
Share-based compensation expense	--	--	727	--	--	727
Common stock dividend of 5%, record date, March 9, 2007	435,764	1,089	15,258	(16,347)	--	--
Balance, September 30, 2007	9,201,820	\$ 23,005	\$ 108,367	\$ 46,923	\$ (2,823)	\$ 175,472

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)*

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 16,423	\$ 15,047
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,148	2,387
Provision for loan losses	2,743	3,716
Share-based compensation expense	727	749
(Gain) loss on disposal of premises and equipment	(8)	153
Net accretion of investment securities	(149)	(61)
Net change in loans held for sale	9,315	(9,663)
Net change in miscellaneous assets and liabilities	(653)	1,778
Net cash provided by operating activities	31,546	14,106
Cash flows from investing activities:		
Proceeds from maturities and calls of investment securities held to maturity	3,295	6,152
Proceeds from maturities and calls of investment securities available for sale	27,079	18,636
Proceeds from sales of other investment securities	4,502	2,331
Purchases of investment securities held to maturity	(1,157)	(2,309)
Purchases of investment securities available for sale	(60,337)	(50,518)
Purchases of other investment securities	(4,571)	(3,884)
Net increase in customer loans	(83,721)	(148,923)
Recoveries of loans previously charged off	736	542
Purchases of premises and equipment	(6,193)	(7,131)
Proceeds from sale of premises and equipment	93	399
Net cash used in investing activities	(120,274)	(184,705)
Cash flows from financing activities:		
Net increase in deposits	107,127	184,127
Net decrease in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	(32,109)	(2,708)
Proceeds from FHLB advances	155,000	40,000
Repayment of FHLB advances	(155,075)	(43,328)
Common stock issuance	348	186
Common stock repurchased	(92)	(366)
Dividends paid	(4,661)	(4,428)
Stock options exercised	145	661
Net cash provided by financing activities	70,683	174,144
Net increase (decrease) in cash and cash equivalents	(18,045)	3,545
Cash and cash equivalents at beginning of period	78,406	103,134
Cash and cash equivalents at end of period	\$ 60,361	\$ 106,679

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



**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 footnotes 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. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The condensed consolidated balance sheet at December 31, 2006, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The information contained in the consolidated financial statements and accompanying footnotes included in SCBT Financial Corporation's (the "Company") annual report on Form 10-K for the year ended December 31, 2006 should be referenced when reading these unaudited condensed consolidated financial statements.

**Note 2 – Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits all entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The fair value option may be elected for an individual item without electing it for other identical items. Unrealized gains and losses on eligible items measured at fair value must be reported in current earnings. Upfront costs and fees related to such items must also be recognized in current earnings as incurred. Early adoption is permitted subject to certain conditions. The statement will be effective as of the start of the first fiscal year beginning after November 15, 2007 and may not be applied retrospectively to prior fiscal years. The Company does not anticipate that the statement will have a material effect on its financial statements when the statement becomes effective.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. The adoption of FIN 48 had no significant impact on the Company's financial statements. It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of January 1, 2007, there were no interest and penalties. The Company and its subsidiaries file a consolidated United States federal income tax return, as well as income tax returns for its subsidiaries in the state of South Carolina. The Company's filed income tax returns are no longer subject to examination by taxing authorities for years before 2003.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which revises the reporting of assets and liabilities for pensions and other post-retirement benefits. The new standard requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through other comprehensive income. This statement requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The Company adopted Statement 158 for the year ended December 31, 2006, except for the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal

year-end statement of financial position which will be effective for fiscal years ending after December 15, 2008. Before adoption, the Company recognized a prepaid pension cost in other assets for its pension retirement plan and an accrued pension cost for its post-retirement benefits plan. After adoption, the Company recognizes an accrued pension cost in other liabilities for its pension retirement plan and an increase in the accrued pension cost for its post-retirement benefits plan. The accrued pension cost is the equivalent of the underfunded status on a projected benefit obligation (“PBO”) basis for its retirement plan and post-retirement benefit plan as of the plans’ measurement date of October 31, 2006.

**Note 2 – Recent Accounting Pronouncements (continued)**

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, which provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the statement prescribes a more enhanced disclosure of fair value measures, and requires a more expanded disclosure when non-market data is used to assess fair values. The statement will be effective January 1, 2008. The Company does not anticipate that the statement will have a material effect on its financial statements when the statement becomes effective.

In September 2006, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* and Issue No. 06-5, *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin, No. 85-4*. EITF 06-4 requires that policyholders recognize a liability for the postretirement benefits provided through endorsement split-dollar life insurance. The liability to recognize is dependent upon whether the Company is deemed to have promised a death benefit to the participant or to maintain the split-dollar arrangement for the participant’s benefit. EITF 06-5 provides guidance for calculating policy amounts that could be realized and recognized as assets on the policyholder’s balance sheet. Both EITF 06-4 and 06-5 will be effective for fiscal years beginning after December 15, 2007. The Company does not anticipate that these Issues will have a material effect on its financial statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets*. Statement No. 156, which is an amendment to Statement No. 140, simplifies the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. The new standard clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability; requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable; and permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization method or fair value method for subsequent measurement. Statement No. 156 is effective for separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity’s fiscal year that begins after September 15, 2006, with early adoption permitted. Adoption of this statement did not have a material effect on the Company’s results of operations or financial condition.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Instruments*, which is an amendment of Statements No. 133 and 140. Statement No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. The statement also clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. Statement No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. Adoption of this statement did not have a material effect on the Company’s results of operations or financial condition.

**Note 3 – Acquisition of TSB Financial Corporation**

On August 30, 2007, the Company announced a definitive agreement to acquire TSB Financial Corporation (“TSB”) and its wholly-owned subsidiary, The Scottish Bank, both of which are headquartered in Charlotte, NC. This pending acquisition represents the Company’s first initiative to expand outside the state of South Carolina. At June 30, 2007, TSB reported \$192.9 million in total assets, \$149.0 in loans and \$159.0 million in deposits. The Scottish Bank has

four banking offices in the Charlotte MSA and one loan production office in Cornelius, NC (Lake Norman).

Under the terms of the agreement, TSB shareholders will receive aggregate consideration of 939,372 shares of SCBT common stock and approximately \$9.4 million in cash, including the cash-out value of TSB's stock options. The stock portion of the consideration is based upon a fixed exchange ratio of .993 shares of the Company's common stock for each of the outstanding shares of TSB common stock, which as of June 30, 2007 totaled 1,113,037 shares. Based upon the Company's ten-day average closing stock price of \$36.25, as of August 29, 2007, the transaction is valued at approximately \$43.4 million in the aggregate or \$35.74 per fully diluted TSB share. Holders of the issued and outstanding common stock of TSB will have the right to receive either \$35.00 in cash per share, or the Company's common stock, or a combination thereof subject to the overall limits set forth above.

**Note 3 – Acquisition of TSB Financial Corporation (continued)**

The transaction is subject to the regulatory approvals and affirmative vote of the holders of the majority of the outstanding shares of TSB. The transaction is expected to close during the fourth quarter of 2007.

**Note 4 – Loans and Allowance for Loan Losses**

The Company's loan portfolio is comprised of the following:

<i>(Dollars in thousands)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Real estate:			
Commercial	\$ 928,044	\$ 835,892	\$ 782,680
Consumer residential mortgage	233,851	238,672	230,016
Consumer construction and development	189,075	196,285	195,795
Commercial	203,593	190,635	177,218
Firstline	136,538	144,910	143,496
Consumer	120,521	130,596	128,109
Other loans	30,608	23,870	24,943
Total loans	1,842,230	1,760,860	1,682,257
Less, unearned income	(4)	(30)	(40)
Less, allowance for loan losses	(23,822)	(22,668)	(21,675)
Loans, net	\$ 1,818,404	\$ 1,738,162	\$ 1,660,542

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

<i>(Dollars in thousands)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Balance at beginning of period	\$ 22,668	\$ 20,025	\$ 20,025
Loans charged-off	(2,325)	(3,438)	(2,608)
Recoveries of loans previously charged-off	736	813	542
Balance before provision for loan losses	21,079	17,400	17,959
Provision for loan losses	2,743	5,268	3,716
Balance at end of period	\$ 23,822	\$ 22,668	\$ 21,675

**Note 5 – Deposits**

The Company's total deposits are comprised of the following:

<i>(Dollars in thousands)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Certificates of deposit	\$ 833,050	\$ 793,540	\$ 720,878
Money market accounts	544,759	579,398	584,312
Transaction accounts	293,388	256,717	273,329
Savings accounts	128,153	76,734	77,309
Other	14,492	326	1,588
	\$ 1,813,842	\$ 1,706,715	\$ 1,657,416

The aggregate amount of time deposits in denominations of \$100,000 or more at September 30, 2007, December 31, 2006, and September 30, 2006 was \$396.2 million, \$371.5 million and \$325.7 million, respectively.

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**Note 6 – 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. Effective January 1, 2006, amendments were made to the Company's 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 nine months ended September 30 are as follows:

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ <b>167</b>	\$ 156	\$ <b>500</b>	\$ 468
Interest cost	<b>231</b>	205	<b>692</b>	617
Expected return on plan assets	<b>(301)</b>	(276)	<b>(901)</b>	(829)
Amortization of prior service cost	<b>(43)</b>	(43)	<b>(130)</b>	(130)
Recognized net actuarial loss	<b>104</b>	93	<b>313</b>	279
Net periodic pension expense	\$ <b>158</b>	\$ 135	\$ <b>474</b>	\$ 405

The Company contributed \$189,000 and \$567,000, respectively, to the pension plan for the three and nine months ended September 30, 2007 and anticipates making similar additional contributions during the remainder of the year.

Electing employees are eligible to participate in the employees' savings plan, under the provisions of Internal 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 will receive the Company's 100% matching of their 401(k) plan contributions, up to 6% of salary.

Employees can enter the savings plan on or after the first day of each month. If an employee does not elect to defer at least 2% of his or her salary by the election date, the Company will automatically enroll the employee and defer 2% of his or her salary within the savings 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 employee may terminate participation if the employee affirmatively elects to do so. The plan's investment valuations are now generally provided on a daily basis.

**Note 7 – 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. 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 nine months ended September 30:

<i>(Dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Basic earnings per share:				
Net income	\$ 5,642	\$ 5,260	\$ 16,423	\$ 15,047
Weighted-average basic shares	9,201,228	9,134,076	9,189,549	9,117,615
Basic earnings per share	\$ 0.61	\$ 0.58	\$ 1.79	\$ 1.65
Diluted earnings per share:				
Net income	\$ 5,642	\$ 5,260	\$ 16,423	\$ 15,047
Weighted-average basic shares	9,201,228	9,134,076	9,189,549	9,117,615
Effect of dilutive stock options	11,128	101,106	31,739	90,054
Weighted-average dilutive shares	9,212,356	9,235,182	9,221,288	9,207,669
Diluted earnings per share	\$ 0.61	\$ 0.57	\$ 1.78	\$ 1.63

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. The number of shares in this category was 43,545 with a range in exercise price of \$34.65 to \$39.74 for the three months ended September 30, 2007. The number of shares in this category was 41,445 with a range in exercise price of \$37.70 to \$39.74 for the nine months ended September 30, 2007. There were no outstanding stock options in this category for the three months ended September 30, 2006. The number of shares in this category was 2,000 with an exercise price of \$36.38 for the nine months ended September 30, 2006.

Dividends per share are calculated using the current number of common shares issued and outstanding at the record date for any dividends paid during the reported periods.

**Note 8 – 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. 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 of 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.

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**Note 8 – Share-Based Compensation (continued)**

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.

<b>Options</b>	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>
Outstanding at January 1, 2007	308,368	\$ 24.26
Granted	41,445	39.25
Exercised	(7,585)	18.94
Expired/Forfeited	(353)	28.99
Outstanding at September 30, 2007	341,875	26.19
Exercisable at September 30, 2007	248,231	23.21
Weighted-average fair value of options granted during the year	\$ 9.25	

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:

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Dividend yield	<b>1.88%</b>	2.15%
Expected life	<b>7 years</b>	10 years
Expected volatility	<b>18%</b>	19%
Risk-free interest rate	<b>4.65%</b>	4.71%

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 Company's shareholders 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 either ratably or all at once. Grants to non-employee directors typically vest within a 12-month period.

Nonvested restricted stock for the nine months ended September 30, 2007 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

<b>Restricted Stock</b>	<b>Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
Nonvested at January 1, 2007	50,883	\$ 27.32
Granted	33,527	37.73

Vested	(14,043)	26.30
Forfeited	(44)	27.29
Nonvested at September 30, 2007	70,323	31.80

**Note 8 – Share-Based Compensation (continued)**

As of September 30, 2007, there was \$2.2 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 2.62 years. The total fair value of shares vested during the nine months ended September 30, 2007 was \$821,000.

**Note 9 – 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 September 30, 2007, commitments to extend credit and standby letters of credit totaled \$420.6 million. The Company does not anticipate any material losses as a result of these transactions.

## **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, 2006.

### **Overview**

SCBT Financial Corporation, headquartered in Columbia, South Carolina, is a bank holding company 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 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. SCBT Financial Corporation does not engage in any significant operations other than the ownership of these banking subsidiaries.

At September 30, 2007, we had approximately \$2.3 billion in assets and approximately 667 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 September 30, 2007 as compared to the quarter ended September 30, 2006 as well as results for the nine months ended September 30, 2007 and 2006, and also analyzes our financial condition as of September 30, 2007 as compared to December 31, 2006 and September 30, 2006. 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.

### **Recent Events**

In August 2007, we converted a South Carolina Bank and Trust limited-service branch into a nearby full-service branch location in Lexington, SC.

**Results of Operations**

We measure our progress based on the results of soundness, profitability, and growth. Our banks achieved solid results during the third quarter of 2007. These results were achieved as the banking industry continues to experience ongoing challenges in a difficult interest rate environment, in a slowing economy, and with a rise in credit costs. While the sub-prime mortgage industry continues to experience credit problems, we have virtually no participation in this product line and our credit quality remains very strong.

We are very proud of the results our team produced despite these challenges. Our company achieved an increase in consolidated net income compared to the third quarter of 2006, maintained exceptional credit quality, and continued to make growth investments for the future. The following key operating highlights for the third quarter of 2007 are outlined below:

- Consolidated net income increased 7.3% to \$5.6 million from \$5.3 million in the third quarter of 2006.
  - Diluted earnings per share increased 7.5% to \$0.61 from \$0.57 for the same period last year.
- A 12.5% increase in noninterest income and increases in earning assets led to higher consolidated net income for the third quarter of 2007.
- We experienced a slight decrease of 1 basis point in return on average assets and a 15 basis point decrease in return on average equity compared to September 30, 2006. Return on average tangible equity decreased both on a quarter-to-quarter comparison and on a year-to-date comparison. The decrease resulted from a smaller change in net unrealized loss on securities available for sale, net of tax, for the period compared to the prior period in 2006 which caused average equity to increase faster than net income.

<i>Selected Figures and Ratios</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Return on average assets (annualized)	<b>1.00%</b>	1.01%	<b>0.98%</b>	0.99%
Return on average equity (annualized)	<b>13.13%</b>	13.28%	<b>13.04%</b>	13.11%
Return on average tangible equity (annualized)	<b>16.52%</b>	17.22%	<b>16.53%</b>	17.12%
Average shareholders' equity (in thousands)	<b>\$ 172,421</b>	\$ 157,117	<b>\$ 168,345</b>	\$ 153,506

Our consolidated earnings growth reflected the continued strong profitability of our bank subsidiaries during the third quarter of 2007. South Carolina Bank and Trust had net income of \$5.3 million and South Carolina Bank and Trust of the Piedmont had net income of \$837,000 during this period.

## **Net Interest Income and Margin**

### Summary

We have been able to increase non-taxable equivalent (“non-TE”) net interest income despite the relatively flat yield curve. We actually experienced net margin expansion compared to the second quarter of 2007 by 7 basis points. While rates on interest-bearing liabilities increased generally more than asset yields, growth in interest-earning assets contributed to higher net interest income for the quarter. Taxable equivalent (“TE”) net interest margin decreased 8 basis points from the third quarter of 2006. We believe that our net interest margin has stabilized and should remain near current levels through the end of 2007.

<i>(Dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Non-TE net interest income	<b>\$ 21,398</b>	\$ 19,778	<b>\$ 61,604</b>	\$ 57,719
Non-TE yield on interest-earning assets	<b>7.30%</b>	7.07%	<b>7.23%</b>	6.89%
	<b>3.87%</b>	3.54%	<b>3.84%</b>	3.24%

Non-TE rate on interest-bearing liabilities				
Non-TE net interest margin	<b>4.03%</b>	4.10%	<b>3.96%</b>	4.13%
TE net interest margin	<b>4.06%</b>	4.14%	<b>4.00%</b>	4.17%

Non-taxable equivalent net interest income increased 8.2% in the third quarter of 2007 compared to the same period in 2006. For the nine months ended September 30, 2007 compared to September 30, 2006, non-taxable equivalent net interest income increased 6.7%. Some key highlights are outlined below:

- Average earning assets increased 10.1% to \$2.1 billion in the third quarter compared to the same period last year. The increase is primarily reflected within commercial real estate loans and commercial and industrial loans.
- Non-taxable equivalent yield on interest-earning assets for the third quarter of 2007 increased 23 basis points from the comparable period in 2006, and by 34 basis points for the nine months ended September 30, 2007 compared to the comparable period in 2006. 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 third quarter of 2007 increased 33 basis points from the same period in 2006, and by 60 basis points on a year-to-date basis comparing 2007 to 2006. This is a reflection of the impact of rising rates on the banks' sources of funding and continued competitive deposit pricing in selected products and markets. Increases in rates paid on certificates of deposit, money market deposits, and federal funds purchased primarily drove the increase in the cost of interest-bearing liabilities.
- Tax equivalent net interest margin at September 30, 2007 was 4.06%, compared to 3.99% at June 30, 2007, or 7 basis points higher. Compared to prior year's third quarter, TE net interest margin compressed by 8 basis points.

Loans

Growth in commercial real estate and commercial non-real estate drove the increase in total loans from the comparable period in 2006. Total loans exclude mortgage loans held for sale. Total loans grew 9.5% from the balance at September 30, 2006 and 4.6% from the balance at December 31, 2006. Loans are our largest category of earning assets and commercial real estate loans represent approximately 38.0% of our total loans. Commercial real estate in footnote 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. Consumer construction and development loans represent 10.3% of our total loan portfolio. Consumer construction and development loans are comprised of \$135.8 million in lot loans and \$53.3 in construction loans which represent 7.4% and 2.9%, respectively, of our total loan portfolio. Loans outstanding (excluding loans held for sale) at September 30, 2007 were \$1.8 billion compared to \$1.7 billion at September 30, 2006. Loans outstanding include unearned income.

<i>(Dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Average total loans	\$ 1,810,332	\$ 1,661,679	\$ 1,786,887	\$ 1,622,090
Interest income on total loans	34,950	31,018	101,283	87,480
Non-TE yield	7.66%	7.41%	7.58%	7.21%

Interest earned on loans increased 12.7% in the third quarter of 2007 compared to the third quarter of 2006, and increased 15.8% for the nine months ended September 30, 2007 compared to September 30, 2006. Some key highlights are outlined below:

- Average total loans increased 8.9% leading to a mostly volume-driven increase in interest income. We experienced more fixed rate loan production which we primarily sold through the secondary market. As a result, our secondary market mortgage fees increased while our total loans grew more slowly than in prior quarters.
- Commercial real estate loans (including owner occupied commercial real estate) increased 18.6% to \$928.0 million from the amount at September 30, 2006.
  - Commercial non-real estate loans increased 14.9% to \$203.6 million from the amount at September 30, 2006.
- Our non-taxable equivalent yield increased by 25 basis points compared to the yield for the third quarter of 2006, and 37 basis points for the nine months ended September 30, 2006.

Investment Securities

We use investment securities, the 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. We increased the size of our investment portfolio and kept its composition relatively consistent with a bias towards increasing purchases of US government agency bonds rather than mortgage-backed securities. We continued our approach of lengthening the average life of the portfolio as interest rates increased and in light of our expectation that the Federal Reserve will not increase its targeted level for the federal funds interest rate. At September 30, 2007, investment securities were \$242.9 million, compared to \$210.4 million at December 31, 2006 and \$212.6 million at September 30, 2006.

<i>(Dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Average investment securities	\$ 232,797	\$ 212,367	\$ 224,857	\$ 202,375
Interest income on investment securities	2,954	2,576	8,433	7,129
Non-TE yield	5.03%	4.81%	5.01%	4.71%

Interest earned on investment securities increased 14.7% in the third quarter of 2007 compared to the third quarter of 2006, and increased 18.3% for the nine months ended September 30, 2007 compared to September 30, 2006. The increases resulted both from higher average outstanding balances and higher yields.

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.

#### Interest-Bearing Liabilities

<i>(Dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Average interest-bearing liabilities	\$ 1,782,911	\$ 1,622,970	\$ 1,771,419	\$ 1,592,352
Interest expense	17,379	14,307	50,909	38,604
Average rate	3.87%	3.54%	3.84%	3.24%

Interest expense on interest-bearing liabilities increased 21.5% in the third quarter of 2007 compared to the third quarter of 2006, driven largely by increases in savings deposits, certificates of deposit (“CD”) and federal funds purchased. In addition, we experienced a 33 basis point increase in the average rate on all interest-bearing liabilities with increases in every category. On a year-to-date basis, interest expense increased 31.9%, again reflective of increases in the average balances of savings deposits, CDs and federal funds purchased, and reflective of the increase in the average rate on all interest earning liabilities of 60 basis points on a year-to-date basis. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended September 30, 2007 grew 12.1% as compared to the same period in 2006, while on a year-to-date basis the increase was 12.0%.
- Interest-bearing deposits grew 9.9% to \$1.5 billion at September 30, 2007 from the period end balance at September 30, 2006 and increased \$70.5 million or 6.5% annualized from the balance at December 31, 2006.
- Average federal funds purchased and securities sold under agreements to repurchase increased 32.3%, up \$46.1 million from the average balance in the third quarter of 2006. On a year-to-date basis, the increase was 32.2%, or \$48.1 million. The Federal Reserve has lowered the federal funds rate to 4.75%.
- Average CDs increased \$123.5 million causing interest expense to increase by \$2.4 million for the third quarter of 2007 compared to the third quarter of 2006. On a year-to-date basis, average CDs increased \$126.7 million and interest expense increased \$8.5 million.
- On a linked-quarter basis, interest expense on average interest-bearing liabilities increased \$415,000 driven substantially by a \$46.0 million higher average balance of CDs along with a slight 2 basis point increase in the average rate. Additionally, a \$19.7 million increase in the average balances of savings deposits with a 47 basis point increase in the average rate drove the increase in interest expense. However, the additional funding through

CDs and savings deposits allowed us to decrease other higher cost borrowings by \$30.2 million, or 24.7%.

Noninterest-Bearing Deposits

Deposit growth continued to remain strong in the quarter-to-quarter and the linked-quarter comparison. We continued to see steady growth in the number of transaction accounts and savings accounts. Our customers opened approximately 13,500 new demand deposit checking accounts during the first nine months of 2007, a slight increase from openings in the number of accounts during the first nine months of 2006. Noninterest-bearing deposits grew \$20.1 million, or 7.3%, in the third quarter of 2007 compared to the third quarter of 2006. Compared to the second quarter of 2007, noninterest-bearing deposits grew \$8.2 million, or 2.9%, to \$293.4 million at September 30, 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.

The following table presents a summary of the changes in the allowance for loan losses for the three-month and nine-month periods ended September 30, 2007 and 2006.

<i>(Dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 23,369	\$ 21,214	\$ 22,668	\$ 20,025
Loans charged-off	(912)	(788)	(2,325)	(2,608)
Recoveries	204	201	736	542
Net charge-offs	(708)	(587)	(1,589)	(2,066)
Provision for loan losses	1,161	1,048	2,743	3,716
Balance at end of period	\$ 23,822	\$ 21,675	\$ 23,822	\$ 21,675
Total loans:				
At period end	\$ 1,842,226	\$ 1,682,217	\$ 1,842,226	\$ 1,682,217
Average	1,810,332	1,661,679	1,786,887	1,622,090
As a percentage of average loans (annualized):				
Net charge-offs	0.16%	0.14%	0.12%	0.17%
Provision for loan losses	0.26%	0.25%	0.21%	0.31%
Allowance as a percentage of period end loans	1.29%	1.29%	1.29%	1.29%
Allowance as a percentage of period end non-performing loans ("NPLs")	494.75%	526.74%	494.75%	526.74%

The provision for loan losses as a percent of total loans reflects a slight increase in our allowance for loan losses due to an increase in net charge-offs and a modest increase in our nonperforming assets during the third quarter of 2007 compared to the third quarter of 2006. On a year-to-date basis, the provision for loan losses as a percent of total loans

has decreased due to the following: (1) a decrease in net charge-offs (2) a slight increase in our nonperforming assets since December 31, 2006 and (3) slower loan growth this year versus last.

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The table below summarized nonperforming assets ("NPAs").

<i>(Dollars in thousands)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Non accrual loans	\$ 4,008	\$ 3,567	\$ 2,558
Accruing loans past due 90 days or more	807	1,039	1,557
Total nonperforming loans	4,815	4,606	4,115
Other real estate owned ("OREO")	443	597	363
Other nonperforming assets	237	--	--
Total nonperforming assets	\$ 5,495	\$ 5,203	\$ 4,478
Total NPLs as a % of total loans	0.26%	0.26%	0.24%
Total NPAs as a % of total loans and OREO	0.30%	0.30%	0.27%
Total NPAs as a % of total assets	0.24%	0.21%	0.19%

In the table above, other nonperforming assets consist of non real estate such as vehicles repossessed and OREO includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

Overall, the Company's loan portfolio remains well within the historical trends in terms of charge offs and NPAs as a percentage of total loans. To this point, our commercial real estate portfolio remains steady in terms of past dues, despite the rise in credit costs at other institutions. We continue to monitor and review frequently the overall asset quality within this portfolio.

**Noninterest Income**

<i>(Dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service charges on deposit accounts	\$ 3,909	\$ 3,512	\$ 10,952	\$ 9,988
Secondary market mortgage fees	1,374	1,509	4,759	4,040
Bankcard services income	1,051	880	3,067	2,518
Trust and investment services income	697	556	1,971	1,573
Securities gains (losses), net	--	--	42	--
Other	649	370	1,971	1,405
Total noninterest income	\$ 7,680	\$ 6,827	\$ 22,762	\$ 19,524

Noninterest income increased 12.5% in the third quarter of 2007 compared to the same period in 2006. On a year-to-date basis, the increase was 16.6%. The quarterly increases are the result of the following:

- Service charges on deposit accounts increased 11.3%, driven by growth in total deposits during the quarter.
- Secondary market mortgage fees decreased 8.9%. While mortgage production for the quarter remained relatively in line compared to the third quarter of 2006, secondary market mortgage fees decreased as a result of the current market conditions.
- Bankcard services income increased 19.4%, driven by organic growth in deposit accounts and more customers using SCBT debit cards. We experienced a 35.6% increase in debit card income, a 45.7% increase in foreign ATM fees, and a 40.7% increase in credit card transaction fees.
- Trust and investment services income increased 25.4%, driven by improving branch and line of business referral activity, expansion of existing business, and increased productivity of existing investment consultants.

- Other noninterest income increased 75.4%, which largely reflected a \$141,000 increase in the cash surrender value of bank owned life insurance and a loss on the sale of fixed assts of \$141,000 in the third quarter of 2006.

**Noninterest Expense**

<i>(Dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Salaries and employee benefits	\$ 11,171	\$ 10,226	\$ 33,475	\$ 30,053
Furniture and equipment	1,369	1,181	3,963	3,505
Net occupancy expense	1,247	1,088	3,585	3,148
Information services expense	1,050	945	3,162	2,734
Advertising and marketing	985	747	2,432	2,182
Business development and staff related	512	397	1,625	1,271
Professional fees	513	519	1,522	1,507
Amortization	215	204	641	602
Other	2,247	2,304	6,592	5,729
Total noninterest expense	\$ 19,309	\$ 17,611	\$ 56,997	\$ 50,731

Noninterest expense increased 9.6% in the third quarter of 2007 compared to the same period in 2006. On a year-to-date basis expenses increased 12.4%. The quarterly increases primarily resulted from the following:

- Salaries and commissions expense increased 9.2%, driven by sales volume incentives paid to employees on certain banking products, an increase in employees as a result of organic growth, and the addition of six full-service locations since June 30, 2006. These locations accounted for approximately 25.1%, or \$237,000, of the compensation increase from the quarter ended September 30, 2006. We expect that salaries and commissions expense will continue to be driven largely by sales volume incentives and the additional personnel expense related to the TSB Financial Corporation acquisition.
- Furniture and equipment expense, net occupancy expense, and information services expense increased 15.9%, 14.6%, and 11.1%, respectively, as a result of additional financial centers.
- Business development and staff related expense increased 29.0%, driven by the organic growth of our banks, leading to recruiting and placing additional staff.
- Advertising and public relations expense increased 31.9%, however on a year-to-date basis this cost is 11.5% higher compared to the prior year. We increased our advertising and public relations expense during the third quarter of 2007 with the opening of the new full-service location in Lexington in August 2007.
- Other noninterest expense decreased 2.5%, resulting mainly from a decrease in miscellaneous charge-offs and recoveries.

**Capital Resources**

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of September 30, 2007, shareholders' equity was \$175.5 million, an increase of \$13.6 million, or 8.4%, from \$161.9 million at December 31, 2006. Shareholders' equity has increased 9.4%, or \$15.1 million, from September 30, 2006.

We are subject to certain risk-based capital guidelines. Certain ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted to reflect credit risk. Under the guidelines promulgated by the Board of Governors of the Federal Reserve System, which are substantially similar to those of the Comptroller of the Currency, Tier 1 risk-based capital must be at least 4 percent of risk-weighted assets, while total risk-based capital must be at least 8 percent of risk-weighted assets.



In conjunction with the risk-based ratios, the regulatory agencies have also prescribed a leverage capital ratio for assessing capital adequacy. The minimum Tier 1 leverage ratio required for banks is between 3 and 5 percent, depending on the institution's composite rating as determined by its regulators.

<i>Capital Adequacy Ratios</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Tier 1 risk-based capital	10.32%	10.11%	10.19%
Total risk-based capital	11.57%	11.36%	11.44%
Tier 1 leverage	8.20%	8.11%	8.18%

Compared to December 31, 2006, our Tier 1 risk-based capital, total risk-based capital, and Tier 1 leverage ratios have increased primarily because of the slower growth in assets. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

### **Liquidity**

Liquidity refers to the ability for us to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our banks,
- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our banks' asset/liability management and net interest margin requirements, and
- Continually working to identify and introduce new products that will attract customers or enhance our banks' appeal as a primary provider of financial services.

In the first nine months of 2007, we continued to shorten the maturities of our funding liabilities as we anticipated the possibility of declining interest rates. Our approach may provide an opportunity to lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, typically including some level of federal funds sold, reverse repurchase agreements, and/or other short-term investments; asset quality; well-capitalized position; and profitable operating results. Cyclical and other economic trends and conditions can disrupt our banks' desired liquidity position at any time. We expect that these conditions will generally be of a short-term nature. Under such circumstances, the banks' federal funds sold position serves as the primary source of immediate liquidity. If additional liquidity were needed, the banks would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. In addition, we could seek alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the Federal Home Loan Bank. We believe that our liquidity position is adequate.

Our contingency funding plan provides several potential stages based on liquidity levels. Our Board of Directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. Our subsidiary banks maintain various wholesale sources of funding. If our deposit retention plan were to be unsuccessful, our banks would utilize these sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our banks. This could increase our banks' cost of funds, impacting net interest margins and net interest spreads.

## Deposit and Loan Concentration

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry, group of related industries, or within in any single sub-division. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10 percent of total loans to a multiple number of borrowers engaged in similar business activities that could cause these aggregated loans to be similarly impacted by economic or other conditions. As of September 30, 2007, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

## Concentration of Credit Risk

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25 percent of total risk-based capital. Based on these criteria, we had six such credit concentrations at September 30, 2007, including loans to borrowers engaged in other activities related to real estate, loans to lessors of nonresidential buildings, loans to religious organizations, loans to borrowers constructing new single family housing, loans to lessors of residential buildings, and loans to physicians for office buildings.

## Cautionary Note Regarding Any Forward-Looking Statements

*Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities and Exchange Act of 1934. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend" as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2006 and the following:*

- **Credit risk** associated with an obligor's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed;
- **Interest rate risk** involving the effect of a change in interest rates on both the bank's earnings and the market value of the portfolio equity;
  - **Liquidity risk** affecting the bank's ability to meet its obligations when they come due;
- **Price risk** focusing on changes in market factors that may affect the value of traded instruments in "mark-to-market" portfolios;
  - **Transaction risk** arising from problems with service or product delivery;
- **Compliance risk** involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
  - **Strategic risk** resulting from adverse business decisions or improper implementation of business decisions;
  - **Reputation risk** that adversely affects earnings or capital arising from negative public opinion; and

- *Terrorist activities risk that result in loss of consumer confidence and economic disruptions.*

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2007 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Management necessarily applied its judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Based upon this evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

There have been no significant changes in our internal controls over financial reporting that occurred during the third quarter of 2007 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**PART II – OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

To the best of our knowledge, we are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in our ordinary course of business.

**Item 1A. RISK FACTORS**

Investing in SCBT Financial Corporation's common shares involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 ("Form 10-K"), as well as cautionary statements contained in this Form 10-Q, including those under the caption "Cautionary Note Regarding Any Forward-Looking Statements" set forth in Part I, Item 2 of this Form 10-Q. There has been no material change in the risk factors previously disclosed in our Form 10-K.

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

(a) and (b) not applicable

(c) Issuer Purchases of Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 147,872 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the third quarter of 2007:

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
July 1 - July 31	--	\$ --	--	147,872
August 1 - August 31	--	--	--	147,872
September 1 - September 30	--	--	--	147,872
<b>Total</b>	--	--	--	147,872

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**Item 5. OTHER INFORMATION**

Not applicable.

**Item 6. EXHIBITS**

Exhibit 31.1	Rule 13a-14(a) Certification of Principal Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Principal Financial Officer
Exhibit 32.1	Section 1350 Certification of Principal Executive Officer
Exhibit 32.2	Section 1350 Certification of Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCBT FINANCIAL CORPORATION  
(Registrant)

Date: November 8, 2007

/s/ Robert R. Hill, Jr.  
Robert R. Hill, Jr.  
President and Chief Executive  
Officer

Date: November 8, 2007

/s/ John C. Pollok  
John C. Pollok  
Senior Executive Vice President and  
Chief Financial Officer

Date: November 8, 2007

/s/ Karen L. Dey  
Karen L. Dey  
Senior Vice President and  
Controller (Principal Accounting  
Officer)

**Exhibit Index**

<u>Exhibit No.</u>	<u>Description</u>
Exhibit 31.1	Rule 13a-14(a) Certification of Principal Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Principal Financial Officer
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