

SCBT FINANCIAL CORP  
Form S-4  
October 03, 2007

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As filed with the Securities and Exchange Commission on October 3, 2007

REGISTRATION NO. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM S-4**

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

**SCBT Financial Corporation**

(Exact name of registrant as specified in its charter)

**South Carolina**  
(State or other jurisdiction of  
incorporation or organization)

**6021**  
(Primary Standard Industrial  
Classification Code Number)  
**520 Gervais Street**  
**Columbia, South Carolina 29201-3046**  
**(803) 277-2175**

**57-0799315**  
(I.R.S. Employer  
Identification No.)

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

**Robert R. Hill, Jr.**  
**President and Chief Executive Officer**  
**SCBT Financial Corporation**  
**520 Gervais Street**  
**Columbia, South Carolina 29201-3046**  
**(803) 277-2175**

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

**John W. Currie**  
**McNair Law Firm, P.A.**  
**1301 Gervais Street, 17<sup>th</sup> Floor**  
**Columbia, South Carolina 29201**  
**(803) 799-9800**

**John B. Stedman, Jr.**  
**TSB Financial Corporation**  
**1057 Providence Road**  
**Charlotte, North Carolina 28207**  
**(704) 331-8686**

**Stephen M. Lynch**  
**Krista R. Bowen**  
**Robinson, Bradshaw & Hinson, P.A.**  
**101 North Tryon Street,**  
**Suite 1900**  
**Charlotte, North Carolina 28246**  
**(704) 877-2536**

Approximate date of commencement of the proposed sale to the public: As soon as practicable after the effectiveness of this registration statement.

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If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price per Share</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Common stock, par value \$2.50 per share	939,372	N/A	\$ 36,971,963	\$ 1,135.04

(1) Calculated in accordance with Rules 457(f)(1) and 457(c) under the Securities Act by multiplying \$33.50, the average of the high and low sales prices for TSB Financial Corporation common stock as reported on the Over-the-Counter Bulletin Board on October 1, 2007, by the estimated maximum number of shares of TSB Financial Corporation common stock that may be cancelled in the merger. Pursuant to Rule 457(f) of the Securities Act, the anticipated \$5.8 million of cash consideration to be paid by SCBT Financial Corporation to the holders of TSB Financial Corporation common stock in the merger has been deducted from the value of the TSB Financial Corporation common stock to be cancelled in the merger.

(2) Calculated in accordance with Section 6(b) of the Securities Act by multiplying the proposed maximum aggregate offering price by 0.00003070.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

**The information contained in this proxy statement/prospectus is subject to completion or amendment. A registration statement relating to these securities has been filed with the United States Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This proxy statement/prospectus is not an offer to sell these securities and is not a solicitation of an offer to buy these securities, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**SUBJECT TO COMPLETION, DATED OCTOBER 3, 2007**

**[TSB Financial Corporation logo]**

[ ]

Dear TSB Financial Corporation shareholder:

You are cordially invited to attend a special meeting of shareholders of TSB Financial Corporation to be held on [ ], at [ ], local time, in the [ ]. At this special meeting, you will be asked to approve the Agreement and Plan of Merger dated as of August 29, 2007, by and between TSB Financial Corporation and SCBT Financial Corporation, as amended by an Amendment to Agreement and Plan of Merger by and between TSB Financial Corporation and SCBT Financial Corporation dated as of September 28, 2007, providing for the merger of TSB Financial Corporation into SCBT Financial Corporation, and to approve a proposal to adjourn the special meeting, including, if necessary, to allow time for further solicitation of proxies in the event there are insufficient votes at the special meeting to approve the merger agreement.

If the merger agreement is approved and the merger is consummated, each outstanding share of TSB Financial Corporation common stock that you hold will be converted into the right to receive, at your election, either \$35.00 in cash or 0.993 of a share of SCBT Financial Corporation common stock (plus cash in lieu of any fractional share). However, because elections are subject to potential allocation as described in the accompanying prospectus/proxy statement, there can be no assurance that you will receive the type or proportion of consideration you elect for all your shares of TSB Financial Corporation common stock.

In addition, in connection with the closing of the merger, SCBT Financial Corporation will pay each holder of an option to acquire TSB Financial Corporation common stock cash (without interest) equal to the amount by which, if any, \$35.00 exceeds the exercise price per share of TSB Financial Corporation common stock underlying under such option less applicable taxes, if any, required to be withheld with respect to such payment.

SCBT Financial Corporation common stock is listed under the symbol "SCBT" on the NASDAQ Global Select Market. TSB Financial Corporation common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "TSBC."

**YOUR VOTE IS VERY IMPORTANT.** We cannot consummate the merger unless, among other things, holders of at least a majority of the outstanding shares of TSB Financial Corporation vote to approve the merger agreement. Your board of directors has approved the merger agreement, including the transactions contemplated in that agreement, and recommends that you vote "FOR" approval of the merger agreement.

Please carefully review and consider this proxy statement/prospectus which explains the merger proposal in detail, including the discussion under the heading "Risk Factors" beginning on page 16. It is important that your shares are represented at the meeting, whether or not you plan to attend. An abstention or a failure to vote will have the same effect as a vote against the merger. Accordingly, please complete, date, sign, and return promptly your proxy card in the enclosed envelope. You may attend the meeting and vote your shares in person if you wish, even if you have previously returned your proxy.

Sincerely,

John B. Stedman, Jr.  
President and Chief Executive Officer,  
TSB Financial Corporation

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger or the securities to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The shares of SCBT Financial Corporation common stock are not savings or deposit accounts or other obligations of any bank, savings association, or nonbank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.**

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*This proxy statement/prospectus is dated [ ] and is first being mailed to TSB Financial Corporation's shareholders on or about [ ].*

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**ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about SCBT Financial Corporation from documents that are not delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from SCBT Financial Corporation at the following address:

SCBT Financial Corporation  
P.O. Box 1030  
Columbia, South Carolina 29202  
Attn: John C. Pollok, Senior Executive Vice President,  
Chief Operating Officer, and Chief Financial Officer  
Telephone: (803) 765-4629

If you would like to request documents, please do so by [ ] in order to receive them before the special meeting. See "Where You Can Find More Information" on page 93 for further information.

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**TSB FINANCIAL CORPORATION**

1057 Providence Road  
Charlotte, North Carolina 28207  
(704) 331-8686

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

To Be Held On [       ]

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To the Shareholders of TSB Financial Corporation:

We will hold a special meeting of shareholders of TSB Financial Corporation on [       ], at [       ], local time, at [       ] for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of August 29, 2007, by and between SCBT Financial Corporation and TSB Financial Corporation, as amended by an Amendment to Agreement and Plan of Merger dated as of September 28, 2007 by and between SCBT Financial Corporation and TSB Financial Corporation, pursuant to which TSB Financial Corporation will merge with and into SCBT Financial Corporation, as more particularly described in the enclosed proxy statement/prospectus;
2. To consider and vote on a proposal to adjourn the special meeting, including, if necessary, to allow time for further solicitation of proxies in the event there are insufficient votes present at the meeting, in person or by proxy, to approve the merger agreement; and
3. To transact any other business as may properly be brought before the special meeting or any adjournments or postponements of the special meeting.

We have fixed the close of business on [       ] as the record date for determining those shareholders entitled to vote at the meeting and any adjournments or postponements of the meeting. Accordingly, only shareholders of record on that date are entitled to notice of, and to vote at, the meeting and any adjournments or postponements of the meeting.

Whether or not you plan to attend the special meeting in person, please complete, date, sign, and return the enclosed proxy card as promptly as possible. We have enclosed a postage prepaid envelope for that purpose. Any TSB Financial Corporation shareholder may revoke his or her proxy by following the instructions in the proxy statement/prospectus at any time before the proxy has been voted at the special meeting. Even if you have given your proxy, you may still vote in person if you attend the special meeting. Please do not send any stock certificates to us with your proxy.

We encourage you to vote on this very important matter. The board of directors of TSB Financial Corporation unanimously recommends that TSB Financial Corporation's shareholders vote "*FOR*" the proposals above.

If the merger agreement is approved and the merger is consummated, you will have the right to dissent from the merger and to demand payment in cash of the "fair value" of your shares of TSB Financial Corporation common stock instead of accepting the consideration offered in the merger. Your right to dissent is conditioned upon your compliance with the North Carolina statutes regarding dissenters' rights. The full text of these statutes is attached as Appendix C to the accompanying proxy statement/prospectus and a summary of the provisions can be found under the caption "The Merger Rights of Dissenting TSB Shareholders."

By Order of the Board of Directors,

John B. Stedman, Jr.  
President and Chief Executive Officer,  
TSB Financial Corporation

Charlotte, North Carolina

[       ]

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**QUESTIONS AND ANSWERS ABOUT THE SHAREHOLDER MEETING AND THE MERGER**

**The Merger and the Special Meeting of TSB Shareholders**

*Q*

*What matters will be considered at the special meeting of shareholders?*

A:

At the special meeting, shareholders of TSB Financial Corporation ("TSB") will be asked to vote on (1) the Agreement and Plan of Merger dated as of August 29, 2007, by and between SCBT Financial Corporation ("SCBT") and TSB, as amended by an Amendment to Agreement and Plan of Merger dated as of September 28, 2007, by and between SCBT and TSB, under which TSB will merge with and into SCBT, with SCBT surviving the merger, and (2) a proposal to adjourn the special meeting to a later date or dates, including, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the agreement and plan of merger and the merger contemplated thereby. This agreement and plan of merger, as amended, and the merger contemplated thereby are referred to in this proxy statement/prospectus as the "merger agreement" and "merger," respectively. The merger agreement is attached to this proxy statement/prospectus as Appendix A.

*Q*:

*What shareholder vote is necessary?*

A:

At the special meeting, the merger agreement will be approved if it receives the affirmative vote of holders of at least a majority of the outstanding shares of TSB common stock and the proposal to adjourn the special meeting, including, if necessary, to permit further solicitation of proxies will be approved if more votes are cast in favor of the proposal than are cast against it. TSB shareholders owning or controlling approximately [ ]% of the outstanding shares of TSB common stock as of the record date for the special meeting have entered into support agreements with SCBT whereby they have agreed to vote their shares for approval of the merger agreement.

*Q*:

*Does TSB's board of directors recommend that TSB shareholders approve the merger agreement and the proposal to approve an adjournment of the special meeting, including, if necessary, to permit further solicitation of proxies?*

A:

Yes. TSB's board of directors unanimously recommends that its shareholders vote "FOR" approval of the merger agreement and "FOR" the proposal to approve an adjournment of the special meeting, including, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.

*Q*:

*How do I change my vote after I have mailed my signed proxy card?*

A:

You may change your vote at any time before your proxy is voted by revoking your proxy in any of the following three ways:

by delivering a written notice to the secretary of TSB stating that you would like to revoke your proxy;

by submitting another duly executed proxy with a later date; or

by attending the special meeting and voting in person at the special meeting (your attendance at the special meeting will not by itself revoke your proxy). If you hold your shares in "street name," you will need additional documentation from your bank or broker in order to vote in person at the special meeting.

*Q*:

*If my shares are held in "street name" by my broker, will my broker vote my shares for me?*

A:

If you do not provide your broker with instructions on how to vote your shares held in "street name," your broker will not be permitted to vote your shares on the proposal to approve the merger agreement without your instructions. You should therefore instruct your

broker how to vote

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your shares. Your failure to instruct your broker to vote your shares will be the equivalent of voting against the approval of the merger agreement.

*Q: What if I abstain from voting?*

A: If you abstain from voting it will have the same effect as a vote against approval of the merger agreement but will have no effect on the proposal to adjourn the special meeting.

*Q: Am I entitled to dissenters' rights?*

A: Yes. Under North Carolina law, you may exercise dissenters' rights in connection with the merger. The provisions of North Carolina law governing dissenters' rights are complex, and you should study them carefully if you wish to exercise dissenters' rights. A TSB shareholder's failure to take specific actions within required time periods may prevent that shareholder from successfully asserting these rights, and multiple steps must be taken to properly exercise and perfect such rights. A beneficial owner of shares of TSB common stock may not assert dissenter's rights with respect to those shares if that owner votes in favor of approving the merger agreement. A copy of Article 13 of the North Carolina Business Corporation Act is attached to this proxy statement/prospectus as Appendix C.

For a more complete description of dissenters' rights, please refer to the section of this proxy statement/prospectus entitled "The Merger Rights of Dissenting TSB Shareholders" beginning on page 58.

*Q: When do you expect to consummate the merger?*

A: We presently expect to consummate the merger in the fourth quarter of 2007. However, we cannot assure you when or if the merger will occur. Shareholders of TSB holding at least a majority of the outstanding shares of TSB common stock must first approve the merger agreement at the special meeting and we must obtain the necessary regulatory consents and approvals.

*Q: Is consummation of the merger subject to any conditions?*

A: Yes. In addition to the approval of the shareholders of TSB, consummation of the merger requires the receipt of the necessary regulatory consents and approvals and the satisfaction of other conditions specified in the merger agreement. See "The Merger Conditions to Consummation" and "The Merger Regulatory Approvals" beginning on pages 46 and 48 of this proxy statement/prospectus, respectively.

### **Merger Consideration**

*Q: What will I receive in the merger?*

A: If the merger is consummated, for each share of TSB common stock that you own, you will have the right to receive, at your election, either 0.993 of a share of SCBT common stock or \$35.00 in cash, without interest. However, under the merger agreement, SCBT and TSB have agreed that, regardless of the elections made by TSB's shareholders, 939,372 shares of SCBT common stock will be issued as merger consideration, with the remaining merger consideration being paid in cash. Therefore, the cash and stock elections that you make will be subject to proration to preserve this requirement. As a result, you could receive cash or shares of SCBT common stock for greater or fewer TSB shares than you specify in your election. The consideration payable to TSB's shareholders in connection with the merger, and these election procedures, are described in more detail under the caption "The Merger Election Procedures and Exchange of Certificates" on page 37.

*Q: What are the material federal income tax consequences of the merger to me?*

A: The exchange of shares of SCBT common stock for shares of TSB common stock is expected to be tax-free to you for federal income tax purposes, **but taxes may be payable on all or a portion of the cash you receive for your shares of TSB common stock or that you receive in lieu of fractional shares.** The expected material federal income tax consequences of the merger are set forth in greater detail beginning on page 40. SCBT and TSB will have no obligation to consummate the merger until they have received an opinion to the effect that the merger will be a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that the merger will have certain United States federal income tax results. However, this opinion will not bind the Internal Revenue Service, which could take a different view of the transaction.

**Tax matters are very complicated and the tax consequences of the merger to you will depend on the facts of your own situation. You are urged to consult your own tax advisor for a full understanding of the tax consequences of the merger to you**

*Q: How do I elect to receive cash or stock merger consideration in the merger?*

A: No more than 40 and no fewer than 20 business days prior to the anticipated election deadline (which will be a date, no later than the fifth business day following the closing date of the merger, mutually agreed upon by TSB and SCBT), we will mail to you an election form and letter of transmittal for the surrender of your TSB stock certificates in exchange for the merger consideration. Along with those documents, you will receive detailed instructions describing the procedures you must follow to make your election. SCBT has agreed to publicly announce the date of the election deadline as early as practicable prior to that date.

We are not making any recommendation to you as to whether you should elect to receive cash, shares of SCBT common stock or a combination of each in the merger. You should evaluate your own specific circumstances and investment preferences in making your election.

If you own shares of TSB common stock in "street name" through a broker or other financial institution and you wish to make an election, you will receive or should seek instructions from the institution holding your shares concerning how to make your election. "Street name" holders may be subject to an earlier election deadline. Therefore, if you are a street name holder, you should carefully read any materials you receive from your broker. If you instruct a broker to submit an election for your shares, you must follow your broker's directions for changing those instructions.

If you do not make a valid election by the election deadline, the merger consideration that you will receive will depend on the elections made by the other TSB shareholders. Questions related to elections to receive merger consideration and the election form should be directed to Jan H. Hollar, TSB's Chief Financial Officer, at (704) 331-8686.

**Do not return your election form or your stock certificates with your proxy card. Doing so will not constitute a valid election, and may delay your receipt of the merger consideration.**

*Q: Will I always receive the form of merger consideration I desire to receive?*

A: No. SCBT will issue 939,372 shares of its common stock as merger consideration, with the remainder of the merger consideration being paid in cash. If the number of TSB shares for which an election to receive SCBT common stock is made is greater than 945,994, a pro rata portion of those shares will be converted into the right to receive cash in order to result in the correct allocation. If the number of TSB shares for which an election to receive SCBT common stock is made is lower than 945,994, then, first, the shares for which no election is made, and second, a pro rata portion of those shares for which a cash election is made will be converted into the right to receive shares of SCBT common stock in order to result in the correct allocation. Accordingly,

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there is no assurance that you will receive the form of merger consideration that you desire to receive with respect to all of the shares of TSB common stock you hold.

*Q:*

*What do I do if I want to revoke my election after I have mailed my signed election form?*

*A:*

If you are the record holder of your shares, you may revoke your election by sending a signed written notice to the exchange agent identifying the shares of TSB common stock for which you are revoking your election. For a notice of revocation to be effective, it must be received by the exchange agent prior to the election deadline. The election procedure, including revocation of an election, is described beginning on page 37 of this proxy statement/prospectus. If you hold your shares in "street name," you must follow your broker's instructions for revoking an election.

*Q:*

*When should I send in my stock certificates?*

*A:*

You must send the stock certificates representing the shares of TSB common stock with respect to which you have made an election with your completed election form and letter of transmittal to the exchange agent at the address given in the transmittal materials so that they are received by the exchange agent no later than the election deadline. If you hold your shares in "street name," you should comply with the election deadline set by your broker, which may be earlier.

*Q:*

*What will happen to my TSB stock options?*

*A:*

Each option to acquire TSB common stock that is outstanding at the effective time of the merger will be converted into the right to receive, per share of TSB common stock underlying such option, cash in an amount equal to \$35.00 minus the per-share exercise price of the option, subject to any required withholding of taxes.

*Q:*

*What do I need to do now?*

*A:*

After you have carefully read this proxy statement/prospectus, indicate on your proxy card how you want to vote with respect to the proposal to approve the merger agreement and the proposal to adjourn the special meeting to a later date, including, if necessary, to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement. Complete, sign, and date the proxy card and mail it in the enclosed postage-paid return envelope as soon as possible so that your shares will be represented and voted at the special meeting. The proxy card should be mailed in accordance with the instructions provided thereon. **Do not send your merger consideration election form, letter of transmittal, or stock certificates with your proxy card to TSB or SCBT.**

*Q:*

*Is there other information about SCBT that I should consider that is not included in this proxy statement/prospectus?*

*A:*

Yes. Much of the business and financial information about SCBT that may be important to you is not included in this proxy statement/prospectus. Instead, that information is incorporated by reference to documents separately filed by SCBT with the Securities and Exchange Commission (the "SEC"). This means that SCBT may satisfy its disclosure obligations to you by referring you to one or more documents separately filed by it with the SEC. See "Where You Can Find More Information" beginning on page 93 for a list of documents that SCBT has incorporated by reference into this proxy statement/prospectus and for instructions on how to obtain copies of those documents. The documents are available to you without charge.

*Q:*

*What if there is a conflict between documents of SCBT?*

*A:*

You should rely on the later filed document. Information in this proxy statement/prospectus may update information contained in one or more of the SCBT documents incorporated by reference. Similarly, information in documents that SCBT may file after the date of this proxy statement/



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prospectus may update information contained in this proxy statement/prospectus or information in previously filed documents.

*Q*  
*Whom should I call with questions about the merger or to obtain copies of this proxy statement/prospectus?*

A:  
TSB shareholders may contact Jan H. Hollar, Chief Financial Officer of TSB, at (704) 331-8686. You can also find more information about TSB and SCBT from various sources described under "Additional Information" on the inside of the cover page of this proxy statement/prospectus and "Where You Can Find More Information" on page 93 of this proxy statement/prospectus.

**SUMMARY**

*This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. To better understand the merger and its potential impact on you, we urge you to read this entire document carefully, including the exhibits and enclosures. Each item in this summary includes a page reference directing you to a more complete discussion of the item.*

**The Companies (pages 70 and 93)**

SCBT Financial Corporation  
P.O. Box 1030  
Columbia, South Carolina 29202  
(803) 765-4629

SCBT is a registered bank holding company incorporated under the laws of South Carolina. SCBT's subsidiary banks are South Carolina Bank and Trust, N.A. and South Carolina Bank and Trust of the Piedmont, N.A. Through its subsidiaries, SCBT provides a full range of financial services, including asset management, insurance, investments, mortgage, and trust services. SCBT operates 45 financial centers in 16 South Carolina counties and had assets of nearly \$2.3 billion as of June 30, 2007. SCBT common stock trades on the NASDAQ Global Select Market under the symbol "SCBT."

TSB Financial Corporation  
1057 Providence Road  
Charlotte, North Carolina 28207  
(704) 331-8686

TSB is a registered bank holding company incorporated under the laws of North Carolina and is the holding company for The Scottish Bank. The Scottish Bank operates four banking offices in Mecklenburg County, North Carolina and had assets of approximately \$193 million as of June 30, 2007. TSB common stock trades on the Over-the-Counter Bulletin Board under the symbol "TSBC."

**The Merger (page 23)**

The merger agreement is attached as Appendix A to this proxy statement/prospectus. You should read the merger agreement because it is the legal document that governs the merger. The merger agreement provides for the merger of TSB with and into SCBT. The directors and officers of SCBT in office immediately prior to the effective time of the merger, together with such additional persons as may thereafter be elected, will remain as the directors and officers of SCBT after the effective time of the merger. As a result of the merger, The Scottish Bank will become a wholly owned subsidiary of SCBT.

In the merger, SCBT will pay consideration of approximately \$5.8 million cash and 939,372 shares of SCBT common stock for TSB's issued and outstanding shares of common stock. Each outstanding share of TSB common stock will be converted into the right to receive, at the election of the holder thereof, either \$35.00 in cash or 0.993 of a share of SCBT common stock (plus cash in lieu of any fractional share). However, because elections are subject to potential allocation as described in this prospectus/proxy statement, there can be no assurance that you will receive the type or proportion of consideration you elect for all your shares of TSB common stock. The value of the consideration to be received by you will depend upon the number of shares of TSB common stock issued and outstanding at the effective time of the merger, the merger consideration elections made by you, the merger consideration elections made by TSB's other shareholders, and, if you receive SCBT common stock, the value thereof.

In addition, SCBT will pay each holder of an option to acquire TSB common stock cash (without interest) equal to the amount by which, if any, \$35.00 exceeds the exercise price per share of TSB



common stock underlying such option less applicable taxes, if any, required to be withheld with respect to such payment.

**TSB's Reasons for the Merger (page 27)**

TSB's board of directors believes that the merger is in the best interests of TSB's shareholders. In making its decision to approve the merger agreement and unanimously recommend approval of the merger by its shareholders, the board of directors of TSB consulted with its financial advisor Keefe, Bruyette & Woods, Inc. ("Keefe Bruyette") and legal advisors, as well as its management, and considered many factors. These factors include the following factors, each of which the board of directors believed supported its conclusion, but which are not listed in any relative order of importance:

the financial terms of the proposed merger, including the implied value of the merger consideration of \$35.80 per TSB share based on the closing price per share of \$36.20 of SCBT's common stock on August 28, 2007, the day prior to the board of director's meeting to consider approval of the merger agreement;

the presentation by Keefe Bruyette indicating that the merger consideration at that \$35.80 implied value represented:

a 31.1x multiple of TSB's earnings per share for the twelve months ended June 30, 2007;

256% of the book value per share of TSB common stock;

256% of the tangible book value per share of TSB common stock;

a premium of 90.9% to the closing per share price of TSB's common stock on August 28, 2007; and

an aggregate value of 124.5% of TSB's core deposits at June 30, 2007, defined as its total deposits less deposits evidenced by certificates of deposit of \$100,000 or more;

the fixed exchange ratio by which shares of TSB common stock would be converted into shares of SCBT common stock in the merger, permitting TSB shareholders to participate in any increase in the value of SCBT stock from the date of the merger agreement;

SCBT's dividend history, including its current annual dividend rate of \$0.68 per share of SCBT common stock, compared to the absence of dividends on shares of TSB common stock;

that the merger will be tax-free, for federal income tax purposes, to TSB's shareholders to the extent they receive shares of common stock of SCBT;

the high proportion of SCBT common stock as a component of the aggregate merger consideration;

the process conducted by Keefe Bruyette to develop and evaluate the interest of potential acquirers;

the increase in the value of merger consideration offered by SCBT compared to the preliminary proposal submitted by SCBT to TSB;

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the relative value of the merger consideration offered by the merger agreement compared to the next highest proposal that resulted from the process conducted by Keefe Bruyette;

the oral opinion rendered by Keefe Bruyette, which was subsequently confirmed in writing, to the effect that, as of August 29, 2007 and subject to the assumptions made, matters considered and limits of the review undertaken by Keefe Bruyette described in its opinion, the number of whole shares of SCBT common stock, cash or a combination thereof, plus cash in lieu of any fractional share interest, into which shares of TSB common stock shall be converted pursuant to

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the merger agreement was fair, from a financial point of view, to holders of the shares of TSB common stock;

the board of directors' knowledge of TSB's business, financial condition, results of operations, prospects and competitive position and whether TSB as an independent enterprise could produce the earnings necessary to result in a value comparable to the value to be received in the merger;

the constraints upon TSB's growth resulting from regulatory capital requirements, the relatively illiquid nature of the market for its stock, and the challenges of achieving increased operating efficiencies for a financial institution of its size;

the value to SCBT of an extension of its franchise into the Charlotte market, the strong capital position of SCBT and the resulting ability of SCBT to employ capital to expand its franchise in that market;

the concentration of TSB's revenues in its existing market area;

SCBT's existing market areas in South Carolina, including its existing presence in the Rock Hill, South Carolina area;

SCBT's prospects and its recent financial performance, its historical stock price performance, and its comparative stock price performance against the NASDAQ Bank Index;

SCBT's history of growth in deposits and loans, as well as geographic expansion;

SCBT's asset quality, including its nonperforming assets as a percentage of total assets, net charge-offs and reserves for loan losses;

SCBT's management;

the continuing trend toward consolidation among financial institutions and the likelihood of SCBT engaging in further acquisition transactions, and thereby extending its franchise and possibly enhancing its market value, or the possibility of SCBT becoming a party in the future to a business combination in which a premium would be paid for the outstanding shares of SCBT common stock;

the nonfinancial terms of the merger agreement, including TSB's right to terminate the merger agreement in order to accept a superior acquisition proposal or to decline to consummate the merger due to the occurrence of an event after the date of the merger agreement having a material adverse effect, as defined in the merger agreement, on SCBT;

provisions of the merger agreement providing for the treatment of TSB employees following the consummation of the merger;

the broader scope and types of products and services that would be offered to TSB's customers by SCBT following the consummation of the merger;

the desire by SCBT to continue the employment of John B. Stedman, Jr., TSB's President and Chief Executive Officer, and R. Allan Schlick, TSB's Chief Credit Officer, following consummation of the merger;

the availability to TSB shareholders of statutory rights of dissent and appraisal in connection with the merger (for a discussion of rights of dissent and appraisal available to TSB shareholders in connection with the merger, see "The Merger Rights of Dissenting TSB Shareholders"); and

the probability of required regulatory approvals being obtained without unreasonable delay or conditions.

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TSB's board of directors also considered a variety of potentially negative factors concerning the merger agreement and the merger, including the following factors, which are not listed in any relative order of importance:

the fixed exchange ratio by which shares of TSB common stock would be converted into shares of SCBT common stock in the merger, subjecting TSB shareholders to a potential decline in the value of the merger consideration resulting from a decline in the market price of SCBT common stock from the date of the merger agreement;

the lack of a provision in the merger agreement entitling the board of directors of TSB to terminate the merger agreement solely as the result of a substantial decline in the market price of SCBT common stock;

the possibility that the merger might not be consummated and the effect of the public announcement of the merger on TSB's customers and personnel;

the fact that the merger agreement contains contractual restrictions on TSB's ability to solicit or negotiate alternative merger transactions;

the fact that the merger agreement contains contractual restrictions applicable to TSB regarding the conduct of its business prior to the consummation of the merger;

the fact that TSB could be required to pay SCBT a fee of up to \$1.75 million if the merger agreement is terminated under certain circumstances or in certain circumstances upon TSB's entry into an agreement to be acquired within a specified period after the merger agreement is terminated; and

the fact that a few employees of TSB are likely not to be offered continued employment by SCBT following the consummation of the merger.

Although not exhaustive, the foregoing discussion of information and factors considered by TSB's board of directors includes the material factors considered by the board of directors. In view of the wide variety of factors considered in connection with its evaluation of the proposed merger, the board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the foregoing factors in reaching its decision. In addition, individual members of the board of directors may have given different weight to different factors and may have viewed some factors more positively or negatively than others. Rather, the board of directors viewed its position as being based on the totality of the information presented to and considered by it.

In addition, TSB's board of directors knew and considered the financial interests of certain TSB directors and executives when it approved the merger agreement. These financial interests are addressed in greater detail under the heading "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests."

### **SCBT's Reasons for the Merger (page 26)**

SCBT's management believes that a combination of the two institutions will further position SCBT in high-growth, demographically attractive markets. SCBT's management believes that it will be able to further leverage TSB's existing customer base, branch network, and reputation. The combination of the two companies will enable TSB's bank subsidiary, The Scottish Bank, to accommodate larger credit facilities for customers and more readily service larger customer relationships. Finally, SCBT expects to gain some operating efficiencies through combining the companies as operating duplications are eliminated.

**Regulatory Approvals (page 48)**

We cannot consummate our merger unless SCBT obtains the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the North Carolina Commissioner of Banks. As of the date of this proxy statement/prospectus, SCBT has not yet received the required regulatory approvals. Although we expect that SCBT will obtain the necessary approvals in a timely manner, we cannot be certain when, or if, they will be received.

**TSB's Shareholders' Meeting (page 19)**

TSB will hold its shareholders' special meeting on [ ] at [ ], local time, at [ ]. At the special meeting, TSB's shareholders will be asked to vote to approve the merger agreement and the proposal to adjourn the special meeting, including, if necessary, to allow time for further solicitation of proxies in the event there are insufficient votes at the special meeting, in person or by proxy, to approve the merger agreement.

**TSB's Shareholders' Meeting Record Date and Voting (page 20)**

If you owned shares of TSB common stock at the close of business on [ ], the record date, you are entitled to vote on the proposal to approve the merger agreement, as well as any other matters considered at the meeting. On the record date, there were [ ] shares of TSB common stock outstanding. You will have one vote at the meeting for each share of TSB common stock you owned on the record date. The affirmative vote of the holders of a majority of TSB's outstanding shares of common stock is required to approve the merger agreement. As of the record date for the special meeting, TSB's current directors, executive officers, and their affiliates owned or controlled approximately [ ]% of the outstanding shares of TSB common stock, excluding shares acquirable pursuant to stock options. Each of TSB directors has agreed, subject to certain conditions, to vote his or her shares of TSB common stock in favor of the merger agreement.

**The Board of Directors of TSB Recommends Shareholder Approval (page 22)**

The board of directors of TSB has approved the merger agreement, believes that the merger agreement is in the best interest of TSB and its shareholders, and recommends that the shareholders vote "FOR" approval of the merger agreement.

**The Financial Advisor for TSB Believes the Merger Agreement Consideration is Fair to TSB's Shareholders (page 29)**

Keefe Bruyette has served as financial advisor to TSB in connection with the merger agreement and has given an opinion to the TSB board of directors that, as of August 29, 2007, the date the TSB board of directors voted on the merger agreement, the consideration SCBT will pay for the TSB common stock was fair to TSB's shareholders from a financial point of view. A copy of the opinion delivered by Keefe Bruyette is attached to this proxy statement/prospectus as Appendix B. TSB's shareholders should read the opinion completely to understand the assumptions made, matters considered, and limitations of the review undertaken by Keefe Bruyette in providing its opinion.

**Interests of Directors and Executive Officers of TSB that Differ from Your Interests (page 43)**

When considering the recommendations of the TSB board of directors, you should be aware that some directors and officers have interests in the merger proposal that differ from the interests of other shareholders, including the following:

Following the merger, John B. Stedman, Jr. will remain as President and Chief Executive Officer of The Scottish Bank and become North Carolina Regional Executive for SCBT at a salary of

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\$190,000 per year pursuant to a three-year employment agreement executed in connection with the merger. Under that employment agreement, upon consummation of the merger, SCBT will pay \$377,780 to Mr. Stedman and award him restricted shares of SCBT common stock having a value of \$188,890, subject to potential reduction for tax considerations, that will vest four years after the date of consummation of the merger if Mr. Stedman continues to be employed during that period. The employment agreement provides that upon consummation of the merger, Mr. Stedman's change-in-control agreement with TSB will be terminated.

In connection with the merger, SCBT will pay each holder of an option to acquire TSB common stock cash (without interest) equal to the amount by which, if any, \$35.00 exceeds the exercise price per share of TSB common stock underlying such option. As of the date of this proxy statement/prospectus, directors and officers of TSB held options to acquire approximately [ ] shares of TSB common stock and following consummation of the merger would be entitled to receive cash in an aggregate amount of approximately \$[ ] in exchange for such options.

The merger agreement permits TSB to pay retention bonuses to its employees in connection with the merger in an aggregate amount not to exceed \$350,000. TSB expects to pay \$4,000 of that amount to its executive officers.

TSB has entered into change-in-control agreements with Mr. Stedman and Jan H. Hollar, TSB's Chief Financial Officer, which provide that these executive officers will receive for 12 months after termination of employment in specified circumstances following a "change in control" of TSB payment of base salary and an amount equal to the average bonus amounts paid to him or her, as applicable, during the two most recent fiscal years ending prior to the change in control, as well as continued primary and dependent health insurance benefits. TSB has also entered into a change-in-control agreement with Mr. Schlick which provides for the payment to Mr. Schlick in a lump sum, discounted to present value, of 12 months' base salary and an amount equal to the average bonus amounts paid to him during the two most recent fiscal years ending prior to the change in control, so long as Mr. Schlick remains employed by The Scottish Bank or SCBT for four months after completion of a change-in-control transaction. The merger would constitute a change in control under these agreements.

Following the merger, SCBT will generally indemnify and provide liability insurance for up to six years following the merger to the present directors and officers of TSB.

Each board member was aware of these and other interests and considered them before approving and adopting the merger agreement.

### **Material Federal Income Tax Consequences (page 40)**

We have structured the merger so that it will be considered a reorganization for United States federal income tax purposes. If the merger is a reorganization for United States federal income tax purposes, TSB's shareholders generally will not recognize any gain or loss on the exchange of shares of TSB's common stock for shares of SCBT common stock. **However, TSB shareholders may be taxed on all or a portion of the cash that they receive for their shares of TSB common stock or that they receive in lieu of fractional shares.** Determining the actual tax consequences of the merger to a TSB shareholder may be complex. These tax consequences will depend on each shareholder's specific situation and on factors not within our control. TSB's shareholders should consult their own tax advisors for a full understanding of the tax consequences of their participation in the merger.

**Comparative Rights of Shareholders (page 61)**

The rights of TSB's shareholders are currently governed by North Carolina corporate law and TSB's articles of incorporation and bylaws. The rights of SCBT's shareholders are currently governed by South Carolina corporate law and SCBT's articles of incorporation and bylaws. Upon consummation of the merger, the shareholders of TSB who receive shares of SCBT common stock in the merger will become shareholders of SCBT and the articles of incorporation and bylaws of SCBT will govern their rights. North Carolina corporate law differs from South Carolina corporate law in certain respects, and the provisions of SCBT's articles of incorporation and bylaws differ somewhat from those of TSB.

**Termination of the Merger Agreement (page 55)**

Notwithstanding the approval of the merger agreement by TSB's shareholders, TSB and SCBT can mutually agree at any time to terminate the merger agreement before consummating the merger. Either TSB or SCBT can also terminate the merger agreement in the event of a material breach by the other party or under certain other circumstances.

**TSB Must Pay SCBT a Termination Fee Under Certain Circumstances (page 56)**

The merger agreement provides for the payment of a termination fee of up to \$1.75 million by TSB to SCBT in certain cases. TSB agreed to this termination fee arrangement in order to induce SCBT to enter into the merger agreement. This arrangement could have the effect of discouraging other companies from trying to acquire TSB.

**Dissenters' and Appraisal Rights (page 58)**

North Carolina law permits TSB's shareholders to dissent from the approval of the merger agreement and to have the fair value of their TSB shares paid to them in cash. To do this, TSB's shareholders must follow specific procedures, including filing a written notice with TSB prior to the shareholder vote on the merger agreement and not voting in favor of approving the merger agreement. If you follow the required procedures, your only right will be to receive the fair value of your common stock in cash. Copies of the applicable North Carolina statutes are attached to this proxy statement/prospectus as Appendix C.

**The Merger is Expected to Occur in the Fourth Quarter of 2007**

The merger will occur shortly after all of the conditions to its consummation have been satisfied or waived. Currently, we anticipate that the merger will occur in the fourth quarter of 2007. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of TSB's shareholders at the special meeting and all the necessary regulatory approvals.

**Accounting Treatment (page 58)**

The merger will be accounted for using the purchase method of accounting, with SCBT being treated as the acquiring entity for accounting purposes. Under the purchase method of accounting, the assets and liabilities of TSB as of the effective time of the merger will be recorded at their respective fair values and added to those of SCBT.

**Consummation of the Merger is Subject to Certain Conditions (page 46)**

Consummation of the merger is subject to a number of conditions, including the approval of the merger agreement by TSB's shareholders and the receipt of all the regulatory consents and approvals that are necessary to permit the consummation of the merger. Certain conditions to the merger may be waived by SCBT or TSB, as applicable.



**Comparative Market Value of Securities**

The following table sets forth the closing sale price per share of SCBT common stock on August 29, 2007 (the last business day preceding the public announcement of the merger) and the closing sale price per share of TSB common stock on the last trading day through August 29, 2007 on which shares of TSB common stock were traded and the closing sale prices per share of SCBT common stock and TSB common stock on [ ] (the most recent practicable trading date prior to the mailing of the proxy statement/prospectus), as well as equivalent prices per share of TSB common stock computed as of those dates by multiplying the price of a share of SCBT common stock by the 0.993 exchange ratio.

	<u>SCBT Common Stock</u>	<u>TSB Common Stock</u>	<u>Equivalent Price Per Share of TSB Common Stock(1)</u>
August 29, 2007	\$ 37.25	\$ 18.75	\$ 36.99
[ ]	\$ [ ]	\$ [ ]	\$ [ ]

(1) The equivalent prices per share of TSB common stock have been calculated by multiplying the closing prices per share of SCBT common stock on each of the two dates by the exchange ratio of 0.993.

**Because the exchange ratio is fixed and because the market price of SCBT common stock is subject to fluctuation, the market value of the shares of SCBT common stock that you may receive in the merger may increase or decrease prior to and following the merger. You are urged to obtain current market quotations for SCBT common stock.**

## SELECTED CONSOLIDATED FINANCIAL DATA OF SCBT

The following table provides summary historical consolidated financial data of SCBT derived from its audited consolidated financial statements as of the end of and for each of the fiscal years in the five-year period ended December 31, 2006, and from its unaudited consolidated financial statements as of the end of and for each of the six-month periods ended June 30, 2007 and 2006. The following information is only a summary and you should read it in conjunction with SCBT's periodic reports filed with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2006 and SCBT's quarterly report on Form 10-Q for the period ended June 30, 2007.

	(Unaudited) Six Months Ended June 30,		Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002

(Dollars in thousands, except per-share amounts)

**FINANCIAL DATA:**

Assets	\$ 2,274,951	\$ 2,070,927	\$ 2,178,413	\$ 1,925,856	\$ 1,436,977	\$ 1,197,692	\$ 1,144,948
Loans, net of unearned income*	1,806,000	1,646,174	1,760,830	1,535,901	1,153,230	938,760	863,422
Investment securities	234,942	211,039	210,391	182,744	165,446	152,009	164,951
Deposits	1,783,269	1,623,238	1,706,715	1,473,289	1,171,313	947,399	898,163
Nondeposit borrowings	301,871	282,006	293,521	294,420	141,136	133,017	138,116
Shareholders' equity	169,836	154,518	161,888	148,403	118,798	112,349	103,495
Number of locations	45	45	45	41	34	32	32
Full-time equivalent employees	650	627	634	590	513	514	480
Number of common shares outstanding	9,195,057	8,685,774	8,719,146	8,644,883	7,657,094	7,690,186	7,673,339

**SELECTED RATIOS:**

Return on average equity	13.08%	13.01%	12.72%	13.19%	12.20%	13.72%	14.09%
Return on average assets	0.98	0.99	0.97	1.00	1.05	1.23	1.28
Average equity as a percentage of average assets	7.48	7.57	7.59	7.56	8.65	9.00	9.05

**ASSET QUALITY RATIOS:**

Allowance for loan losses to period end loans	1.29%	1.29%	1.29%	1.30%	1.25%	1.25%	1.28%
Allowance for loan losses to period end nonperforming loans	542.20	504.13	492.14	468.74	442.64	173.30	233.47
Nonperforming assets to period end loans and OREO	0.28	0.27	0.30	0.32	0.43	0.87	0.67
Nonperforming assets to period end total assets	0.22	0.22	0.24	0.24	0.35	0.88	0.51
Net charge-offs to average loans	0.10	0.19	0.16	0.11	0.15	0.19	0.25

**SUMMARY OF OPERATIONS:**

Interest income	\$ 73,736	\$ 62,238	\$ 131,647	\$ 94,293	\$ 67,913	\$ 64,854	\$ 67,324
Interest expense	33,530	24,297	54,281	28,710	14,643	14,622	18,752
Net interest income	40,206	37,941	77,366	65,583	53,270	50,232	48,572
Provision for loan losses	1,582	2,668	5,268	4,907	4,332	2,345	3,227
Net interest income after provision for loan losses	38,624	35,273	72,098	60,676	48,938	47,887	45,345
Noninterest income	15,082	12,697	26,709	23,855	22,650	22,915	17,848
Noninterest expense	37,688	33,120	68,718	60,053	51,135	48,715	42,567
Income before provision for income taxes	16,018	14,850	30,089	24,478	20,453	22,087	20,626
Provision for income taxes	5,237	5,063	10,284	7,823	6,437	7,301	6,792
Net income	\$ 10,781	\$ 9,787	\$ 19,805	\$ 16,655	\$ 14,016	\$ 14,786	\$ 13,834

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(Unaudited)  
Six Months Ended  
June 30,

Year Ended December 31,

**PER COMMON SHARE:**

Net income, basic	\$	1.17	\$	1.07	\$	2.17	\$	1.95	\$	1.66	\$	1.74	\$	1.64
Net income, diluted		1.17		1.06		2.15		1.93		1.64		1.73		1.63
Book value		18.47		17.79		18.57		17.17		14.77		13.91		12.85
Cash dividends		0.34		0.34		0.68		0.68		0.68		0.66		0.63
Dividend payout ratio		30.58%		33.24%		30.88%		34.29%		36.66%		33.98%		33.71%

\*

Excludes loans held for sale.

In reference to the table above, net income per share data have been retroactively adjusted to give effect to a 10% common stock dividend paid to shareholders of record on November 22, 2002, a 5% common stock dividend paid to shareholders of record on December 20, 2004, and a 5% common stock dividend paid to shareholders of record on March 9, 2007.

## COMPARATIVE PER SHARE DATA

The following table sets forth for SCBT common stock and TSB common stock certain historical, pro forma and pro forma-equivalent per share financial information. The information is derived from and should be read together with the respective historical consolidated financial statements of SCBT and TSB that are incorporated by reference or appear elsewhere in this prospectus/proxy statement. While helpful in illustrating the financial characteristics of the combined company under one set of assumptions, the pro forma data does not reflect certain anticipated costs and benefits of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the merger been consummated at the beginning of the periods presented. The pro forma data gives effect to the merger and is based on numerous assumptions and estimates. The pro forma combined per share data and TSB equivalent per share data are prepared assuming 939,372 shares of SCBT common stock will be issued and that cash consideration of \$5.8 million will be paid. See "The Merger Merger Consideration" on page 36.

	At or for the Six Months Ended June 30, 2007	At or for the Year Ended December 31, 2006
<b>Basic earnings per share of common stock(3)</b>		
SCBT	\$ 1.17	\$ 2.17
TSB	0.45	1.13
Consolidated pro forma	1.12	2.09
TSB pro forma equivalent(1)	1.11	2.08
<b>Diluted earnings per share of common stock(3)</b>		
SCBT	\$ 1.17	\$ 2.15
TSB	0.44	1.08
Consolidated pro forma	1.11	2.07
TSB pro forma equivalent(1)	1.10	2.06
<b>Cash dividends per share of common stock</b>		
SCBT	\$ 0.34	\$ 0.68
TSB		
Consolidated pro forma(2)	0.34	0.68
TSB pro forma equivalent(1)	0.34	0.68
<b>Book value per share of common stock</b>		
SCBT	\$ 18.47	\$ 18.57
TSB	13.97	15.09
Consolidated pro forma	20.12	20.21
TSB pro forma equivalent(1)	19.98	20.07

- (1) TSB pro forma equivalent amounts for basic earnings per share of common stock, diluted earnings per share of common stock, cash dividends per share of common stock and book value per share of common stock have been computed by multiplying the respective consolidated pro forma amounts by the exchange ratio of 0.993.
- (2) Consolidated pro forma cash dividends per share of SCBT common stock represent the historical cash dividends declared by SCBT and assumes no changes will occur.
- (3) Basic earnings per share of common stock and diluted earnings per share of common stock at and for the year ended December 31, 2006 have been adjusted to reflect stock splits in the form of ten-percent stock dividends distributed by TSB on May 15, 2007 and by SCBT on March 9, 2007. Book values per share of common stock at December 31, 2006 have not been adjusted to reflect these stock splits.

## RISK FACTORS

*If the merger is consummated, you will be able to elect, subject to certain limitations, to receive shares of SCBT common stock in exchange for your shares of TSB common stock. An investment in SCBT common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in TSB common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page 19 under the heading "A Warning About Forward-Looking Statements."*

*However, there are a number of other risks and uncertainties relating to SCBT and your decision on the merger proposal that you should consider in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect SCBT's future financial results and may cause SCBT's future earnings and financial condition to be less favorable than SCBT's expectations. This section summarizes those risks.*

### **We may be unable to consummate the merger.**

We anticipate that the merger will close in the fourth quarter of 2007, but the merger agreement must be approved by TSB's shareholders before the merger can close. Consummation of the merger is also subject to the receipt of required regulatory approvals and the satisfaction of other customary closing conditions. If the merger is not consummated for any reason, TSB's price may decline to the extent that the current market price reflects the assumption by investors that the merger will be consummated, or because of the costs incurred by TSB in connection with the merger.

### **If the merger does not qualify as a tax-free reorganization for income tax purposes, you will recognize gain or loss on the exchange of your shares of TSB common stock for SCBT common stock.**

The merger agreement provides that, as a condition to the obligations of TSB and SCBT to close the merger, McNair Law Firm, P.A. must render an opinion that, subject to the assumptions and qualifications included in such opinion, the merger will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. This opinion, however, neither binds the IRS nor prevents the IRS from adopting a contrary position. In addition, SCBT and TSB may waive this condition to closing and not seek such an opinion. If the merger fails to qualify as a tax-free reorganization, you would generally recognize gain or loss on each share of TSB common stock surrendered in the merger in exchange for stock of SCBT in the amount of the difference between your basis in such share and the fair market value of the SCBT common stock and the cash that you receive.

### **You may not receive the form of merger consideration that you elect.**

The merger agreement is designed to ensure that 939,372 shares of SCBT common stock will be issued as consideration for the merger, with the remainder of the merger consideration being paid in cash, regardless of the elections made by TSB's shareholders. As a result, although you may elect to receive cash, SCBT common stock, or a combination of the two as consideration for your shares, your election may not be fully honored, depending on the elections made by other TSB shareholders. If your election is not fully honored, you may incur tax consequences that differ from those that would have resulted had you received the form of consideration elected.

### **You will experience a substantial reduction in percentage ownership and voting power with respect to your shares as a result of the merger.**

TSB's shareholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power through their stock ownership in SCBT relative to their percentage ownership interest in TSB prior to the merger. If the merger is consummated, current TSB

shareholders will own approximately 9.2% of SCBT's outstanding common stock, on a fully diluted basis, based on SCBT's outstanding common stock as of June 30, 2007. Accordingly, even if they were to vote as a group, current TSB's shareholders could be outvoted by other SCBT shareholders.

**If SCBT does not successfully integrate the operations of TSB, it may not realize all of the expected benefits from the merger.**

SCBT's ability to achieve fully the expected benefits of the merger depends on its successful integration of TSB. There is a risk that integrating The Scottish Bank into SCBT's existing operations may take a greater amount of resources and time than we expect. Further, The Scottish Bank is expected to operate as a separate subsidiary of SCBT. Although we believe that doing this will assist us in retaining The Scottish Bank's key customers, it will also result in greater operating costs for us. Accordingly, there is a risk that the anticipated benefits may not be realized or that they may be less than we expect if we are unable to integrate in a timely manner, fail to realize cost savings from the merger, or disrupt customer relationships.

**Uncertainty regarding the merger may result in the loss of employees and customers prior to the consummation of the merger.**

Employees of TSB and The Scottish Bank may experience uncertainty about their future roles following the merger. This may adversely affect the ability of TSB and The Scottish Bank to retain and attract key management and other personnel. Similarly, uncertainty regarding the merger may cause customers of The Scottish Bank to withdraw their business prior to the consummation of the merger. Any loss of The Scottish Bank's customers could have a material adverse effect on TSB's business, regardless of whether or not the merger is ultimately consummated. There can be no assurance that customers of The Scottish Bank will continue their business without regard to the proposed merger.

**Fluctuations in the market price of SCBT common stock may change the value of the shares of SCBT common stock you receive in the merger.**

In the merger, shares of TSB common stock that are converted into shares of SCBT common stock will be converted at the rate of 0.993 of a share of SCBT common stock for each share of TSB common stock so converted. Because the number of shares of SCBT common stock that will be issued in the merger is fixed and will not be adjusted for changes in the market price of either SCBT common stock or TSB common stock, any change in the price of SCBT common stock will affect the market value of the merger consideration that TSB shareholders will receive. Neither TSB nor SCBT is permitted to terminate the merger agreement solely because of changes in the market price of their respective shares of common stock.

Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our businesses, operations and prospects and regulatory considerations. Many of these factors are beyond either party's control. The prices of SCBT common stock and TSB common stock at merger consummation may vary from their respective prices on the date the merger agreement was executed, the date of this proxy statement/prospectus and the date of the special meeting. As a result, the value represented by the merger consideration also will vary. Because the date the merger is consummated may be later than the date of the special meeting, at the time of the special meeting, you will not necessarily know the market value of SCBT common stock that TSB shareholders will receive upon merger consummation.

**The "nonsolicitation" restrictions and the termination fee provisions in the merger agreement may discourage other companies from trying to acquire TSB.**

While the merger agreement is in effect, subject to specified exceptions, TSB is prohibited from soliciting, initiating or taking any other action to knowingly facilitate any inquiry in connection with or the making of any proposal that is or may reasonably be expected to lead to a proposal or offer for a merger or other business combination transaction with any person other than SCBT. In addition, pursuant to the merger agreement, TSB is obligated to pay a termination fee of up to \$1.75 million to SCBT in specified circumstances, including TSB's termination of the merger agreement to accept a superior merger proposal. These provisions could discourage other parties from trying to acquire TSB even though those other parties might be willing to offer greater value to TSB's shareholders than SCBT has offered in the merger agreement.

### A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including information included or incorporated by reference herein, contains forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance, and business of each of SCBT and TSB, as well as information relating to the merger. These statements are preceded by, followed by, or include the words "believes," "expects," "anticipates," or "estimates," or similar expressions. Many possible events or factors could affect our future financial results and performance. This could cause our results or performance to differ materially from those expressed in our forward-looking statements. You should consider these important factors when you vote on the merger. Factors that may cause actual results to differ materially from those contemplated by our forward-looking statements include the following:

our operating costs after the merger may be greater than expected, and our cost savings from the merger may be less than expected, or we may be unable to obtain those cost savings as soon as expected;

we may be unable to successfully integrate TSB or we may have more trouble integrating other acquired businesses than we expect;

we could lose our key personnel, including the TSB personnel we will employ as a result of the merger, or spend a greater amount of resources attracting, retaining, and motivating them than we have in the past;

competition among depository and other financial institutions may increase significantly;

changes in the interest rate environment may reduce operating margins;

general economic conditions, either nationally or in South Carolina or North Carolina, may be less favorable than expected resulting in, among other things, a deterioration in credit quality and an increase in credit risk-related losses and expenses;

loan losses may exceed the level of allowance for loan losses of the combined company;

the rate of delinquencies and amount of charge-offs may be greater than expected;

the rates of loan growth may not increase as expected; and

legislative or regulatory changes may adversely affect our businesses.

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. We are under no duty to update any of the forward-looking statements after the date of this proxy statement/prospectus to conform those statements to actual results. In evaluating these statements, you should consider various factors, including the risks outlined in the section entitled "Risk Factors," beginning on page 16. You should also consider the cautionary statements contained in SCBT's and TSB's respective filings with the SEC.

### THE SPECIAL MEETING

#### General

TSB's board of directors is providing this proxy statement/prospectus to you in connection with its solicitation of proxies for use at the special meeting of TSB's shareholders and at any adjournments or postponements of the special meeting.



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SCBT is also providing this proxy statement/prospectus to you as a prospectus in connection with the offer and sale by SCBT of shares of its common stock to shareholders of TSB in the merger.

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Your vote is important. Please complete, date, and sign the enclosed proxy card and return it in the postage prepaid envelope provided. If your shares are held in "street name," you should instruct your broker how to vote by following the directions provided by your broker.

### Meeting Date, Time, and Place and Record Date

TSB will hold the special meeting on [ ], at [ ], local time, at [ ]. At the special meeting (and any adjournment or postponement of the meeting), holders of TSB's common stock will be asked to consider and vote upon:

a proposal to approve the merger agreement; and

a proposal to adjourn the special meeting, including, if necessary, to allow for time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement.

Only holders of TSB's common stock of record at the close of business on [ ], the record date, will be entitled to receive notice of and to vote at the special meeting. As of the record date, there were [ ] shares of TSB's common stock outstanding and entitled to vote, with each such share entitled to one vote.

### Matters to be Considered

At the special meeting, TSB's shareholders will be asked to approve the merger agreement and a proposal to adjourn the special meeting, including, if necessary, to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement. Under the merger agreement, TSB will merge with and into SCBT, and each share of TSB common stock (other than shares for which dissenter's rights have been exercised) will be converted, at the election of the holder subject to certain limitations as described in this proxy statement/prospectus, into the right to receive either \$35.00 cash or 0.993 of a share of SCBT common stock. Finally, TSB's shareholders may also be asked to consider any other business that properly comes before the special meeting. TSB's board of directors is not aware of any other business to be considered at the special meeting. Each copy of this proxy statement/prospectus mailed to TSB's shareholders is accompanied by a proxy card for use at the special meeting.

### Vote Required

The presence, in person or by proxy, of shares of TSB common stock representing a majority of TSB outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special meeting. A quorum must be present in order for the vote on the merger agreement to occur. If there is no quorum present at the opening of the meeting, the special meeting may be adjourned by the vote of a majority of shares voting on the motion to adjourn.

Approval of the merger agreement requires the affirmative vote of holders of a majority of all shares entitled to vote at the TSB special meeting. Approval of the proposal for adjournment of the special meeting requires that the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. On the record date, there were [ ] outstanding shares of TSB common stock, each of which is entitled to one vote at the special meeting. On that date, the directors of TSB beneficially owned a total of approximately [ ]% of the outstanding shares of TSB common stock. Each of TSB's directors has agreed, in his or her capacity as a TSB shareholder and subject to certain conditions, to vote his or her shares of TSB common stock in favor of the merger agreement.

### **Voting of Proxies**

Shares of common stock represented by properly executed proxies received at or prior to the TSB special meeting will be voted at the special meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted "FOR" approval of the merger agreement and of the proposal for adjournment.

Any shareholder present in person or by proxy (including broker nonvotes, which generally occur when a broker who holds shares in street name for a customer does not have the authority to vote on certain nonroutine matters because its customer has not provided any voting instructions with respect to the matter) at the special meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of the holders of a majority of all shares entitled to vote at the TSB special meeting, abstentions and broker nonvotes will have the same effect as negative votes. Accordingly, the TSB board of directors urges its shareholders to complete, date, and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope. Abstentions and broker nonvotes will have no effect on any vote on a proposal for adjournment of the special meeting.

### **Revocability of Proxies**

The grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. There are three ways you can change your vote:

you may send a written notice to the person to whom you submitted your proxy stating that you would like to revoke your proxy;

you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by TSB prior to the special meeting will be your vote. Any earlier votes will be revoked; or

you may attend the special meeting and vote in person, and any earlier votes will be revoked.

Simply attending the special meeting without voting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you will receive from your broker to change or revoke your proxy.

### **Solicitation of Proxies**

TSB and SCBT will share the costs of printing this proxy statement/prospectus and of soliciting proxies in connection with the special meeting, except that SCBT will pay the costs of filing the registration statement with the SEC, of which this proxy statement/prospectus is a part. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of TSB who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

No person is authorized to give any information or to make any representation not contained in this proxy statement/prospectus and, if given or made, such information or representation should not be relied upon as having been authorized by TSB, SCBT, or any other person. The delivery of this proxy statement/prospectus does not, under any circumstances, create any implication that there has been no change in the business or affairs of TSB or SCBT since the date of this proxy statement/prospectus.

**Authorization to Vote on Adjournment**

At the special meeting, you will be asked to adjourn the special meeting, including, if necessary, to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement. If you do not specify whether authority is granted or withheld, the proxy will be voted to adjourn. The board of directors of TSB unanimously recommends that shareholders grant authority to the proxies to vote on adjournment at the special meeting.

**Recommendation of the Board of Directors**

The TSB board of directors has determined that the merger agreement and the transactions contemplated thereby are in the best interests of TSB and its shareholders. The members of the TSB board of directors unanimously recommend that the TSB shareholders vote at the special meeting to approve the merger agreement.

In the course of reaching its decision to approve the merger agreement and the transactions contemplated thereby, the TSB board of directors, among other things, consulted with its legal advisor, Robinson, Bradshaw & Hinson, P.A., regarding the legal terms of the merger agreement and with its financial advisor Keefe Bruyette as to the fairness, from a financial point of view, of the consideration to be received by the holders of TSB common stock in the merger. For a discussion of the factors considered by the TSB board of directors in reaching its conclusion, see "The Merger TSB's Reasons for the Merger" and "The Merger Opinion of TSB's Financial Advisor."

TSB's shareholders should note that TSB's directors and officers have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of TSB. See "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests."

## PROPOSAL NO. 1 THE MERGER

*The descriptions of the terms and conditions of the merger proposal, the merger agreement, and any related documents in this proxy statement/prospectus are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this proxy statement/prospectus, to the registration statement, of which this proxy statement/prospectus is a part, and to the exhibits to the registration statement.*

### Structure of the Merger

The merger agreement provides for the merger of TSB with and into SCBT. SCBT will be the surviving corporation in the merger. The Scottish Bank, a wholly owned subsidiary of TSB, will become a wholly owned subsidiary of SCBT following the merger. Each share of TSB common stock issued and outstanding at the effective time of the merger other than shares for which dissenter's rights have been exercised will be converted, at the election of the holder subject to limitations described below, into \$35.00 cash or 0.993 of a share of SCBT common stock.

### Background of the Merger

In connection with its long-range planning, TSB's board of directors has periodically examined whether TSB (and prior to the holding company reorganization completed in September 2006, The Scottish Bank) should continue to operate as a separate institution or whether its shareholders, depositors, loan customers, employees and the communities it serves could be better served by exploring alternative strategic plans, including a sale to another financial institution. TSB's articles of incorporation specifically provide that the board of directors, in connection with the exercise of its judgment in determining actions that are in the best interests of the corporation with respect to any matter (including any transaction that may involve a change in control or proposed acquisition of the corporation), may, but shall not be required to, give due consideration to all relevant factors, including, without limitation, the social and economic effects on the employees, depositors, customers, suppliers, and other constituents of the corporation, and on the communities in which the corporation operates.

In October 2005, the board of directors met with an independent financial advisory firm to evaluate the corporation's business plan and to discuss alternative strategic plans. At this meeting, the board of directors concluded that at that time it was in the best interests of the shareholders and other interested constituencies for the corporation to continue to operate as a separate, independent financial institution. The board of directors determined to re-examine this topic in early 2007.

In December 2006, one of TSB's independent directors was approached by a regional North Carolina bank holding company to explore whether TSB would be interested in being acquired. That director and TSB's Chairman of the Board, who is also an independent director, met with representatives of this bank holding company later that month and discussed the possible interests of the parties in exploring a transaction in which TSB would be acquired. The parties followed this meeting with a meeting in February 2007, which John Stedman, TSB's President and Chief Executive Officer, also attended. These early exploratory conversations did not result in any agreement to formally pursue any business combination transaction.

In March and April 2007, representatives of TSB's board of directors met with representatives of two other financial institutions, in each case initiated by these institutions, to explore the interests of these parties in pursuing an acquisition of TSB. Neither of these financial institutions was SCBT.

At its meeting on May 22, 2007, TSB's board of directors considered information reported to it by the members of the board of directors who had met with financial institutions that had expressed an interest in pursuing a merger with TSB. After discussion, the board of directors voted to actively explore whether a merger transaction would be in the best interests of TSB's shareholders and other interested constituencies. The board of directors authorized management to contact several financial

advisory firms to make presentations of their qualifications to assist the board of directors in this process.

On May 25, 2007, at the request of Robert Hill, SCBT's President and Chief Executive Officer, Mr. Stedman met with Mr. Hill to discuss SCBT's potential interest in pursuing a merger with TSB. Mr. Stedman advised Mr. Hill of the recent determination by TSB's board of directors to explore transactions of the nature proposed by Mr. Hill. Mr. Hill and Mr. Stedman agreed to schedule a meeting of the chief financial officers of their respective institutions to permit each to conduct preliminary due diligence. On May 29, 2007, Jan H. Hollar, TSB's Chief Financial Officer, and John C. Pollok, SCBT's Chief Financial Officer, met to discuss various preliminary due diligence matters, including TSB's loan portfolio, allowance for loan losses and related matters. At that meeting, TSB and SCBT entered into a confidentiality agreement pursuant to which each agreed to maintain in confidence the nonpublic information shared between the parties and the fact that the parties were engaged in any conversation regarding a potential transaction.

At its meeting on May 30, 2007, TSB's board of directors interviewed representatives of four financial advisory firms regarding their qualifications, recent experiences in representing community banking corporations in merger and acquisition transactions, and commitment to actively pursue the project, as well as the engagement terms proposed by each of these firms. After considering the relative merits of each of these firms, the board of directors unanimously voted to approve the engagement of Keefe Bruyette to assist the board of directors in identifying and evaluating TSB's strategic alternatives. In reaching this decision, the board of directors noted Keefe Bruyette's strong reputation as merger and acquisition financial advisors to the banking industry. The board of directors confirmed that its decision to engage Keefe Bruyette to assist the corporation in exploring strategic alternatives did not represent a decision to pursue a sale of the corporation.

By a letter agreement dated May 31, 2007, entered into on June 30, 2007, TSB formally engaged Keefe Bruyette to advise and assist TSB in considering the desirability of engaging in a business combination transaction and, if TSB's board of directors determined to pursue such a transaction, to assist in structuring the definitive financial terms of such a transaction.

During late June and early July 2007, Keefe Bruyette contacted 29 parties it believed might have an interest in exploring a transaction with TSB and described in generic terms a potential transaction opportunity to determine whether the party would be interested in receiving confidential information. Of the 29 parties contacted, 23, including SCBT, agreed to enter into form confidentiality agreements executed by Keefe Bruyette on behalf of TSB. Each of these 23 parties then received a confidential information memorandum prepared by Keefe Bruyette describing TSB. During July 2007, at the request of several of these potential bidders, which did not include SCBT, Mr. Stedman and Ms. Hollar met with representatives of the requesting potential bidders. These meetings occurred at the offices of TSB's legal counsel, Robinson, Bradshaw & Hinson, P.A. Keefe Bruyette requested that the potential bidders submit preliminary proposals for an acquisition transaction by July 31. Of these 23 parties, ten submitted preliminary proposals by the July 31 deadline.

Keefe Bruyette met with TSB's board of directors on August 3 to review the process that had been conducted to that point and the terms of the ten preliminary proposals. After reviewing the proposals and discussing the merits of each of the potential bidders with Keefe Bruyette, including the likelihood that the bidders may increase the proposed merger consideration in the final stages of the process, the board of directors instructed Keefe Bruyette to continue the process with three specified bidders, which included SCBT. These three bidders had submitted preliminary proposals offering merger consideration to TSB's shareholders that, as measured at that date, exceeded the amount offered by the other bidders. The board of directors also noted that each of these three bidders did not appear to raise any disqualifying concerns with respect to the interests of the other constituencies of TSB.

During the weeks of August 6 and August 13, the three final bidders sequentially conducted due diligence examinations of TSB at a data room maintained at the offices of TSB's legal counsel. In connection with their due diligence examinations, each of the three final bidders interviewed Mr. Stedman and Ms. Hollar. The three final bidders submitted their final proposals during the week of August 20.

On August 23, TSB's board of directors met to review the three final proposals. One of the proposals offered merger consideration at a value that was substantially below the levels offered by the other two proposals and was lower than the amount included in that bidder's preliminary proposal. The board of directors determined not to proceed with that proposal. The remaining two proposals reflected a significant increase in the amount of merger consideration from the preliminary proposals submitted by those bidders. The terms of the proposal submitted by SCBT are reflected in the merger agreement. The other remaining bidder offered a 50/50 combination of that bidder's common stock and cash. The stated fixed value of this bid was lower than the implied value of the SCBT merger consideration based on the closing price of SCBT common stock on the prior day.

The board of directors discussed the terms of these proposals and the respective bidders with Keefe Bruyette. The board of directors noted the difference between the fixed exchange ratio proposed by SCBT and the fixed value approach proposed by the other remaining bidder, the differing value of those bids with reference to then-current stock prices, the differing levels of stock consideration offered by those bids, the prospects of each of those bidders, and their respective existing market area, growth and acquisition history, historical stock price performance, comparative stock performance against the NASDAQ Bank Index, management, asset quality, dividend rate, financial ratios, published analysts' recommendations, current share ownership and share liquidity. The board of directors also discussed the fit of each of these bidders with TSB, including the types of expanded services and products each would be able to offer TSB's depositors and loan customers. The board of directors also considered the terms of each of these bidders' proposals with respect to the expected treatment of TSB's employees. Following this discussion, the board of directors unanimously voted to authorize management to negotiate the terms of a definitive agreement to effect the final proposal submitted by SCBT.

Immediately following the conclusion of the board of directors meeting, Mr. Stedman called Mr. Hill to notify him of the board of directors' decision to proceed with SCBT. During that call, Mr. Hill requested that SCBT be permitted the exclusive right, for a two-week period, to negotiate a definitive merger agreement. After the exchange of drafts by respective legal counsel to TSB and SCBT, by a letter agreement dated August 24, 2007, TSB agreed, until the earlier of 14 days after that date or the execution of a definitive merger agreement, not to solicit offers from, negotiate with or discuss or accept any proposal from any person other than SCBT relating to the acquisition of the shares of TSB or The Scottish Bank or their respective assets or businesses, other than a sale of assets in the ordinary course of business, or to furnish any information not generally available to the public regarding TSB or The Scottish Bank in connection with or in contemplation of any such proposal. In addition, the letter agreement obligated TSB to notify SCBT of any acquisition proposals received by TSB during that period.

From August 24 through August 29, TSB and SCBT, primarily through their respective legal counsel, negotiated the terms of the definitive merger agreement and related disclosure schedules, director support agreements, affiliate agreements, claims letters, director noncompetition agreements and Mr. Stedman's employment agreement with SCBT which contemplates his employment with SCBT only in the event that the merger is consummated.

On August 29, TSB's board of directors met commencing at 3:00 p.m. Keefe Bruyette updated the board of directors with respect to market activity since August 23, including the increase in SCBT's stock price since that date, and the progress of the negotiation of the definitive terms of the merger agreement. The board of directors undertook a review and discussion with Robinson, Bradshaw &

Hinson, P.A. of the terms of the merger agreement and related agreements, prior drafts of which had been provided to the board of directors. In addition, the board of directors received the report of Keefe Bruyette with respect to its analysis, including the oral opinion rendered by Keefe Bruyette, which was subsequently confirmed in writing, to the effect that, as of that date and subject to the assumptions made, matters considered and limits of the review undertaken by Keefe Bruyette described in its opinion, the number of whole shares of SCBT common stock, cash or a combination thereof, plus cash in lieu of any fractional share interest, into which shares of TSB common stock shall be converted pursuant to the merger agreement was fair, from a financial point of view, to holders of the shares of TSB common stock. Following discussion, the board of directors unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, and determined that the merger, on the terms and conditions set forth in the merger agreement, was fair to, and in the best interests of, TSB's shareholders. The board of directors further unanimously resolved to recommend to the holders of TSB common stock that they approve the merger agreement.

That evening following the conclusion of TSB's board of directors' meeting, TSB and SCBT entered into the merger agreement. In addition, that evening each of TSB's directors entered into the director support agreements and directors noncompetition agreements, each of TSB's directors and executive officers executed an affiliate's agreement and claims letter, and Mr. Stedman and SCBT entered into his employment agreement with SCBT. A description of these ancillary agreements is included in this proxy statement/prospectus under the caption "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests."

On August 30, 2007, prior to the opening of trading on the NASDAQ Global Select Market and the Over-the-Counter Bulletin Board, TSB and SCBT issued a joint press release announcing the execution of the merger agreement. A copy of the merger agreement was included as an exhibit to TSB's Current Report on Form 8-K filed with the SEC later that day.

On September 25, 2007, TSB's board of directors met and unanimously approved an amendment to the merger agreement to resolve an internal inconsistency in the merger agreement by correcting the definition of a term used in the provision governing the allocation of merger consideration between SCBT common stock and cash. This correction reflected the parties' original intention for, and TSB's board of directors' and its financial advisor's understanding of, this provision. The board of directors further unanimously resolved to recommend to the holders of TSB common stock that they approve the merger agreement as so amended. On September 28, 2007, TSB and SCBT entered into the amendment, which was included as an exhibit to TSB's current report on Form 8-K filed with the SEC on October 1, 2007 and is included in Appendix A to this proxy statement/prospectus.

#### **SCBT's Reasons for the Merger**

SCBT's management believes that a combination of the two institutions will further position SCBT in high-growth, demographically attractive markets. SCBT's management believes that it will be able to further leverage TSB's existing customer base, branch network, and reputation. The combination of the two companies will enable TSB's bank subsidiary, The Scottish Bank, to accommodate larger credit facilities for customers and more readily service larger customer relationships. Finally, SCBT expects to gain operating efficiencies through combining the companies as operating duplications are eliminated.



**TSB's Reasons for the Merger**

TSB's board of directors believes that the merger is in the best interests of TSB's shareholders. In making its decision to approve the merger agreement and unanimously recommend approval of the merger agreement by TSB's shareholders, the board of directors of TSB consulted with its financial advisor and legal advisors, as well as its management, and considered many factors. These factors include the following factors, each of which the board of directors believed supported its conclusion, but which are not listed in any relative order of importance:

the financial terms of the proposed merger, including the implied value of the merger consideration of \$35.80 per TSB share based on the closing price per share of \$36.20 of SCBT's common stock on August 28, 2007, the day prior to the board of directors' meeting to consider approval of the merger agreement;

the presentation by Keefe Bruyette indicating that the merger consideration at that \$35.80 implied value represented:

a 31.1x multiple of TSB's earnings per share for the twelve months ended June 30, 2007;

256% of the book value per share of TSB common stock;

256% of the tangible book value per share of TSB common stock;

a premium of 90.9% to the closing per share price of TSB's common stock on August 28, 2007; and

an aggregate value of 124.5% of TSB's core deposits at June 30, 2007, defined as its total deposits less deposits evidenced by certificates of deposit of \$100,000 or more;

the fixed exchange ratio by which shares of TSB common stock would be converted into shares of SCBT common stock in the merger, permitting TSB shareholders to participate in any increase in the value of SCBT stock from the date of the merger agreement;

SCBT's dividend history, including its current annual dividend rate of \$0.68 per share of SCBT common stock, compared to the absence of dividends on shares of TSB common stock;

that the merger will be tax-free, for federal income tax purposes, to TSB's shareholders to the extent they receive shares of common stock of SCBT;

the high proportion of SCBT common stock as a component of the aggregate merger consideration;

the process conducted by Keefe Bruyette to develop and evaluate the interest of potential acquirers;

the increase in the value of merger consideration offered by SCBT compared to its preliminary proposal;

the relative value of the merger consideration offered by the merger agreement compared to the next highest proposal that resulted from the process conducted by Keefe Bruyette;

the oral opinion rendered by Keefe Bruyette, which was subsequently confirmed in writing, to the effect that, as of August 29, 2007 and subject to the assumptions made, matters considered and limits of the review undertaken by Keefe

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Bruyette described in its opinion, the number of whole shares of SCBT common stock, cash or a combination thereof, plus cash in lieu of any fractional share interest, into which shares of TSB common stock shall be converted pursuant to the merger agreement was fair, from a financial point of view, to holders of the shares of TSB common stock;

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the board of directors' knowledge of TSB's business, financial condition, results of operations, prospects and competitive position and whether TSB as an independent enterprise could produce the earnings necessary to result in a value comparable to the value to be received in the merger;

the constraints upon TSB's growth resulting from regulatory capital requirements, the relatively illiquid nature of the market for its stock, and the challenges of achieving increased operating efficiencies for a financial institution of its size;

the value to SCBT of an extension of its franchise into the Charlotte market, the strong capital position of SCBT and the resulting ability of SCBT to employ capital to expand its franchise in that market;

the concentration of TSB's revenues in its existing market area;

SCBT's existing market areas in South Carolina, including its existing presence in the Rock Hill, South Carolina area;

SCBT's prospects and its recent financial performance, its historical stock price performance, and its comparative stock price performance against the NASDAQ Bank Index;

SCBT's history of growth in deposits and loans, as well as geographic expansion;

SCBT's asset quality, including its nonperforming assets as a percentage of total assets, net charge-offs and reserves for loan losses;

SCBT's management;

the continuing trend toward consolidation among financial institutions and the likelihood of SCBT engaging in further acquisition transactions, and thereby extending its franchise and possibly enhancing its market value, or the possibility of SCBT becoming a party in the future to a business combination in which a premium would be paid for the outstanding shares of SCBT common stock;

the nonfinancial terms of the merger agreement, including TSB's right to terminate the merger agreement in order to accept a superior acquisition proposal or to decline to consummate the merger due to the occurrence of an event after the date of the merger agreement having a material adverse effect, as defined in the merger agreement, on SCBT;

provisions of the merger agreement providing for the treatment of TSB employees following the consummation of the merger;

the broader scope and types of products and services that would be offered to TSB's customers by SCBT following the consummation of the merger;

the desire by SCBT to continue the employment of Mr. Stedman and Mr. Schlick following consummation of the merger;

the availability to TSB shareholders of statutory rights of dissent and appraisal in connection with the merger (for a discussion of rights of dissent and appraisal available to TSB shareholders in connection with the merger, see "The Merger Rights of Dissenting TSB Shareholders"); and

the probability of required regulatory approvals being obtained without unreasonable delay or conditions.



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TSB's board of directors also considered a variety of potentially negative factors concerning the merger agreement and the merger, including the following factors, which are not listed in any relative order of importance:

the fixed exchange ratio by which shares of TSB common stock would be converted into shares of SCBT common stock in the merger, subjecting TSB shareholders to a potential decline in the value of the merger consideration resulting from a decline in the market price of SCBT common stock from the date of the merger agreement;

the lack of a provision in the merger agreement entitling the board of directors of TSB to terminate the merger agreement solely as the result of a substantial decline in the market price of SCBT common stock;

the possibility that the merger might not be consummated and the effect of the public announcement of the merger on TSB's customers and personnel;

the fact that the merger agreement contains contractual restrictions on TSB's ability to solicit or negotiate alternative merger transactions;

the fact that the merger agreement contains contractual restrictions applicable to TSB regarding the conduct of its business prior to the consummation of the merger;

the fact that TSB could be required to pay SCBT a fee of up to \$1.75 million if the merger agreement is terminated under certain circumstances or in certain circumstances upon TSB's entry into an agreement to be acquired within a specified period after the merger agreement is terminated; and

the fact that a few employees of TSB are likely not to be offered continued employment by SCBT following the consummation of the merger.

Although not exhaustive, the foregoing discussion of information and factors considered by TSB's board of directors includes the material factors considered by the board of directors. In view of the wide variety of factors considered in connection with its evaluation of the proposed merger, the board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the foregoing factors in reaching its decision. In addition, individual members of the board of directors may have given different weight to different factors and may have viewed some factors more positively or negatively than others. Rather, the board of directors viewed its position as being based on the totality of the information presented to and considered by it.

**TSB's board of directors believes the merger is in the best interests of TSB and its shareholders and recommends that TSB's shareholders vote "FOR" the approval of the merger agreement.**

### **Opinion of TSB's Financial Advisor**

On June 20, 2007, TSB executed an engagement agreement with Keefe Bruyette. Keefe Bruyette's engagement encompassed assisting TSB as its financial advisor in connection with a possible business combination with select other institutions. TSB selected Keefe Bruyette because Keefe Bruyette is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with TSB and its business. As part of its investment banking business, Keefe Bruyette is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On August 29, 2007, the TSB board of directors held a meeting to evaluate the proposed merger of TSB with and into SCBT. At this meeting, Keefe Bruyette reviewed the financial aspects of the proposed merger and rendered a written opinion as of such date as to the fairness to TSB

shareholders, from a financial point of view, of the consideration to be paid in the merger. The TSB board of directors approved the merger agreement at this meeting.

**The full text of Keefe Bruyette's written opinion is attached as Appendix B to this proxy statement/prospectus and is incorporated herein by reference. TSB's shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Keefe Bruyette. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.**

**Keefe Bruyette's opinion speaks only as of the date of the opinion. The opinion is directed to the TSB board and addresses only the fairness, from a financial point of view, of the consideration offered to the TSB shareholders. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any TSB shareholder as to how the shareholder should vote at the TSB special meeting on the merger agreement or any related matter.**

In rendering its opinion, Keefe Bruyette:

reviewed, among other things,

the merger agreement,

Annual Reports to shareholders and Annual Reports on Form 10-K of SCBT,

Quarterly Reports on Form 10-Q of SCBT,

Annual Reports to shareholders and Annual Reports on Form 10-KSB of TSB, and

Quarterly Reports on Form 10-QSB of TSB;

held discussions with members of senior management of TSB and SCBT regarding,

past and current business operations,

regulatory relationships,

financial condition, and

future prospects of the respective companies;

reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for TSB and SCBT and compared them with those of certain publicly traded companies that Keefe Bruyette deemed to be relevant;

compared the proposed financial terms of the merger with the financial terms of certain other transactions that Keefe Bruyette deemed to be relevant;

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evaluated the potential pro forma impact of the merger on SCBT, including cost savings, that management of SCBT expects to result from a combination of the businesses of TSB and SCBT; and

performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, Keefe Bruyette relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to Keefe Bruyette or that was discussed with, or reviewed by or for Keefe Bruyette, or that was publicly available. Keefe Bruyette did not attempt, or assume any responsibility, to verify such information independently. Keefe Bruyette relied upon the management of TSB and SCBT as to the reasonableness and achievability of the financial and operating forecasts and projections (and assumptions and bases therefor) provided to Keefe Bruyette. Keefe Bruyette assumed, without

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independent verification, that the aggregate allowances for loan and lease losses for TSB and SCBT are adequate to cover those losses. Keefe Bruyette did not make or obtain any evaluations or appraisals of any assets or liabilities of TSB or SCBT, nor did it examine or review any individual credit files.

The projections furnished to Keefe Bruyette and used by it in certain of its analyses were prepared by TSB's senior management team. TSB does not publicly disclose internal management projections of the type provided to Keefe Bruyette in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. In its analysis, Keefe Bruyette used certain publicly available financial information and earnings estimates on SCBT and made no attempt to independently verify their accuracy.

For purposes of rendering its opinion, Keefe Bruyette assumed that, in all respects material to its analyses:

the merger will be consummated substantially in accordance with the terms set forth in the merger agreement;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the consummation of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, that may be imposed, will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

Keefe Bruyette further assumed that the merger will be accounted for as a purchase transaction under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. Keefe Bruyette's opinion is not an expression of an opinion as to the prices at which shares of TSB common stock or SCBT common stock will trade after the announcement of the proposed merger or the actual value of the SCBT common shares when issued pursuant to the merger, or the prices at which the SCBT common shares will trade following the consummation of the merger.

In performing its analyses, Keefe Bruyette made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of Keefe Bruyette, TSB and SCBT. Any estimates contained in the analyses performed by Keefe Bruyette are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the Keefe Bruyette opinion was among several factors taken into consideration by the TSB board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the TSB board of directors with respect to the fairness of the consideration to be paid in the merger.



***Summary of Analysis by Keefe Bruyette***

The following is a summary of the material analyses presented by Keefe Bruyette to the TSB board of directors in connection with its written fairness opinion. The summary is not a complete description of the analyses underlying the Keefe Bruyette opinion or the presentation made by Keefe Bruyette to the TSB board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Keefe Bruyette did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, Keefe Bruyette believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

***Summary of Proposal***

TSB shareholders will receive 0.993 of a share of SCBT common stock or cash in the amount of \$35.00 for each share of TSB common stock. Based on SCBT's closing stock price on August 28, 2007 of \$36.20, the exchange ratio represented a value of \$35.80 per share to TSB.

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### *Selected Peer Group Analysis*

Using publicly available information, Keefe Bruyette compared the financial performance, financial condition and market performance of TSB and SCBT to the following depository institutions that Keefe Bruyette considered comparable to TSB and SCBT.

Companies included in TSB's peer group were:

Four Oaks Fincorp, Inc.	Waccamaw Bankshares, Inc.
ECB Bancorp, Inc.	Uwharrie Capital Corp
New Century Bancorp, Inc.	First Trust Bank
Mountain 1st Bank & Trust Company	M&F Bancorp, Inc.
American Community Bancshares, Inc.	Little Bank, Inc.
North State Bancorp	Oak Ridge Financial Services, Inc.
MidCarolina Financial Corporation	Surrey Bancorp
Carolina Bank Holdings, Inc.	CB Financial Corporation
Cape Fear Bank Corporation	Weststar Financial Services Corporation

Companies included in SCBT's peer group were:

Pinnacle Financial Partners, Inc.	FNB United Corp.
Renasant Corporation	Cardinal Financial Corporation
Virginia Financial Group, Inc.	Gateway Financial Holdings, Inc.
Green Bankshares, Inc.	Fidelity Southern Corporation
Security Bank Corporation	Summit Financial Group, Inc.
City Holding Company	First M&F Corporation
First Bancorp	Southern Community Financial Corporation
BancTrust Financial Group, Inc.	Capital Bank Corporation
First Community Bancshares, Inc.	Yadkin Valley Financial Corporation
Union Bankshares Corporation	Bank of Granite Corporation
Virginia Commerce Bancorp, Inc.	Integrity Bancshares, Inc.
Ameris Bancorp	Colony Bankcorp, Inc.
NewBridge Bancorp	PAB Bankshares, Inc.
GB&T Bancshares, Inc.	First Security Group, Inc.
Cadence Financial Corporation	BNC Bancorp

To perform this analysis, Keefe Bruyette used financial information as of the three-month period ended June 30, 2007 if available, otherwise March 31, 2007, and for the three or twelve month period ended June 30, 2007 if available, otherwise March 31, 2007. Market price information was as of August 28, 2007, and 2007 and 2008 earnings estimates were taken from First Call, a nationally recognized earnings estimate consolidator. Certain financial data prepared by Keefe Bruyette, and as referenced in the tables presented below may not correspond to the data presented in TSB's and SCBT's historical financial statements as a result of the different periods, assumptions and methods used by Keefe Bruyette to compute the financial data presented.

Keefe Bruyette's analysis showed the following concerning TSB's and SCBT's financial performance:

Financial Performance Measures:	SCBT	SCBT Peer Group Median	TSB	TSB Peer Group Median
Latest Twelve Months Core Return on Average Equity	13.04%	11.17%	9.44%	10.82%
Latest Twelve Months Core Return on Average Assets	0.98%	1.02%	0.72%	0.83%
Net Interest Margin	3.99%	3.89%	3.49%	3.87%
Latest Twelve Months Efficiency Ratio	66.8%	61.6%	73.6%	61.7%

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Keefe Bruyette's analysis showed the following concerning TSB's and SCBT's financial condition:

Financial Condition Measures:	SCBT	SCBT Peer Group Median	TSB	TSB Peer Group Median
Tangible Equity/Tangible Assets	6.00%	6.59%	8.06%	7.91%
Loans/Deposits	101.3%	94.9%	93.7%	92.8%
Latest Twelve Months Net Charge-offs/Average Loans	0.12%	0.15%	0.09%	0.09%
Loan Loss Reserves/Loans	1.27%	1.14%	1.13%	1.38%
Non Performing Assets/Assets	0.18%	0.43%	0.02%	0.30%

Keefe Bruyette's analysis showed the following concerning TSB's and SCBT's market performance:

Market Performance Measures:	SCBT	SCBT Peer Group Median	TSB	TSB Peer Group Median
Price to Earnings Multiple, based on 2007 GAAP estimated earnings	15.1x	13.3x	NM	NM
Price to Earnings Multiple, based on 2008 GAAP estimated earnings	13.7x	11.7x	NM	NM
Price to Last Twelve Months earnings	16.2x	14.1x	16.3x	17.2x
Price to Book Multiple Value	196%	134%	134%	159%
Price to Tangible Book Multiple Value	248%	180%	134%	169%

### *Comparable Transaction Analysis*

Keefe Bruyette reviewed publicly available information related to selected comparably sized acquisitions announced after January 1, 2005, with aggregate transaction values between \$25 million and \$250 million, of bank holding companies with headquarters in North Carolina, South Carolina and Virginia. The transactions included in the group were:

Acquirer	Acquiree
First National Bancshares, Inc.	Carolina National Corporation
Yadkin Valley Financial Corporation	Cardinal State Bank
Bank of the Carolinas Corporation	Randolph Bank & Trust Company
United Bankshares, Inc.	Premier Community Bankshares, Inc.
Gateway Financial Holdings, Inc.	Bank of Richmond, N.A.
Sandy Spring Bancorp, Inc.	Potomac Bank of Virginia
Crescent Financial Corporation	Port City Capital Bank.
Mercantile Bankshares Corporation	James Monroe Bancorp, Inc.
BNC Bancorp	SterlingSouth Bank & Trust Company
Premier Community Bankshares Inc.	Albemarle First Bank
Union Bankshares Corporation	Prosperity Bank & Trust Company
American National Bankshares Inc.	Community First Financial Corporation
FNB Corp.	Integrity Financial Corporation
SCBT Financial Corporation	Sun Bancshares, Inc.
Capital Bank Corporation	1st State Bancorp, Inc.
Citizens South Banking Corporation	Trinity Bank
First Citizens Bancorporation, Inc.	Summit Financial Corporation
Mercantile Bankshares Corporation	Community Bank of Northern Virginia

Transaction multiples for the merger were derived from an offer price of \$35.80 (based upon SCBT's closing share price on August 28, 2007) per share of TSB common stock. For each precedent

transaction, Keefe Bruyette derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition;

tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition;

the earnings per share of the acquired company for the latest twelve months of results publicly available prior to the time the transaction was announced;

tangible book premium to core deposits based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition; and

market premium based on the closing price one day prior to the announcement of the acquisition.

The results of the analysis are set forth in the following table:

Transaction Price to:	SCBT/TSB Merger	Comparable Transactions Median	Comparable Transactions Maximum	Comparable Transactions Minimum
Book Value (03/31/07)	256%	256%	341%	167%
Tangible Book Value (03/31/07)	256%	260%	364%	167%
Last Twelve Months Earnings per Share	31.1x	28.4x	57.4x	17.4x
Core Deposit Premium	24.5%	25.1%	37.9%	9.3%
Market Premium	90.9%	32.3%	73.5%	(5.6)%

No company or transaction used as a comparison in the above analysis is identical to TSB, SCBT or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

#### ***Discounted Cash Flow Analysis***

Keefe Bruyette performed a discounted cash flow analysis to estimate a range for the implied equity value per share of TSB common stock based on a continued independence scenario. In this analysis, Keefe Bruyette assumed discount rates ranging from 11.0% to 15.0% to derive (i) the present value of the estimated free cash flows that TSB could generate over the period beginning January 2007 and ending in December 2011, (ii) the present value of TSB's terminal value at the end of 2012. Terminal values for TSB were calculated based on a range of 12.5x to 14.5x estimated 2012 earnings per share. In performing this analysis, Keefe Bruyette used TSB management's 2007 and 2008 earnings estimates. Based on management's estimates Keefe Bruyette assumed 12% earnings per share growth for 2009 and 10% growth thereafter. In determining cash flows available to shareholders, Keefe Bruyette used forecasted dividend payout ratios (percentages of earnings per share payable to shareholders), which assume the maintenance of a minimum ratio of tangible common equity to tangible assets of 7.0%.

Based on these assumptions, Keefe Bruyette derived an implied equity value per share of TSB common stock ranging from \$24.71 to \$32.47.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of TSB common stock.

***Forecasted Pro Forma Financial Analysis***

Keefe Bruyette analyzed the estimated financial impact of the merger on SCBT's 2008 estimated earnings per share and 2008 estimated cash earnings per share. Cash earnings per share is determined by adding per share amortization of intangible assets to earnings per share. For SCBT, Keefe Bruyette used the First Call consensus estimate of earnings per share for 2008. For TSB, Keefe Bruyette used management estimates of earnings per share for 2008. In addition, Keefe Bruyette assumed that the merger will result in cost savings equal to SCBT management's estimates. Based on its analysis, Keefe Bruyette determined that the merger would be accretive to SCBT's estimated GAAP and cash earnings per share in 2008.

Furthermore, the analysis indicated that SCBT's Leverage Ratio, Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio would all remain "well capitalized" by regulatory standards. For all of the above analysis, the actual results achieved by SCBT following the merger may vary from the projected results, and the variations may be material.

*Other Analyses.* Keefe Bruyette reviewed the relative financial and market performance of TSB and SCBT to a variety of relevant industry peer groups and indices. Keefe Bruyette also reviewed earnings estimates, balance sheet composition, historical stock performance and other financial data for SCBT.

The TSB board has retained Keefe Bruyette as an independent contractor to act as financial adviser to TSB regarding the merger. As part of its investment banking business, Keefe Bruyette is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, Keefe Bruyette has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, Keefe Bruyette may, from time to time, purchase securities from, and sell securities to, TSB and SCBT. As a market maker in securities, Keefe Bruyette may from time to time have a long or short position in, and buy or sell, debt or equity securities of TSB and SCBT for Keefe Bruyette's own account and for the accounts of its customers.

TSB and Keefe Bruyette have entered into an agreement relating to the services to be provided by Keefe Bruyette in connection with the merger. TSB has agreed to pay Keefe Bruyette at the time of closing, a cash fee equal to 1.25% of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock of TSB in the transaction. Pursuant to the Keefe Bruyette engagement agreement, TSB also agreed to reimburse Keefe Bruyette for reasonable out-of-pocket expenses and disbursements incurred in connection with its engagement and to indemnify Keefe Bruyette against certain liabilities, including liabilities under the federal securities laws.

**Merger Consideration**

Under the terms of the merger agreement, each share of TSB common stock (other than shares for which dissenter's rights have been exercised) will be converted, at the election of the holder subject to certain limitations described below, into the right to receive either 0.993 of a share of SCBT common stock or \$35.00 in cash, without interest. However, under the merger agreement, SCBT and TSB have agreed that, regardless of the elections made by TSB's shareholders, 939,372 shares of SCBT common stock will be issued as merger consideration, with the remaining merger consideration being paid in cash. As a result, no more than 945,994 shares of TSB common stock (representing the 939,372 shares of SCBT common stock to be issued as merger consideration, divided by the 0.993 exchange ratio) will be converted into shares of SCBT common stock in the merger.

If elections are made to convert shares of TSB common stock into shares of SCBT common stock in the merger ("Stock Election Shares") with respect to more than 945,994 shares of TSB common stock, then all shares of TSB common stock for which cash elections ("Cash Election Shares") were made and all shares of TSB common stock for which no elections were made ("Nonelection Shares") will be converted into the right to receive the cash consideration of \$35.00 per share, and each holder of Stock Election Shares will be entitled to receive SCBT common stock in respect of that number of Stock Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such holder by (y) a fraction, the numerator of which is 945,994 and the denominator of which is the total number of Stock Election Shares, with the remaining number of such holder's Stock Election Shares being converted into the right to receive the cash consideration;

If the total number of Stock Election Shares is less than 945,994 (the deficit being referred to herein as the "Shortfall Number"), then all Stock Election Shares shall be converted into the right to receive the Stock Consideration and the Nonelection Shares and the Cash Election Shares shall be treated in the following manner:

If the Shortfall Number is less than or equal to the number of Nonelection Shares, then all Cash Election Shares shall be converted into the right to receive the cash consideration, and each holder of Nonelection Shares shall receive the stock consideration in respect of that number of Nonelection Shares held by such holder equal to the product obtained by multiplying (x) the number of Nonelection Shares held by such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Nonelection Shares, with the remaining number of such holder's Nonelection Shares being converted into the right to receive the cash consideration.

If the Shortfall Number exceeds the number of Nonelection Shares, then all Nonelection Shares shall be converted into the right to receive the stock consideration, and each holder of Cash Election Shares shall receive the stock consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such holder by (y) a fraction, the numerator of which is the amount by which (1) the Shortfall Number exceeds (2) the total number of Nonelection Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such holder's Cash Election Shares being converted into the right to receive the cash consideration.

As a result of the foregoing prorations, you could receive cash or shares of SCBT common stock for greater or fewer TSB shares than you specify in your election.

**No assurance can be given that the current fair market value of SCBT common stock will be equivalent to the fair market value of SCBT common stock on the date that stock is received by a TSB shareholder or at any other time. The fair market value of SCBT common stock received by a TSB shareholder may be greater or less than the current fair market value of SCBT due to numerous market factors.**

#### **Election Procedures and Exchange of Certificates**

No more than 40 and no less than 20 business days prior to the anticipated election deadline, each holder of record of TSB common stock will be sent an election form and other appropriate and customary transmittal materials which will permit each TSB shareholder:

to elect to receive \$35.00 per share in cash in exchange for all shares of TSB common stock held by the shareholder;

to elect to receive 0.993 of a share of SCBT common stock per share, plus cash in lieu of any fractional share, in exchange for all shares of TSB common stock held by the shareholder;

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to elect to receive the cash consideration with respect to a portion of the shares of TSB common stock held by the shareholder and the stock consideration with respect to the remaining shares of TSB common stock held by the shareholder;  
or

to make no election with respect to the consideration to be received in exchange for the shareholder's shares of TSB common stock.

If your shares or a portion of your shares of TSB common stock are held in "street name" by a broker, bank or other nominee, an election form will be mailed to the broker, bank or other nominee with respect to those shares.

An election form must be either accompanied by the TSB stock certificates as to which the election form is being made, or must be accompanied by an appropriate guarantee of delivery of those stock certificates.

In order to be effective, a properly completed election form, together with stock certificates (or a properly completed notice of guaranteed delivery) must be submitted to the exchange agent on or before the election deadline, which will be 5:00 p.m., New York City time, on a date no later than the fifth business day following the closing date of the merger. SCBT will issue a press release announcing the date of the election deadline as promptly as practicable after the election deadline is determined.

If a TSB shareholder either:

does not submit a properly completed election form in a timely fashion; or

revokes his, her or its election form prior to the election deadline and does not resubmit a properly completed election form by the election deadline,

the shares of TSB common stock held by the shareholder will be designated nonelection shares. The exchange agent will have reasonable discretion in determining whether any election revocation or change was properly or timely made and to disregard any immaterial defects in the election form.

If you have a preference for receiving either cash or SCBT common stock for your shares of TSB common stock, you should return the election form indicating your preference. TSB shareholders who make an effective election will be accorded priority over those shareholders who make no election in instances where the cash consideration or stock consideration must be re-allocated in order to achieve the required ratio of TSB shares being converted into the right to receive cash and SCBT common stock. If you do not make an effective election, you will be allocated cash and/or SCBT common stock depending on the elections made by other TSB shareholders. **However, even if you do make an effective election, the form of merger consideration that you actually receive may differ from the form of merger consideration that you elect to receive due to the allocation procedures described in the section of this proxy statement/prospectus captioned "The Merger Merger Consideration."**

The market price of SCBT common stock will fluctuate between the date of this proxy statement/prospectus, the date of your election and the effective time of the merger. Because the ratio of shares of SCBT common stock to be exchanged for shares of TSB common stock is fixed, such fluctuations will alter the value of the shares of SCBT common stock that you may receive in the merger. In addition, because the tax consequences of receiving cash will differ from the tax consequences of receiving SCBT common stock, you should carefully read the section in this proxy statement/prospectus titled "The Merger Material Federal Income Tax Consequences" beginning on page 40.

Generally, an election may be revoked or changed, but only by written notice received by the exchange agent prior to the election deadline accompanied by a properly completed and signed revised form of election. If an election is revoked and any certificates have been transmitted to the exchange agent, the exchange agent will promptly return those certificates to the shareholder who submitted those certificates via first-class mail or, in the case of shares of TSB common stock tendered by

book-entry transfer in the exchange agent's account at the Depository Trust Company, or DTC, by crediting such shares to an account maintained by such shareholder within DTC promptly following the revocation of the election. TSB shareholders will not be entitled to revoke or change their election following the election deadline. All election forms will be automatically revoked, and all TSB stock certificates returned, if the exchange agent is notified in writing by SCBT and TSB that the merger agreement has been terminated.

The exchange agent will be entitled to deduct and withhold from the cash consideration or cash in lieu of fractional shares, cash dividends or distributions payable to any TSB shareholder the amounts it is required to deduct and withhold under any federal, state, local or foreign tax law. If the exchange agent withholds any amounts, these amounts will be treated for all purposes of the merger as having been paid to the shareholders from whom they were withheld.

The transmittal materials will also include instructions for effecting the surrender and cancellation of stock certificates in exchange for the merger consideration to which the holder is entitled. Risk of loss and title to the certificates will remain with the holder until proper delivery of such certificates to the exchange agent by former TSB shareholders. TSB's shareholders should not surrender their certificates for exchange until they receive a letter of transmittal and instructions. After the effective time of the merger, each holder of shares of TSB common stock, except holders exercising dissenters' rights of appraisal, issued and outstanding at the effective time must surrender the certificate or certificates representing their shares to the exchange agent and will, as soon as reasonably practicable after surrender, receive the consideration to which the holder is entitled under the merger agreement. The exchange agent will not be obligated to deliver the consideration to which any former holder of TSB common stock is entitled until the holder surrenders the certificate or certificates representing his or her shares for exchange. The certificate or certificates so surrendered must be duly endorsed as SCBT may require. SCBT will not be liable to a holder of TSB common stock for any property delivered in good faith to a public official pursuant to any applicable abandoned property law.

After the effective time of the merger (and prior to the surrender of certificates of TSB common stock to the exchange agent), record holders of certificates that represented outstanding TSB common stock immediately prior to the effective time of the merger will have no rights with respect to the certificates other than the right to surrender the certificates and receive in exchange for the certificates cash and/or a certificate or certificates representing the aggregate number of whole shares of SCBT common stock to which the holder is entitled pursuant to the merger agreement.

In the event that any dividend or distribution, the record date for which is on or after the effective time of the merger, is declared by SCBT on SCBT common stock, no such dividend or other distribution will be delivered to the holder of a certificate representing shares of TSB common stock immediately prior to the effective time of the merger until such holder surrenders such certificate as set forth above.

In addition, holders of certificates that represented outstanding TSB common stock immediately prior to the effective time of the merger will be entitled to vote after the effective time of the merger at any meeting of SCBT shareholders the number of whole shares of SCBT common stock into which such shares have been converted, even if such holder has not surrendered such certificates for exchange as set forth above.

#### **Fractional Shares**

No fractional shares of SCBT common stock will be issued to any holder of TSB common stock in the merger. For each fractional share that would otherwise be issued, SCBT will pay cash in an amount equal to the fraction multiplied by the average of the closing sale prices of SCBT common stock as reported on the NASDAQ Global Select Market during the 20 consecutive full trading days ending at the closing of trading on the closing date of the merger; provided, however, that if SCBT common



stock does not trade on any one or more of the trading days during the 20 consecutive full trading days ending at the closing of trading on the closing date of the merger, any such date shall be disregarded in computing the average closing sales price and the average shall be based upon the closing sales prices and number of days on which SCBT common stock actually traded during the 20 consecutive full trading days ending at the closing of trading on the closing date of the merger. No interest will be paid or accrued on cash payable in lieu of fractional shares.

#### **Treatment of Options**

Each holder of an option to acquire shares of TSB common stock will receive cash (without interest) equal to the amount by which, if any, \$35.00 exceeds the exercise price per share of TSB common stock underlying such option less applicable taxes, if any, required to be withheld with respect to such payment. No TSB options will remain outstanding following the merger or be exchanged for options for shares of SCBT common stock.

#### **Material Federal Income Tax Consequences**

The following summary sets forth the material United States federal income tax consequences of the merger to the holders of TSB common stock who exchange such stock for (1) shares of SCBT common stock, (2) cash, or (3) a combination of cash and SCBT common stock. The summary addresses only shareholders who are citizens or residents of the United States who hold their TSB common stock as a capital asset. It does not address all the tax consequences that may be relevant to particular shareholders in light of their individual circumstances or to shareholders that are subject to special rules, including, without limitation, financial institutions, tax-exempt organizations, insurance companies, dealers in stocks or securities or foreign currencies, foreign holders, persons that hold shares as a hedge against currency risk or a constructive sale or conversion transaction, or holders who acquired their shares pursuant to the exercise of employee stock options or otherwise as compensation, or the application of the alternative minimum tax. In addition, the following summary does not address the tax consequences of the merger to holders of TSB stock options. The following summary is based upon the Internal Revenue Code of 1986, as amended, Treasury regulations, administrative rulings and court decisions in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and foreign laws are not addressed.

No ruling has been, or will be, sought from the Internal Revenue Service as to the United States federal income tax consequences of the merger. Consummation of the merger is conditioned upon SCBT and TSB receiving an opinion from McNair Law Firm, P.A., counsel to SCBT, to the effect that, based upon facts, representations and assumptions set forth in such opinions, the merger constitutes a reorganization within the meaning of Section 368 of the Internal Revenue Code. The issuance of the opinions is conditioned on, among other things, such counsel's receipt of representation letters from each of TSB and SCBT, in each case in form and substance reasonably satisfactory to such counsel. Opinions of counsel are not binding on the Internal Revenue Service.

#### ***The Merger***

Based upon the above qualifications, for United States federal income tax purposes the merger will constitute a reorganization within the meaning of Section 368 of the Internal Revenue Code. TSB and SCBT each will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code, and neither TSB nor SCBT will recognize any gain or loss as a result of the merger.

#### ***Consequences to TSB Shareholders***

Based on the above qualifications, a holder of TSB common stock who exchanges all of his or her TSB common stock solely for SCBT common stock will not recognize income, gain or loss for United

States federal income tax purposes, except, as discussed below, with respect to cash received in lieu of fractional shares of SCBT common stock.

Holders of TSB common stock who receive cash in lieu of fractional shares of SCBT common stock in the merger generally will be treated as if the fractional shares of SCBT common stock had been distributed to them as part of the merger, and then redeemed by SCBT in exchange for the cash actually distributed in lieu of the fractional shares, with the redemption generally qualifying as an "exchange" under Section 302 of the Internal Revenue Code, as described below. Consequently, those holders generally will recognize capital gain or loss with respect to the cash payments they receive in lieu of fractional shares measured by the difference between the amount of cash received and the tax basis allocated to the fractional shares.

A holder of TSB common stock who exchanges his or her TSB common stock solely for cash will be treated as if shares of SCBT common stock having a fair market value equal to the cash actually received by the holder had been distributed by SCBT as part of the merger to the holder with such shares of SCBT common stock then being redeemed by SCBT in return for the cash actually received by the holder. If this hypothetical redemption constitutes an "exchange" under Section 302 of the Internal Revenue Code, as described below, taking into account the holder's actual and constructive ownership of SCBT common stock under Section 318 of the Internal Revenue Code, the gain or loss realized on the exchange will be recognized by the holder and will be treated as a capital gain or loss, measured by the difference between the cash received and the holder's adjusted tax basis in the holder's TSB common stock exchanged. If the hypothetical redemption does not qualify as an "exchange" under Section 302 of the Internal Revenue Code, the cash received will be treated as ordinary dividend income, generally to the extent of the holder's appropriate share of earnings and profits. To the extent the cash distribution exceeds the holder's appropriate share of earnings and profits, the amount received will be applied against and reduce the holder's adjusted basis in his or her stock and any excess will be treated as gain from the sale or exchange of the stock.

A holder of TSB common stock who exchanges his or her TSB common stock for a combination of cash and SCBT common stock will recognize income or gain in an amount equal to the lesser of (a) the amount of cash received, or (b) the gain realized on the exchange. The gain realized on the exchange will equal the fair market value of SCBT common stock received plus the amount of cash received, less the holder's adjusted tax basis in the shares of TSB common stock exchanged by the holder. In determining whether the gain or income will be treated as capital gain or as ordinary dividend income, the holder will be treated as if shares of SCBT common stock having a fair market value equal to the cash actually received by the holder had been distributed by SCBT as part of the merger to the holder with such shares of SCBT common stock then being redeemed by SCBT in return for the cash actually received by the holder. If this hypothetical redemption constitutes an "exchange" under Section 302 of the Internal Revenue Code, as described below, taking into account the holder's actual and constructive ownership of SCBT common stock under Section 318 of the Internal Revenue Code, the holder of TSB common stock who receives a combination of cash and SCBT common stock will recognize a capital gain. If the hypothetical redemption does not qualify as an "exchange" under Section 302 of the Internal Revenue Code, the holder will recognize ordinary dividend income, generally to the extent of the holder's appropriate share of earnings and profits. The remainder of the gain, if any, will be a capital gain. In the view of the Supreme Court's 1989 decision in *Clark v. Commissioner*, it is not entirely clear as to whose earnings and profits, SCBT's or TSB's, are to be included in measuring the amount of cash that may be characterized as ordinary dividend income. Holders of TSB are encouraged to consult their tax advisors to determine particular tax consequences to them. In no case, however, may a holder of TSB common stock who receives a combination of cash and SCBT common stock recognize a loss on the exchange.

In general, whether this hypothetical redemption constitutes an "exchange" under Section 302 of the Internal Revenue Code will depend upon whether and to what extent the hypothetical redemption

reduces the holder's percentage stock ownership in SCBT. The hypothetical redemption will be treated as an "exchange" if, under the principles of Section 302 of the Internal Revenue Code, the hypothetical redemption is (a) "substantially disproportionate," (b) "not essentially equivalent to a dividend" or (c) results in a "complete termination" of the holder's interest in SCBT common stock.

In general, the determination of whether the hypothetical redemption will be "substantially disproportionate" will require a comparison of (x) the percentage of the outstanding voting stock of SCBT that the holder of TSB common stock is deemed to actually and constructively own immediately before the hypothetical redemption by SCBT and (y) the percentage of the outstanding voting stock of SCBT actually and constructively owned by the holder immediately after the hypothetical redemption by SCBT. Generally, the hypothetical redemption will be "substantially disproportionate" to a holder of TSB common stock if the percentage described in (y) above is less than 80% of the percentage described in (x) above. The "substantially disproportionate" test will not apply unless immediately after the hypothetical redemption, the holder owns less than 50% of the total combined voting power of all classes of SCBT entitled to vote. Whether the hypothetical redemption is "not essentially equivalent to a dividend" with respect to the holder will depend on the holder's particular circumstances. In order for the hypothetical redemption to be "not essentially equivalent to a dividend," the hypothetical redemption must result in a "meaningful reduction" in the holder's percentage stock ownership of the merged company's common stock. The Internal Revenue Service has ruled that a minority shareholder in a publicly traded corporation whose relative stock interest is minimal and that exercises no control with respect to corporate affairs is considered to have a "meaningful reduction" generally if such shareholder has some reduction in such shareholder's percentage stock ownership. Holders of TSB common stock should consult their tax advisors as to the applicability of the ruling to their own individual circumstances.

The hypothetical redemption will result in a "complete termination" of the holder's interest in SCBT common stock if either (i) all of the shares actually and constructively owned by the shareholder are exchanged for cash pursuant to the merger or (ii) all of the shares actually owned by the holder are exchanged pursuant to the merger and the holder is eligible to waive, and effectively waives, the attribution of shares constructively owned by the holder in accordance with the procedures described in Section 302(c)(2) of the Internal Revenue Code. Only family attribution, as referred to below, may be waived under Section 302(c)(2) of the Internal Revenue Code.

In applying the constructive ownership provisions of Section 318 of the Internal Revenue Code, a holder of TSB common stock may be deemed to own stock that is owned directly or indirectly by other persons, such as certain family members and entities such as trusts, corporations, partnerships or other entities in which the holder has an interest. Since the constructive ownership provisions are complex, holders should consult their tax advisors as to the applicability of these provisions.

Any capital gain recognized by any holder of TSB common stock under the above discussion will be long-term capital gain if the holder has held the TSB common stock for more than twelve months at the time of the exchange. In the case of a noncorporate holder, that long-term capital gain may be subject to a maximum federal income tax of 15%.

The deductibility of capital losses may be limited for both corporate and noncorporate holders.

Each holder's aggregate tax basis in SCBT common stock received in the merger will be the same as the holder's aggregate tax basis in the TSB common stock exchanged, decreased by the amount of any cash received in the merger and by the amount of any tax basis allocable to any fractional share interest for which cash is received and increased by any gain or income recognized in the exchange. The holding period of SCBT common stock received by a holder in the merger will include the holding period of the TSB common stock exchanged therefor in the merger to the extent the TSB common stock exchanged is held as a capital asset at the time of the merger.

***Treatment of Dividend to Corporate Holders of TSB Common Stock***

If the merger consideration is treated to any extent as ordinary dividend income to a corporate shareholder of TSB, the amount of the dividend should generally be eligible for the 70% dividends received deduction, subject to the limitations of Sections 246 and 246A of the Internal Revenue Code.

In addition, the amount of any taxable dividend to a corporate shareholder may be an "extraordinary dividend" as defined in Section 1059 of the Internal Revenue Code. Under that section, if a corporate shareholder receives an extraordinary dividend with respect to any stock that has been held for two years or less, the nontaxed portion of the dividend (generally the portion eligible for the dividends received deduction) would reduce the shareholder's tax basis with respect to that stock at the time of any disposition thereof, thereby increasing any taxable gain recognized on a subsequent disposition. If the nontaxed portion exceeds the corporate shareholder's tax basis in such stock, the corporate shareholder must treat the excess as additional gain in the taxable year in which the extraordinary dividend is received. In the case of any redemption of stock, including a hypothetical redemption in connection with the merger, any amount treated as a taxable dividend to a corporate shareholder will be treated as an extraordinary dividend without regard to the holding period of the stock or the magnitude of the taxable dividend.

***Backup Withholding***

Holders of TSB common stock, other than certain exempt recipients, may be subject to backup withholding at a rate of 28% with respect to any cash payment received in the merger. However, backup withholding will not apply to any holder who either (a) furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding by completing the substitute Form W-9 that will be included as part of the transmittal letter, or (b) otherwise proves to SCBT and its exchange agent that the holder is exempt from backup withholding.

TSB shareholders will also be required to file certain information with their federal income tax returns and to retain certain records with regard to the merger.

***The discussion of United States federal income tax consequences set forth above is for general information only and does not purport to be a complete analysis or listing of all potential tax effects that may apply to a holder of TSB common stock. We strongly encourage each TSB shareholder to consult his or her tax advisors to determine the particular tax consequences to them of the merger, including the application and effect of federal, state, local, foreign and other tax laws.***

**Interests of Directors and Executive Officers of TSB that Differ from Your Interests**

***General***

Some of the directors and executive officers of TSB may be deemed to have interests in the merger in addition to their interests as shareholders of TSB generally. These interests include, among others, proposed employee benefits for those who become employees of SCBT or an SCBT subsidiary after the merger, an employment agreement with John B. Stedman, Jr., the payment of cash for outstanding TSB stock options, rights under change-in-control agreements and indemnification and insurance coverage for TSB's directors and officers, as described below.

***Employee Benefits***

The merger agreement generally provides that employees of TSB who become employees of SCBT or an SCBT subsidiary after the effective time of the merger will be eligible to participate in SCBT's employee benefit plans with full credit for prior service with TSB or The Scottish Bank for purposes of eligibility, benefit levels and vesting. SCBT also agreed it will make available employer-provided health and other employee welfare benefit plans to these employees and their covered dependents on the

same basis as it provides such coverage to other SCBT employees and their covered dependents except that any preexisting condition, eligibility waiting period, or other limitations or exclusions otherwise applicable under such plans to new employees shall not apply to these employees or their covered dependents who were so covered under a similar plan of TSB or The Scottish Bank. These employees will receive credit for any copayments and deductibles paid under TSB's or The Scottish Bank's health plan for purposes of satisfying any applicable deductible or out-of-pocket requirements under an SCBT health plan. In addition, SCBT agreed to honor any and all vacation or sick leave accrued by employees of TSB and The Scottish Bank and incentive compensation plans for the year ending December 31, 2007.

SCBT has also agreed to provide severance and outplacement services to any employees of TSB or The Scottish Bank that are terminated in connection with the merger (prior to or within a year of the effective time of the merger), in accordance with SCBT's policies and practices. If the employment of any employee of TSB or The Scottish Bank is terminated in connection with the merger prior to the close of business on December 31, 2007, SCBT will provide to such employee, in addition to such severance, an amount equal to the matching contribution (determined at the 2006 matching rate) with respect to TSB's defined contribution plan and 2007 incentive compensation payment that such employee would otherwise have been entitled to receive had such employee remained employed through December 31, 2007.

#### ***Stedman Employment Agreement***

SCBT and John B. Stedman, Jr. have entered into an employment agreement pursuant to which Mr. Stedman will serve as the President and Chief Executive Officer of The Scottish Bank and North Carolina Regional Executive for SCBT. Mr. Stedman's employment under the agreement commences upon the consummation of the merger and will be for a term of three years. Mr. Stedman will receive an annual base salary of \$190,000, which may be increased from time to time in accordance with SCBT's senior management compensation policies. Mr. Stedman will also be eligible to participate in SCBT's incentive-based bonus programs and employment benefit plans applicable to his employment position. SCBT will also provide him with the use of an automobile and will pay dues required to maintain membership at a country club for Mr. Stedman's benefit. If SCBT terminates the agreement without cause, it will continue to pay Mr. Stedman his base salary for one year following termination and contribute to Mr. Stedman's COBRA coverage for the same period. The employment agreement also contains certain change-in-control provisions that could result in payments to Mr. Stedman, if his employment terminates in specified circumstances following a "change in control," totaling twice his "total compensation," defined as (i) his base salary plus (ii) an amount equal to the greater of his annual bonus for the fiscal year immediately preceding the year in which his employment terminates or the average of his annual bonuses for the five fiscal years preceding termination and (iii) the amount contributed on a monthly basis toward his health and dental insurance at the time of the termination of his employment.

In addition, upon consummation of the merger, SCBT will pay \$377,780 to Mr. Stedman and award him restricted shares of SCBT common stock having a value of \$188,890, subject to potential reduction for tax considerations, that will vest four years after the date of consummation of the merger if Mr. Stedman continues to be employed during that period. Upon consummation of the merger, Mr. Stedman's change-in-control agreement with TSB will be terminated.

#### ***Change-in-Control Agreements***

TSB has entered into change-in-control agreements with Mr. Stedman and Ms. Hollar that provide that these executive officers will receive for 12 months after termination of employment in specified circumstances following a "change in control" of TSB payment of base salary and an amount equal to the average bonus amounts paid to him or her, as applicable, during the two most recent fiscal years

ending prior to the change in control, as well as continued primary and dependent health insurance benefits. To be entitled to the payments upon such a change in control, the executive officer's employment must be terminated by TSB or The Scottish Bank other than for cause, or the executive officer must terminate his or her employment for good reason, in either case within 12 months following the change in control. "Cause" is defined as material willful misconduct, use of alcohol or narcotics in a manner that affects the executive's duties as an employee, conviction of a felony or misdemeanor involving moral turpitude, embezzlement or theft from TSB or The Scottish Bank or gross inattention to or dereliction of duty. "Good reason" generally means a material reduction in duties or a change in title resulting in material reduction in responsibilities or position, a material reduction in salary or bonus percentage, or relocation to an area farther than a specified distance from the principal office of TSB.

TSB has also entered into a change-in-control agreement with Mr. Schlick that provides for the payment to Mr. Schlick in a lump sum, discounted to present value, of 12 months' base salary and an amount equal to the average bonus amounts paid to him during the two most recent fiscal years ending prior to the change in control, so long as Mr. Schlick remains employed by The Scottish Bank or SCBT for four months after completion of a change-in-control transaction.

The merger would constitute a change in control under these agreements.

### ***Stock Options***

Upon consummation of the merger, each outstanding and unexercised option to acquire TSB common stock will be cancelled and the holder of each option will receive cash (without interest) equal to the amount by which, if any, \$35.00 exceeds the exercise price per share of TSB's common stock underlying the option less applicable taxes, if any, required to be withheld with respect to such payment. As of the date of this proxy statement/prospectus, directors and officers of TSB held options to acquire [ ] shares of TSB common stock and, assuming none of those options are exercised, will be entitled to receive cash in an aggregate amount of approximately \$[ ] in exchange for such options upon consummation of the merger. All of these options awarded to directors and executive officers were made pursuant to shareholder-approved plans, including awards made to the incorporating directors of The Scottish Bank.

### ***Retention Bonuses***

The merger agreement permits TSB to pay retention bonuses to its employees in connection with the merger in an aggregate amount not to exceed \$350,000. TSB expects to pay \$4,000 of that amount to its executive officers.

### ***Indemnification and Insurance***

SCBT has agreed in the merger agreement, from and after the effective time of the merger, to indemnify, defend, and hold harmless the present and former directors, officers, employees, and agents of TSB and its subsidiaries against all liabilities arising out of actions or omissions arising out of the person's service or services as directors, officers, employees, or agents of TSB or its subsidiary or, at TSB's request, of another corporation, partnership, joint venture, trust, or other enterprise (including the transactions contemplated by the merger agreement) to the fullest extent permitted by law consistent with TSB's articles of incorporation and bylaws as in effect on the date of the merger agreement.

SCBT has also agreed to purchase, or to direct TSB to purchase, an extended reporting period endorsement under TSB's existing directors' and officers' liability insurance coverage for acts or omissions occurring prior to the consummation of the merger by such directors and officers currently covered by the existing policy. The endorsement is required to provide TSB's directors and officers with

coverage following the consummation of the merger for six years or such lesser period of time as can be purchased for an aggregate amount equal to three times the current annual premium. If SCBT is unable to obtain or maintain this insurance coverage, then the merger agreement obligates SCBT to obtain the most advantageous coverage that can be purchased for an aggregate amount equal to three times the current annual premium.

#### ***Ancillary Agreements***

In connection with the execution of the merger agreement, TSB's executive officers and directors entered into several ancillary agreements, the forms of which were included as exhibits to the merger agreement.

Each of TSB's directors entered into a support agreement with SCBT pursuant to which the director agreed to vote all shares of TSB common stock for which the director has sole voting authority, and to use his or her best efforts to cause all shares for which the director shares voting authority to be voted, in favor of approval of the merger agreement and against any proposal to acquire TSB or The Scottish Bank made by any third party. Pursuant to the support agreements, each director further agreed, except with SCBT's prior approval not to be unreasonably withheld, not to sell or transfer or otherwise dispose of any shares of TSB common stock or to deposit any shares of TSB common stock in a voting trust or otherwise enter into a voting arrangement with respect to shares of TSB common stock. The support agreements terminate upon the earlier of the termination of the merger agreement or the consummation of the merger.

Each of TSB's directors also entered into a confidentiality, nonsolicitation and noncompetition agreement with SCBT containing certain confidentiality provisions and prohibiting the director, subject to limited exceptions, from engaging in certain activities for a one-year period, including:

soliciting employees for a business competing with, or encouraging employees to leave the employment of, SCBT or any of its affiliates;

soliciting customers of SCBT or any of its affiliates, on behalf of the director or anyone other than SCBT or any of its affiliates for the purpose of providing "business activities" (as defined in the agreement) or

engaging in such "business activities" in Mecklenburg County, North Carolina, although the director may acquire or hold, for investment purposes only, less than 5% of the outstanding securities of any corporation which may compete directly or indirectly with TSB, SCBT or any of their affiliates and may continue any "business activities" conducted on the date on which the merger agreement was signed.

Each of TSB's executive officers and directors also entered into:

an affiliate's agreement with SCBT pursuant to which he or she individually acknowledged the restrictions under the Securities Act of 1933 and Rule 145 thereunder on his or her ability to transfer shares of SCBT common stock received by him or her in the merger; and

a claims letter with SCBT acknowledging that he or she was not aware of any claims for indemnification that he or she may have had against TSB or The Scottish Bank at that time.

#### **Conditions to Consummation**

The obligations of TSB and SCBT to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including:

Holders of a majority of the outstanding shares of TSB common stock must have approved the merger agreement.

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All required regulatory approvals must have been received, generally without any conditions or requirements which, in the reasonable judgment of the board of directors of SCBT, would so materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement that had such condition or requirement been known, SCBT would not, in its reasonable judgment, have entered into the merger agreement.

The registration statement covering the issuance of the shares of SCBT common stock in the merger must have been declared effective by the SEC, with no proceedings pending or threatened by the SEC to suspend its effectiveness.

Each party must have received an opinion of McNair Law Firm, P.A. to the effect that (i) the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, (ii) SCBT and TSB will each be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code, and (iii) except to the extent of cash consideration or any cash received in lieu of a fractional share interest in SCBT common stock, the shareholders of TSB will not recognize any gain or loss by exchanging their shares of TSB common stock for shares of SCBT common stock pursuant to the merger.

No court or regulatory authority may have taken any action which prohibits, restricts, or makes illegal the consummation of the transactions contemplated by the merger agreement.

SCBT must have satisfied all requirements in order for the shares of SCBT common stock issuable in the merger to be listed on the NASDAQ Global Select Market.

SCBT's obligations to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several additional conditions, including:

TSB's representations and warranties must be accurate except for inaccuracies the aggregate effect of which does not have, and is not reasonably likely to have, a material adverse effect on TSB and must have performed in all material respects all of the agreements and covenants to be performed by it pursuant to the merger agreement, and must have delivered certificates confirming satisfaction of the foregoing requirements and certain other matters.

TSB must have received all consents (other than those of regulatory authorities) required for consummation of the merger and for the prevention of a default under any contract of such party which, if not obtained or made, would reasonably likely have, individually or in the aggregate, a material adverse effect on such party, generally without any conditions or requirements which, in the reasonable judgment of the board of directors of SCBT, would so materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement that had such condition or requirement been known, SCBT would not, in its reasonable judgment, have entered into the merger agreement.

SCBT must have received from each director, executive officer and other "affiliate" of TSB an executed affiliate's agreement in the form attached as an exhibit to the merger agreement (see "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests Ancillary Agreements").



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SCBT must have received from each director of TSB an executed support agreement in the form attached as an exhibit to the merger agreement (see "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests Ancillary Agreements").

SCBT must have received from each director of TSB a confidentiality, nonsolicitation and noncompetition agreement in the form attached as an exhibit to the merger agreement (see "The Merger Interests of Directors and Executive Officers of TSB that Differ from Your Interests Ancillary Agreements").

TSB must have not received timely notice from its shareholders of their intent to exercise their statutory right to dissent with respect to more than 10% of the outstanding shares of TSB common stock.

No material adverse effect must have occurred with respect to TSB after August 29, 2007.

SCBT shall have received resignations, effective as of the effective time of the merger, from all of The Scottish Bank's directors.

TSB's obligations to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several additional conditions, including:

SCBT's representations and warranties must be accurate except for inaccuracies the aggregate effect of which does not have, and is not reasonably likely to have, a material adverse effect on SCBT and must have performed in all material respects all of the agreements and covenants to be performed by it pursuant to the merger agreement, and must have delivered certificates confirming satisfaction of the foregoing requirements and certain other matters.

SCBT must have received all consents (other than those of regulatory authorities) required for consummation of the merger and for the prevention of a default under any contract of such party which, if not obtained or made, would reasonably likely have, individually or in the aggregate, a material adverse effect on such party, generally without any conditions or requirements which, in the reasonable judgment of the board of directors of TSB, would so materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement that had such condition or requirement been known, TSB would not, in its reasonable judgment, have entered into the merger agreement.

SCBT must pay the merger consideration in accordance with the merger agreement.

No material adverse effect must have occurred with respect to SCBT after August 29, 2007.

No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/prospectus, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied.

The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such party's shareholders.

### **Regulatory Approvals**

TSB and SCBT have agreed to cooperate with each other and use their reasonable best efforts to obtain, as promptly as practicable, all regulatory approvals required to consummate the transactions contemplated by the merger agreement, which include approval from the Federal Reserve Board, as detailed below, and the North Carolina Commissioner of Banks. SCBT filed applications in late September, 2007, seeking such approvals. The merger cannot proceed in the absence of these regulatory approvals. Although TSB and SCBT expect to obtain the required regulatory approvals,



there can be no assurance as to if and when the regulatory approvals will be obtained. There can likewise be no assurance that the United States Department of Justice or a state attorney general will not attempt to challenge the merger on antitrust grounds, or, if such a challenge is made, there can be no assurance as to its result.

In evaluating the merger, the Federal Reserve Board is required to consider, among other factors, the financial and managerial resources and future prospects of the institutions and the convenience and needs of the communities to be served. The relevant statutes prohibit the Federal Reserve Board from approving the merger if:

it would result in a monopoly or be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States; or

its effect in any section of the country could be to substantially lessen competition or to tend to create a monopoly, or if it would result in a restraint of trade in any other manner, unless the Federal Reserve Board should find that any anti-competitive effects are outweighed clearly by the public interest and the probable effect of the merger in meeting the convenience and needs of the communities to be served.

The merger may not be consummated any earlier than the 15<sup>th</sup> day following the date of approval of the merger by the Federal Reserve Board, during which time the United States Department of Justice is afforded the opportunity to challenge the merger on antitrust grounds. The commencement of any antitrust action would stay the effectiveness of the approval of the Federal Reserve Board, unless a court of competent jurisdiction should specifically order otherwise.

Other than as summarized above, we are not aware of any governmental approvals or actions that may be required for consummation of the merger. Should any other approval or action be required, we currently contemplate that we would seek such approval or action. To the extent that the above summary describes statutes and regulations, it is qualified in its entirety by reference to those particular statutes and regulations.

#### **Representations and Warranties Made by TSB and SCBT in the Merger Agreement**

The merger agreement contains various customary representations and warranties that TSB and SCBT make for each other's benefit. The representations and warranties made by TSB relate to, among other things:

corporate organization and similar corporate matters;

conflicts under charter documents, required consents or approvals, and violations of any agreements or law;

authorization and enforceability of the merger agreement and related matters;

capital structure;

subsidiaries;

timely filing, accuracy and completeness of documents filed by TSB with the SEC;

financial statements;

absence of certain material adverse events, changes, effects or undisclosed liabilities;

tax returns and audits;

allowance for loan losses and other loan-related matters;

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title to assets;

intellectual property matters;

environmental matters;

compliance with laws and regulations;

labor relations;

retirement and other employee plans and matters relating to the Employee Retirement Income Security Act of 1974, as amended;

material contracts;

legal proceedings;

reports filed with regulatory agencies;

accuracy of accounting records;

loans to officers and directors;

nonapplicability of state antitakeover laws;

board receipt of a fairness opinion;

the recommendation of the merger by TSB's board.

The representations and warranties made by SCBT relate to, among other things:

corporate organization and similar corporate matters;

conflicts under charter documents, required consents or approvals, and violations of any agreements or law;

authorization and enforceability of the merger agreement and related matters;

timely filing, accuracy and completeness of documents filed by SCBT with the SEC;

financial statements;

reports filed with regulatory agencies;

availability of merger consideration; and

absence of certain material adverse events, changes, or effects.

The foregoing is an outline of the representations and warranties made by TSB and SCBT in the merger agreement. You should carefully review the entire merger agreement, and in particular Articles 4 and 5, containing the detailed representations and warranties of the parties. In addition, the assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that we have exchanged in connection with signing the merger agreement. While we do not believe that they contain information that applicable securities laws require us to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in our respective general prior public disclosures, as well as potential additional nonpublic information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may

not be fully reflected in our respective public disclosures. Our respective public filings with the SEC are available without charge on the Internet at [www.sec.gov](http://www.sec.gov).

### **Conduct of Business Pending the Merger**

Under the merger agreement, TSB has agreed, except as otherwise contemplated by the merger agreement or with the prior written consent of SCBT, to:

operate its business only in the usual, regular, and ordinary course;

use commercially reasonable efforts to preserve intact its business organizations and assets and maintain its rights and franchises;

consult with SCBT prior to entering into or making any loans or other transactions with a value equal to or exceeding \$1,000,000; and

except as required by law, take no action which would reasonably be expected to (1) adversely affect the ability of any party to obtain any consents required for the transactions contemplated by the merger agreement without imposition of a condition or restriction which, in the reasonable judgment of the board of directors of SCBT or TSB, would so materially adversely impact the economic or business benefits of the transactions contemplated by the merger agreement that had such condition or requirement been known, such party would not, in its reasonable judgment, have entered into the merger agreement, or (2) adversely affect in any material respect the ability of either party to perform its covenants and agreements under the merger agreement.

In addition, TSB has agreed in the merger agreement not to take or agree to take, or permit any of its subsidiaries to take or agree to take, certain actions pending consummation of the merger without the prior consent of SCBT. Such actions, which are subject to exceptions, include, without limitation:

amending its articles of incorporation, bylaws, or other governing corporate instruments;

becoming responsible for any obligation for borrowed money in excess of an aggregate of \$100,000, except in the ordinary course of business consistent with past practices and that are prepayable without penalty or other premium, or allowing the imposition of a lien on any asset;

acquiring or exchanging (other than exchanges in the ordinary course under employee benefit plans) any shares (or securities convertible into any shares) of TSB capital stock or paying any dividend on its common stock;

issuing, selling, or pledging additional shares of TSB common stock, any rights to acquire any such stock, or any security convertible into such stock, other than pursuant to the exercise of options outstanding on the date of the merger agreement in accordance with their then-current terms;

adjusting or reclassifying any TSB capital stock or issuing or authorizing the issuance of any other securities in respect of, or in substitution for, shares of TSB common stock or its subsidiaries' common stock, or otherwise disposing of any asset other than in the ordinary course for reasonable and adequate consideration;

purchasing any securities or making any material investments in any person or otherwise acquiring direct or indirect control over any person, subject to certain exceptions;

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granting any increase in compensation or benefits to employees, officers, or directors of TSB, paying any bonus, entering into or amending any severance agreements with employees, officers, or directors of TSB (subject to exceptions for annual merit salary increases consistent with past



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practices, the payment of earned bonuses and incentive compensation, and the payment of retention bonuses not to exceed \$350,000 in the aggregate to employees of TSB or its subsidiaries to continue employment through the consummation of the merger), or granting any increase in compensation or other benefits to directors of TSB;

except as contemplated by the merger agreement, entering into or amending (unless required by law) any employment contract that does not give it the unconditional right to terminate the agreement following the effective date of the merger without liability other than for services already rendered;

subject to certain exceptions, adopting any new employee benefit plan or materially changing any existing plan or program;

making any significant change in tax or accounting methods, except for any change required by law or generally accepted accounting principles;

making any material election with respect to taxes;

commencing any litigation other than in accordance with past practice or settling any litigation involving a liability of TSB or its subsidiaries for money damages in excess of \$50,000 or which places material restrictions on operations;

except in the ordinary course of business, modifying, amending, or terminating any material contracts;

except in the ordinary course of business consistent with past practice, making, renegotiating, renewing, increasing, extending, modifying or purchasing any loan, lease (credit equivalent), advance, credit enhancement or other extension of credit, or making any commitment in respect of any of the foregoing;

except in conformity with existing policies and practices, waiving, releasing, compromising, or assigning any material rights or claims;

except for loans or extensions of credit made on terms generally available to the public, making or increasing any loan or other extension of credit, or committing to make or increase any such loan or extension of credit, to any director or executive officer, or any entity controlled, directly or indirectly, by any of the foregoing, other than renewals of existing loans or commitments to loan;

restructuring or materially changing its investment securities portfolio or its interest rate risk position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;

making any capital expenditures in excess of \$100,000 above the capital expenditures budget provided by TSB to SCBT prior to the date of the merger agreement, other than pursuant to binding commitments existing on the date of the merger agreement and other than expenditures necessary to maintain existing assets in good repair or to make payment of necessary taxes;

except for completion of branches or offices in process on the date of the merger agreement, establishing or committing to the establishment of any new branch or other office facilities or filing any application to relocate or terminate the operation of any banking office;

knowingly taking any action that would prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; or

agreeing to take, making any commitment to take, or adopting any resolutions of its board of directors in support of, any of the foregoing actions.

**Nonsolicitation**

In the merger agreement, TSB agreed that its and its subsidiaries will not, and it will cause its representatives not to, directly or indirectly:

solicit, initiate or take any other action to knowingly facilitate, any inquiry in connection with or the making of any proposal that is or may reasonably be expected to lead to, an acquisition proposal, although actions taken pursuant to the requirements of the merger agreement are not deemed a knowing facilitation for purposes of this provision and TSB may make disclosures of nonpublic information to the extent it is required to make those disclosures pursuant to applicable law;

enter into, explore, maintain, participate in or continue any discussion or negotiation with any person (other than SCBT or any of its representatives) relating to an acquisition proposal or otherwise knowingly cooperate in any way with any effort or attempt by any such person to make or effect an acquisition proposal;

enter into any agreement, arrangement or understanding with respect to, or otherwise endorse, any acquisition proposal; or

authorize or permit any of its representatives to take any of the actions described above.

TSB also agreed that, upon its execution of the merger agreement, it and its subsidiaries would immediately cease and cause its representatives to cease any and all then existing activities, discussions or negotiations with any parties (other than SCBT and its representatives) with respect to any acquisition proposal, and use its reasonable best efforts to cause any such parties in possession of confidential information about TSB or its subsidiaries that was furnished by or on behalf of TSB to return or destroy all such information in their or their representatives' possession.

Notwithstanding the foregoing, prior to approval of the merger agreement by TSB's shareholders and subject to TSB's compliance with the procedures described in the next succeeding paragraph, TSB's board of directors may furnish information to, or engage in discussions or negotiations with, any person that makes an unsolicited bona fide written acquisition proposal if:

the acquisition proposal does not result from TSB's breach of the nonsolicitation obligations described above;

TSB's board of directors determines in good faith, after consultation with outside legal counsel, that such action is necessary for the board of directors to comply with its fiduciary duties under applicable law;

TSB's board of directors determines in good faith, after consultation with its financial advisor, that the acquisition proposal constitutes, or would reasonably be expected to lead to, a superior proposal; and

prior to furnishing information to, or engaging in discussions or negotiations with, a third-party, TSB receives from the third party an executed confidentiality agreement, which TSB must provide to SCBT for information purposes, with terms no less favorable to TSB than those contained in the confidentiality agreement TSB's financial advisor had entered into with SCBT.

TSB is obligated to promptly (but in any event within two business days) notify SCBT orally and in writing of the receipt of any acquisition proposal or any inquiry regarding the making of an acquisition proposal, including any request for nonpublic information, the terms and conditions of such request, acquisition proposal or inquiry, and the identity of the person making the request, acquisition proposal or inquiry and to keep SCBT informed of the status and details (including amendments and proposed amendments) of any such request, acquisition proposal or inquiry. Prior to taking any of the actions referred to in the first paragraph, TSB's board of directors must promptly (but in any event within one

day) notify SCBT orally and in writing of any action it proposes to take with respect to such acquisition proposal. After taking any such action, TSB's board of directors must promptly advise SCBT of the status of such action as developments arise or as requested by SCBT. At least three business days prior to TSB's board of directors taking action to terminate the merger agreement as discussed in the next succeeding paragraph, the board of directors must notify SCBT of any such action it proposes to take and, during the three-business-day period, TSB must negotiate in good faith with SCBT with respect to any revised proposal to acquire all of TSB's common stock that SCBT may make prior to or during that three-business-day period.

If TSB's board of directors is entitled to furnish information to, or engage in discussions or negotiations with, any person on the terms described above and complies with the above requirements, TSB may terminate the merger agreement (prior to the approval of the merger agreement by its shareholders) if TSB's board of directors determines in good faith after consultation with its financial advisor that the acquisition proposal constitutes a superior proposal and TSB's board of directors determines in good faith after consultation with outside legal counsel that such action is necessary for the board of directors to comply with its fiduciary duties under applicable law.

The term "acquisition proposal" means any proposal by any person for any transaction or series of related transactions (other than the transactions contemplated by the merger agreement) involving:

any acquisition or purchase from TSB by any person or group (other than SCBT or any of its affiliates) of 25% or more in interest of the total outstanding voting securities of TSB or any of its subsidiaries;

any tender offer or exchange offer that if consummated would result in any person or group (other than SCBT or any of its affiliates) beneficially owning 25% or more in interest of the total outstanding voting securities of TSB or any of its subsidiaries;

any merger, consolidation, business combination or similar transaction involving TSB pursuant to which TSB's shareholders immediately preceding such transaction hold less than 75% of the equity interests in the surviving or resulting entity (which includes the parent corporation of any constituent corporation to any such transaction) of such transaction;

any sale or lease (other than in the ordinary course of business), or exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of 25% or more of the assets of TSB;

any liquidation or dissolution of TSB.

The term "superior proposal" means any acquisition proposal (on its most recently amended or modified terms, if amended or modified) involving the acquisition of at least a majority of the outstanding equity interest in, or all or substantially all of the assets and liabilities of, TSB and with respect to which TSB's board of directors determines in good faith that such acquisition proposal, if accepted, is reasonably likely to be consummated on a timely basis, taking into account all legal, financial, regulatory and other aspects of the acquisition proposal and the person or group making the acquisition proposal, and determines in its good faith judgment (based on, among other things, the advice of its financial advisor) to be more favorable to TSB's shareholders than the merger with SCBT contemplated by the merger agreement taking into account all relevant factors, including whether, in the good faith judgment of TSB's board of directors, after obtaining the advice of its financial advisor, the person or group making the acquisition proposal is reasonably able to finance the transaction and close it timely, and any changes to the merger agreement that may be proposed by SCBT in response to the acquisition proposal.

## Other Agreements

In addition to the agreements we have described elsewhere in this proxy statement/prospectus, we have also agreed in the merger agreement to take, or not to take, several other actions, such as:

Each party will give written notice promptly to the other party upon becoming aware of the occurrence or impending occurrence of any event or circumstance relating to it or any of its subsidiaries which (i) has had or is reasonably likely to have, individually or in the aggregate, a material adverse effect on it or (ii) would cause or constitute a material breach of any of its representations, warranties, or covenants contained in the merger agreement, and will use its reasonable efforts to prevent or promptly to remedy the same.

SCBT will file a registration statement covering the issuance of shares of SCBT common stock in the merger and use its reasonable best efforts to cause it to become effective.

Before the effective time of the merger, SCBT will take such action as is necessary to cause the shares of SCBT common stock issuable in the merger to be traded on the NASDAQ Global Select Market or such other exchange as on which SCBT common stock is then listed.

Before the effective time of the merger, SCBT will not declare or pay a dividend on shares of its common stock other than cash dividends in amounts per share and at times substantially consistent with its past practice.

The parties will cooperate with each other and use their reasonable efforts to obtain all regulatory approvals required in connection with the merger.

Each party will use, and cause each of its subsidiaries to use, its reasonable efforts to consummate the merger as soon as reasonably practicable.

Each party will keep the other party advised of all material developments relevant to its business and permit the other party to make reasonable investigations of its business.

Except as required by law or the rules of any national securities exchange or automated trading system, each party will preserve the confidentiality of the other party's confidential information.

## Termination of the Merger Agreement

Notwithstanding the approval of the merger agreement by TSB's shareholders, TSB and SCBT can mutually agree at any time to terminate the merger agreement before consummating the merger.

### *Either Party's Right to Terminate*

Either TSB or SCBT can terminate the merger agreement:

- (a) if required regulatory approval is denied by final nonappealable action of such regulatory authority or if any action taken by such authority is not appealed within the time limit for appeal;
- (b) if any law or order permanently restraining, enjoining, or otherwise prohibiting the consummation of the merger shall have become final and nonappealable;
- (c)

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if TSB shareholder approval of the merger agreement is not obtained at the special meeting; or

(d)

if we do not consummate the merger by June 30, 2008, provided that the failure to consummate the merger by that date is not caused by any breach of the merger agreement by the party seeking to terminate the merger agreement.

***SCBT's Right to Terminate***

SCBT can terminate the merger agreement:

- (a) if (i) TSB breaches any of its representations, warranties, covenants, or other agreements under the merger agreement, (ii) the breach cannot be cured, and (iii) the breach is reasonably likely, in SCBT's opinion, to permit SCBT to refuse to consummate the merger under the standards set forth in the merger agreement, provided that SCBT is not then in breach of any of its representations, warranties, covenants, or other agreements under the merger agreement, which breach would permit TSB to refuse to consummate the merger pursuant to the merger agreement; or
- (b) if (i) TSB's board of directors fails to reaffirm its approval of the merger agreement and the merger within five business days after SCBT's request for such reaffirmation or resolves not to reaffirm the merger, (ii) TSB's board of directors withdraws, qualifies or modifies, or proposes publicly to withdraw, qualify or modify, in a manner adverse to SCBT, its recommendation to TSB's shareholders that they approve the merger, or (iii) TSB's board of directors affirms, recommends, or authorizes entering into an acquisition of TSB or The Scottish Bank other than the merger with SCBT pursuant to the merger agreement or, within ten business days after commencement of any tender or exchange offer for any shares of TSB common stock, TSB's board of directors makes any recommendation other than against acceptance of such tender or exchange offer by TSB's shareholders, provided, however, that the merger agreement may not be terminated by SCBT for any of these reasons if the merger is approved by the requisite vote of TSB's shareholders or if SCBT is then in breach of any of its representations, warranties, covenants, or other agreements under the merger agreement, which breach would permit TSB to refuse to consummate the merger pursuant to the merger agreement.

***TSB's Right to Terminate***

TSB can terminate the merger agreement

- (a) if (i) SCBT breaches any of its representations, warranties, covenants, or other agreements under the merger agreement, (ii) the breach cannot be cured, and (iii) the breach is reasonably likely, in TSB's opinion, to permit TSB to refuse to consummate the merger under the standards set forth in the merger agreement, provided that TSB is not then in breach of any of its representations, warranties, covenants, or other agreements under the merger agreement, which breach would permit SCBT to refuse to consummate the merger pursuant to the merger agreement; or
- (b) prior to the approval of the merger agreement by the requisite vote of TSB's shareholders, to accept a "superior proposal," as described in "The Merger Nonsolicitation," provided that TSB has not breached any of its nonsolicitation covenants contained in the merger agreement.

**Expenses and Termination Fees**

The merger agreement provides that each party will be responsible for its own direct costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated by the merger agreement. The merger agreement requires TSB to pay the fees and expenses of its financial advisor at closing and prior to the effective time of the merger.

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The merger agreement provides for the payment of a termination fee by TSB to SCBT in the following cases:

If TSB terminates the merger agreement to accept a superior proposal as described above in paragraph (b) of "The Merger Termination of the Merger Agreement TSB's Right to Terminate," then TSB must pay a \$1.75 million termination fee to SCBT upon such termination in same-day funds.

If SCBT terminates the merger agreement for a reason described above in paragraph (b) of "The Merger Termination of the Merger Agreement SCBT's Right to Terminate," and within 12 months after such termination TSB enters into an agreement to effect an acquisition proposal, then upon the signing of such agreement TSB must pay a \$1.5 million termination fee to SCBT in same-day funds.

If either TSB or SCBT terminates the merger agreement because the merger has not been consummated by June 30, 2008 and an acquisition proposal has been made to TSB at the time of such termination, then upon the signing of an agreement to effect that acquisition proposal, TSB must pay a \$1.75 million termination fee to SCBT in same-day funds.

TSB agreed to this termination fee arrangement in order to induce SCBT to enter into the merger agreement. This arrangement could have the effect of discouraging other companies from trying to acquire TSB.

### **Amendment and Waiver**

To the extent permitted by law, TSB and SCBT may amend the merger agreement by written agreement at any time without the approval of TSB's shareholders or SCBT's shareholders. However, after the approval of the merger agreement by TSB's shareholders, no amendment may reduce or modify in any respect the consideration to be received by TSB's shareholders without the further approval of TSB's shareholders.

Prior to or at the effective time of the merger, either TSB or SCBT may waive any default in the performance of any term of the merger agreement by the other party, may waive or extend the time for the fulfillment by the other party of any of its obligations under the merger agreement, and may waive any of the conditions precedent to the obligations of such party under the merger agreement, except any condition that, if not satisfied, would result in the violation of an applicable law. Any such waiver must be in writing.

### **Resales of SCBT Common Stock**

The shares of SCBT common stock to be issued to TSB's shareholders in the merger have been registered under the Securities Act of 1933 (the "Securities Act"). These shares may be traded freely and without restriction by those shareholders not deemed to be "affiliates," as that term is defined under the Securities Act, of TSB or SCBT. Any subsequent transfer of such shares, however, by any person who is an affiliate of TSB at the time the merger is submitted for a vote or consent of the shareholders of TSB will, under existing law, require either:

the registration under the Securities Act of the subsequent transfer of the shares of SCBT common stock;

compliance with Rule 145 promulgated under the Securities Act (permitting limited sales under certain circumstances); or

the availability of another exemption from registration.



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An "affiliate" of TSB, as defined by the rules promulgated pursuant to the Securities Act, is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with TSB. TSB has agreed that it will use its reasonable efforts to cause each person or entity that is an "affiliate" for purposes of complying with Rule 145 to enter into a written agreement relating to such restrictions on sale or other transfer, and each of TSB's directors has entered into such an agreement.

### Accounting Treatment

The merger will be accounted for using the purchase method of accounting, with SCBT being treated as the acquiring entity for accounting purposes. Under the purchase method of accounting, the assets and liabilities of TSB as of the effective time will be recorded at their respective fair values and added to those of SCBT. Financial statements issued after consummation of an acquisition accounted for as a purchase would reflect such values and would not be restated retroactively to reflect the historical financial position or results of operations of the acquired company.

### Rights of Dissenting TSB Shareholders

Article 13 of the North Carolina Business Corporation Act sets forth the rights of the shareholders of TSB who dissent from the merger. The following is a summary of the material terms of the statutory procedures to be followed by a TSB shareholder in order to dissent from the merger and perfect dissenters' rights under the North Carolina Business Corporation Act. The following summary does not purport to be a complete statement of the provisions of the North Carolina Business Corporation Act relating to the rights of dissenting shareholders and is qualified in its entirety by reference to Article 13 of the North Carolina Business Corporation Act. A copy of Article 13 of the North Carolina Business Corporation Act is attached as Appendix C to this proxy statement/prospectus.

If you elect to exercise such a right to dissent and demand appraisal under Article 13, you must satisfy each of the following conditions:

You must give to TSB and TSB must actually receive, before the vote at the shareholders' special meeting on approval or disapproval of the merger agreement is taken, written notice of your intent to demand payment for your shares if the merger is consummated (this notice must be in addition to and separate from any proxy or vote against the approval of the merger agreement; neither voting against, abstaining from voting, nor failing to vote on the merger proposal will constitute a notice within the meaning of the North Carolina Business Corporation Act).

and

You must not vote in favor of the merger proposal. A failure to vote or a vote against the merger proposal will satisfy this requirement. The return of a signed proxy that does not specify whether you vote in favor or against approval of the merger proposal will constitute a waiver of your dissenters' rights.

If you do not satisfy *both* of those conditions and the merger is consummated, you will not be entitled to payment for your shares under the provisions of Article 13 of the North Carolina Business Corporation Act.

If you are a dissenting TSB shareholder, any notices should be addressed to TSB Financial Corporation, 1057 Providence Road, Charlotte, North Carolina 28207, Attention: Jan H. Hollar.

The notice must be executed by the holder of record of the shares of TSB common stock as to which dissenters' rights are to be exercised. A beneficial owner may assert dissenters' rights only if it (i) submits the record holder's consent to the dissent not later than the time the beneficial holder

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asserts dissenters' rights and (ii) dissents with respect to all shares of common stock of which it is the beneficial owner. A record owner, such as a broker, who holds shares of TSB common stock as a nominee for others may exercise dissenters' rights with respect to the shares held for all or less than all beneficial owners of shares as to which such person is the record owner, provided such record owner dissents with respect to all TSB common stock beneficially owned by any one person. In this case, the notice submitted by the broker as record owner must set forth the name and address of the beneficial owner who is objecting to the merger proposal and demanding payment for its shares.

If you properly dissent and the merger agreement is approved, TSB must mail by registered or certified mail, return receipt requested, a written dissenters' notice to you. This notice must be sent no later than 10 days after the shareholder approval of the merger agreement. The dissenters' notice will:

state where your payment demand must be sent, and where and when certificates for shares of TSB common stock must be deposited;

supply a form for demanding payment;

set a date by which TSB must receive your payment demand (not fewer than 30 days nor more than 60 days after the dissenters' notice is mailed); and

include a copy of Article 13 of the North Carolina Business Corporation Act.

If you receive a dissenters' notice, you must demand payment and deposit your share certificates in accordance with the terms of the dissenters' notice. If you demand payment and deposit your share certificates, you retain all other rights of a shareholder until these rights are canceled or modified by the merger. If you do not demand payment or deposit your share certificates where required, each by the date set in the dissenters' notice, you are not entitled to payment for your shares under the North Carolina Business Corporation Act.

As soon as the merger is consummated, or within 30 days after receipt of your demand for payment, TSB is required to pay you the amount it estimates to be the fair value of your shares, plus interest accrued from the effective date of the merger to the date of payment. The payment must be accompanied by:

TSB's most recent available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available interim financial statements, if any;

an explanation of how TSB estimated the fair value of the shares;

an explanation of the interest calculation;

a statement of the dissenters' right to demand payment (as described below); and

a copy of Article 13 of the North Carolina Business Corporation Act.

If the merger is not consummated within 60 days after the date set for demanding payment and depositing share certificates, TSB must return your deposited certificates. If the merger is consummated after return of your deposited certificates, TSB must send you a new dissenters' notice and repeat the payment demand procedure.

You may, however, notify TSB in writing of your own estimate of the fair value of your shares and amount of interest due, and demand payment of the excess of your estimate of the fair value of your shares over the amount previously paid by TSB if:

you believe that the amount paid is less than the fair value of TSB common stock or that the interest is incorrectly calculated;



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TSB fails to make payment of its estimate of fair value to you within 30 days after receipt of a demand for payment; or

the merger is not consummated, and TSB does not return your deposited certificates within 60 days after the date set for demanding payment.

You waive the right to demand payment unless you notify TSB of your demand in writing within 30 days of TSB's payment of its estimate of fair value or TSB's failure to perform. If you fail to notify TSB of your demand within such 30-day period, you shall be deemed to have withdrawn your shareholder's dissent and demand for payment.

If this demand for payment remains unsettled, you may commence a proceeding within 60 days after the earlier of (i) the date payment is made in response to a first demand for payment or (ii) the date of the second demand for payment, by filing a complaint with the Superior Court Division of the North Carolina General Court of Justice to determine the fair value of the shares and accrued interest. If you do not commence the proceeding within such 60-day period, you will be deemed to have withdrawn the dissent and demand for payment. In such an appraisal proceeding, the court will determine all costs of the proceeding and assess the costs as it finds equitable. The proceeding is to be tried as in other civil actions; however, you will not have the right to a trial by jury. The court also may assess the fees and expenses of counsel and experts for the respective parties, in the amounts the court finds equitable, as follows:

against the corporation if the court finds that the corporation did not substantially comply with the procedures for the exercise of dissenters' rights prescribed by Article 13; or

against the corporation or the dissenting shareholders, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously or not in good faith.

If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders and that the fees for those services should not be assessed against the corporation, the court may award to the counsel reasonable fees to be paid out of the amounts awarded the dissenting shareholders who were benefited.

The merger agreement provides that it is a condition to SCBT's obligation to consummate the merger that dissenters' rights shall not have been exercised with respect to more than 10% of the outstanding shares of TSB's common stock.

The summary set forth above does not purport to be a complete statement of the provisions of the North Carolina Business Corporation Act relating to the rights of dissenting shareholders and is qualified in its entirety by reference to the applicable sections of the North Carolina Business Corporation Act, which are included as Appendix C to this proxy statement/prospectus. If you intend to exercise your dissenters' rights, you are urged to carefully review Appendix C and to consult with legal counsel so as to be in strict compliance therewith.

**COMPARATIVE RIGHTS OF SCBT AND TSB SHAREHOLDERS**

**General**

The following is a comparison of certain rights of TSB's shareholders and those of SCBT shareholders. Certain significant differences in the rights of TSB's shareholders and those of SCBT shareholders arise from differing provisions of TSB's and SCBT's respective governing corporate instruments and those of the North Carolina Business Corporation Act, which governs TSB, and the South Carolina Business Corporation Act of 1988, which governs SCBT.

The following summary does not purport to be a complete statement of the provisions affecting, and differences between, the rights of TSB's shareholders and those of SCBT shareholders. The identification of specific provisions or differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the South Carolina Business Corporation Act of 1988, the North Carolina Business Corporation Act, and the respective governing corporate instruments of TSB and SCBT, to which TSB's shareholders are referred.

**Authorized Capital Stock**

*TSB*

TSB is authorized to issue 20,000,000 shares of common stock, par value \$0.01 per share, of which [ ] shares were issued and outstanding as of the date of this proxy statement/prospectus. Under TSB's articles of incorporation, TSB's shareholders do not have a preemptive right to acquire authorized and unissued shares of TSB.

*SCBT*

SCBT is authorized to issue 40,000,000 shares of common stock, par value \$2.50 per share, of which [ ] shares were issued and outstanding as of the date of this proxy statement/prospectus. Under SCBT's articles of incorporation, SCBT's shareholders do not have a preemptive right to acquire authorized and unissued shares of SCBT.

**Size of Board of Directors**

*TSB*

TSB's articles of incorporation provide that the board must consist of not less than eight directors and no more than 20 directors, with the exact number fixed by the board of directors. TSB's board of directors currently has 12 members.

*SCBT*

SCBT's articles of incorporation provide that the board must consist of no more than 20 directors, with the exact number fixed by the board of directors. SCBT's board of directors currently has 17 members.

**Classification of Directors**

*TSB*

TSB's articles of incorporation divide the board of directors into three classes of directors, with the classes being as nearly equal in number as possible and with each class being elected to a staggered three-year term.

*SCBT*

SCBT's articles of incorporation also divide the board of directors into three classes of directors serving staggered three-year terms, with one-third (or as near one-third as possible) of the directors being in each class.

#### **Election of Directors**

*TSB*

TSB's articles of incorporation provide that shareholders do not have cumulative voting rights. TSB's bylaws provide that all elections are determined by a plurality of the votes cast at a meeting of shareholders at which a quorum is present.

*SCBT*

SCBT's articles of incorporation provide that shareholders do not have cumulative voting rights. Directors are elected by a majority of the votes cast at a meeting of shareholders at which a quorum is present.

#### **Removal of Directors**

*TSB*

The North Carolina Business Corporation Act and TSB's bylaws provide that any director may be removed by the shareholders, with or without cause, if the number of votes cast to remove the director exceeds the number of votes cast against removing the director at a meeting the notice for which states that a purpose of the meeting is the removal of the director.

*SCBT*

SCBT's articles of incorporation provide that a director may be removed by the shareholders, with or without cause, only by the affirmative vote of the holders of at least 80% of SCBT's outstanding shares. The South Carolina Business Corporation Act of 1988 requires that the notice of a meeting at which removal of a director is voted on must state that a purpose of the meeting is the removal of the director.

#### **Filling Vacancies on the Board of Directors**

*TSB*

TSB's bylaws provide that the board of directors and shareholders may fill any vacancies on the board of directors, including a vacancy resulting from an increase in the number of directors. If the directors remaining in office constitute fewer than a quorum of the board, they may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office. The term of a director elected to fill a vacancy expires at the next shareholders' meeting at which directors are elected.

*SCBT*

SCBT's bylaws provide that vacancies on the board of directors, including a vacancy resulting from an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining members of the board of directors even if less than a quorum exists. The South Carolina Business Corporation Act of 1988 also provides that vacancies on the board of directors may be filled by the shareholders. The term of a director appointed to fill a vacancy expires at the next shareholders' meeting at which directors are elected.

**Nomination of Director Candidates**

*TSB*

Any shareholder entitled to vote for the election of directors may make nominations at an annual meeting of shareholders for the election of directors. Neither TSB's articles of incorporation nor its bylaws require that any notice of a nomination be given in advance of the annual meeting of shareholders.

*SCBT*

SCBT's bylaws provide that the board of directors shall nominate, upon recommendation of the executive committee, nominees for the board of directors and that any shareholder may make nominations for the election of directors only by giving written notice to the corporate secretary at least 45 days prior to the shareholders' meeting at which directors are to be elected.

**Shareholder Action Without Meeting**

*TSB*

TSB's bylaws provide that any action required or permitted to be taken by shareholders at a meeting may be taken without a meeting if a written consent describing the action to be taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

*SCBT*

SCBT's bylaws provide that shareholders may act without a meeting on written consent, setting forth the action to be taken, signed by the holders of all outstanding shares entitled to vote with respect to the subject matter thereof.

**Calling Special Meetings of Shareholders**

*TSB*

TSB's bylaws provide that special meetings of shareholders may be called for any purpose by the chief executive officer, the president, or the board of directors and shall be called by the corporation at the written request of the holders of not less than one-tenth of all outstanding votes of the corporation entitled to be cast on any issue proposed to be considered at the meeting.

*SCBT*

SCBT's bylaws provide that special meetings of shareholders may be called by the president, chairman of the board of directors, a majority of the board of directors, or by the holders of not less than 10% of all shares entitled to vote at such meeting.

**Indemnification of Directors, Officers, and Employees**

*TSB*

Under the North Carolina Business Corporation Act, a corporation may indemnify any director against liability if such person:

acted in his or her official capacity as a director;

conducted himself or herself in good faith;

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reasonably believed, in the case of conduct in his or her official capacity with the corporation, that his or her conduct was in the best interests of the corporation, and in all other cases, that his or her conduct was at least not opposed to the corporation's best interests; and

in the case of any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Under the North Carolina Business Corporation Act, a corporation may not indemnify a director:

in connection with a proceeding by or in the right of the corporation in which such person was held liable to the corporation;  
or

in connection with a proceeding in which such person was held liable on the basis that personal benefit was improperly received by him or her.

Unless limited by its articles of incorporation, a North Carolina corporation must indemnify, against reasonable expenses incurred, a director who is wholly successful, on the merits or otherwise, in defending any proceeding to which the director was a party because of his or her status as a director of the corporation. Expenses incurred by a director in defending a proceeding may be paid by the corporation in advance of the final disposition of the proceeding if that director furnishes the corporation a written undertaking to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by the corporation against such expenses. A director may apply for court-ordered indemnification under certain circumstances.

Under the North Carolina Business Corporation Act, unless a corporation's articles of incorporation provide otherwise,

an officer of a corporation is entitled to mandatory indemnification and is entitled to apply for court-ordered indemnification to the same extent as a director, and

the corporation may indemnify and advance expenses to an officer, employee, or agent of the corporation to the same extent as to a director.

In addition and separate from the statutory indemnification rights discussed above, the North Carolina Business Corporation Act provides that a corporation may in its articles of incorporation or bylaws or by contract or resolution indemnify or agree to indemnify any one or more of its directors, officers, employees, or agents against liability and expenses in any proceeding (including without limitation a proceeding brought by or on behalf of the corporation itself) arising out of their status as such or their activities in any of the foregoing capacities. A corporation may not indemnify or agree to indemnify a person against liability or expenses he or she may incur on account of activities that were at the time taken known or believed by him or her to be clearly in conflict with the best interests of the corporation. A corporation may likewise and to the same extent indemnify or agree to indemnify any person who, at the request of the corporation, is or was serving as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, or other enterprise or as a trustee or administrator under an employee benefit plan. Any such provision for indemnification also may include provisions for recovery from the corporation of reasonable costs, expenses, and attorneys' fees in connection with the enforcement of rights to indemnification and may further include provisions establishing reasonable procedures for determining and enforcing the rights granted therein.

TSB's articles of incorporation provide for indemnification, to the fullest extent permitted by law, of any person who is a party or is threatened to be made a party to any threatened, pending or completed civil, criminal, administrative, investigative or arbitral action, suit or proceeding, including any appeal, by reason of the fact that such person was or is a director, officer, employee or agent of TSB, or, at the request of TSB, is or was serving as a director, officer, employee or agent of another entity or as trustee or administrator under an employee benefit plan. The indemnification applies



against all liability and expense incurred by any such person in connection with such an action, suit or proceeding, including all reasonable attorneys' fees and expenses, judgments, fines, excise taxes, and amounts paid in settlement, and all reasonable costs, expenses and attorneys' fees.

*SCBT*

The South Carolina Business Corporation Act of 1988 contains indemnification provisions comparable to the North Carolina statutory provision applicable to TSB. SCBT's bylaws provide that SCBT will indemnify any person who serves or served as a director, or who, while serving as a director, serves or has served, at the request of SCBT, as a director, officer, partner, trustee, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, or as a trustee or administrator under an employee benefit plan, against reasonable expenses, including attorneys' fees, incurred by him in connection with any threatened, pending or completed civil, criminal, administrative, investigative or arbitral action, suit or proceeding, whether or not brought by or on behalf of SCBT, seeking to hold him liable by reason of the fact that he is or was acting in such capacity and reasonable payments made by him in satisfaction of any judgment, money decree, fine, penalty or settlement for which he may have become liable in any such action, suit or proceeding.

**Limitation of Liability for Directors**

*TSB*

TSB's articles of incorporation provide that, to the fullest extent permitted by the North Carolina Business Corporation Act, no person serving or who has served as a director of TSB shall be personally liable to TSB and its shareholders for monetary damages for breach of duty as a director. Under the North Carolina Business Corporation Act, the articles of incorporation may include a provision so exculpating a director, except for acts or omissions that the director knew or believed at the time to be clearly in conflict with the best interests of the corporation, for authorizing unlawful distributions to shareholders and for transactions in which the director receives an improper personal benefit. Under the North Carolina Business Corporation Act, an "improper personal benefit" does not include reasonable compensation and incidental benefits for service as a director. The applicable provisions of the North Carolina Business Corporation Act pertain only to breaches of duty by directors as directors and not in any other corporate capacity, including as officers.

*SCBT*

SCBT's articles of incorporation provide that no director is personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, provided that the provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve gross negligence, intentional misconduct, or a knowing violation of law; (iii) for unlawful distributions; or (iv) for any transaction from which the director derived an improper personal benefit.

**Amendment of Articles of Incorporation**

*TSB*

Under the North Carolina Business Corporation Act, TSB's articles of incorporation generally may be amended if the board of directors proposes and recommends the amendment to the shareholders and the shareholders approve the amendment by a majority of the votes entitled to be cast on the amendment.

*SCBT*

Under the South Carolina Business Corporation Act of 1988, SCBT's articles of incorporation generally may be amended if the board of directors proposes and recommends the amendment to the shareholders and the amendment is approved by at least two-thirds of the votes entitled to be cast on the amendment.

#### **Amendment of Bylaws**

*TSB*

TSB's bylaws provide that the board of directors may amend the bylaws other than a bylaw adopted by the shareholders that restricts any amendment by the board of directors. Shareholders may amend the bylaws at a meeting if more votes are cast in favor of the amendment than are cast against the amendment.

*SCBT*

SCBT's articles of incorporation provide that a majority of the entire board of directors may amend the bylaws (however, the South Carolina Business Corporation Act of 1998 provides that the shareholders in adopting, amending, or repealing a particular bylaw may provide expressly that the board of directors may not adopt, amend, or repeal that bylaw or any bylaw on that subject) and that shareholders may amend the bylaws only upon the affirmative vote of the holders of not less than 80% of SCBT's outstanding shares. The South Carolina Business Corporation Act of 1988 provides that any notice of a meeting of shareholders at which bylaws are to be adopted, amended, or repealed shall state that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment, or repeal of bylaws and contain or be accompanied by a copy or summary of the proposal.

#### **Shareholder Vote on Fundamental Transactions**

*TSB*

Under the North Carolina Business Corporation Act, the affirmative vote of a majority of the outstanding voting shares is required to approve a plan of merger, share exchange, or conversion or any sale, lease, exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual and regular course of business.

*SCBT*

Under the South Carolina Business Corporation Act of 1988, unless a corporation's articles of incorporation otherwise provide, the affirmative vote of at least two-thirds of the outstanding voting shares is required to approve a plan of merger, share exchange, or conversion or any sale, lease, exchange, or other disposition of all or substantially all of the assets of the corporation other than in the usual and regular course of business.

SCBT's articles of incorporation provide that a merger, exchange, or consolidation of SCBT with, or a sale, exchange, or lease of all or substantially all the assets of SCBT to, any person or entity must be approved by holders of not less than 80% of the outstanding voting stock if the board of directors does not recommend such transaction. Such approval also is required, together with the affirmative vote of the holders of not less than 67% of the outstanding voting stock held by shareholders other than any shareholder who owns or controls 20% or more of voting stock at the time of the transaction (a "controlling party"), to approve any such transaction that involves such controlling party, unless the transaction is recommended by a majority of the board of directors or certain other requirements are met. Under SCBT's articles of incorporation, the quorum requirements for any meeting called to consider any of the foregoing transactions that are not recommended by the board of directors is 80%

of the outstanding shares, and any such meeting may not be adjourned absent notice if a quorum is not present.

**Consideration of Other Constituencies**

*TSB*

TSB's articles of incorporation provide that the board of directors, in connection with the exercise of its judgment in determining actions that are in the best interests of the corporation with respect to any matter (including any transaction that may involve a change in control or proposed acquisition of the corporation), may, but shall not be required to, give due consideration to all relevant factors, including, without limitation, the social and economic effects on the employees, depositors, customers, suppliers, and other constituents of the corporation, and on the communities in which the corporation operates.

*SCBT*

SCBT's articles of incorporation require the board of directors, when evaluating any proposed merger, consolidation, exchange, or asset sale, to consider the interests of the employees of SCBT and the communities in which SCBT does business in addition to the interests of SCBT's shareholders.

**Business Combinations with Interested Shareholders**

*TSB*

The North Carolina Business Corporation Act contains provisions, known as the "Shareholder Protection Act," which restrict business combination transactions involving a North Carolina public corporation and a beneficial owner of 20% or more of its voting stock. As permitted by the North Carolina Business Corporation Act, TSB elected not to be covered by the Shareholder Protection Act and included a provision in its initial articles of incorporation reflecting that election.

*SCBT*

SCBT is subject to the business combination provisions of Title 35, Chapter 2, Article 2 of the South Carolina Code of Laws of 1976, as amended, as described below.

South Carolina law prohibits specified "business combinations" with "interested shareholders" unless certain conditions are satisfied. The act defines an "interested shareholder" as any person (other than the corporation or any of its subsidiaries) that (i) beneficially owns 10% or more of the corporation's outstanding voting shares or (ii) at any time within the preceding two-year period beneficially owned 10% of the voting power of the corporation's outstanding shares and is an affiliate or associate of the corporation.

Covered business combinations with interested shareholders or an affiliate or associate of an interested shareholder include, among other transactions:

merger of the corporation;

sale, lease, exchange, mortgage, pledge, transfer, or other disposition of assets having a value equal to 10% or more of the value of all assets of the corporation, the value of all outstanding shares of the corporation, or the earning power or net income of the corporation;

transfer of shares of the corporation equaling 5% or more of the market value of all outstanding shares of the corporation; and

dissolution or liquidation of the corporation proposed by or under an arrangement with an interested shareholder or its affiliate or associate.



Covered business combinations are prohibited unless:

the board of directors of the corporation approved of the business combination before the interested shareholder became an interested shareholder;

a majority of shares not beneficially owned by the interested shareholder approved the combination; and

certain transactional requirements are met.

Covered business combinations are prohibited for two years after an interested shareholder becomes interested unless the board of directors of the corporation approved of the business combination before the interested party became interested.

### **Control Share Acquisition Provisions**

#### *TSB*

The North Carolina Business Corporation Act contains provisions, known as the "Control Share Acquisition Act," comparable to the South Carolina control share acquisition provisions described below for SCBT. As permitted by the North Carolina Business Corporation Act, TSB elected not to be covered by the Control Share Acquisition Act and included a provision in its initial articles of incorporation reflecting that election.

#### *SCBT*

Title 35, Chapter 2, Article 1 of the South Carolina Code of Laws of 1976, as amended, contains control share acquisition provisions that apply to several categories of South Carolina corporations, including any South Carolina corporation, such as SCBT, that has a class of voting shares registered with the Securities Exchange Commission under Section 12 of the Exchange Act, has a principal place of business, its principal office or substantial assets in South Carolina, and has a specified shareholder presence in South Carolina.

Unless a corporation has opted out of the provisions of the South Carolina statute before the control share acquisition in question through an amendment to its articles of incorporation or bylaws, control shares of the corporation acquired in a control share acquisition have no voting rights unless and until granted by resolution approved by a majority of the shares of each voting group, excluding all "interested shares." "Interested shares" are shares of the corporation voted by an acquiring person or a member of a group with respect to a control share acquisition, any officer of the corporation or any employee of the corporation who is also a director of the corporation.

If authorized by such a corporation's articles of incorporation or bylaws before a control share acquisition has occurred, control shares acquired in a control share acquisition may under certain circumstances be subject to redemption by the corporation at the fair value thereof. Unless otherwise provided in such a corporation's articles of incorporation or bylaws before a control share acquisition has occurred, if control shares acquired in a control share acquisition are accorded full voting rights which will constitute a majority or more of all voting power, all shareholders of the corporation have dissenters' rights to receive fair value for their shares.

For purposes of the South Carolina control share acquisition law, "control shares" are shares, the acquisition of which would give a person, acting alone or with a group, the power to exercise one of the following amounts of voting power in an election of directors:

one-fifth or more but less than one-third of all voting power,

one-third or more but less than a majority of all voting power or

a majority or more of all voting power.

For purposes of the law, a "control share acquisition" means the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. Among certain other circumstances, a control share acquisition is deemed not to occur when the share acquisition is pursuant to a merger or plan of share exchange where the corporation is a party to the agreement of merger or plan of share exchange. Accordingly, the statute would not, by its terms, apply to the merger of SCBT and TSB.

SCBT has not opted out of coverage of the control share acquisition provisions of the South Carolina Code.

#### **Dissenter's Rights**

*TSB:*

Shareholders of a North Carolina corporation, such as TSB, who do not consent to certain major corporate transactions, including a merger, may, under varying circumstances, be entitled to dissenters' rights pursuant to which such shareholders may receive cash in the amount of the fair market value of their shares in place of the consideration which otherwise would have been received in the transaction. The North Carolina dissenters' rights statute is discussed in more detail in the proxy statement/prospectus under the caption "The Merger Rights of Dissenting TSB Shareholders."

*SCBT*

Shareholders of a South Carolina corporation, such as SCBT, who do not consent to certain major corporate transactions, including a merger, may, under varying circumstances, be entitled to dissenters' rights pursuant to which such shareholders may receive cash in the amount of the fair market value of their shares in place of the consideration which otherwise would have been received in the transaction. Unless the articles of incorporation or bylaws provides otherwise, such dissenters' rights are not available in certain circumstances, including without limitation:

to shareholders of a surviving corporation in a merger if shareholder approval is not required, or

as to any class of stock which is listed either on a national securities exchange or designated as a national market system security on an inter-dealer quotation system by the National Association of Securities Dealers, Inc.

Because SCBT's common stock is currently listed on the NASDAQ Global Select Market, holders of SCBT's common stock are not entitled to dissenters' rights under South Carolina law.

#### **PROPOSAL NO. 2 AUTHORIZATION TO ADJOURN**

At the special meeting, shareholders of TSB will be asked to consider and vote on a proposal to adjourn the meeting, including, if necessary, to allow time for the further solicitation of proxies if there are insufficient votes present at the meeting, in person or by proxy, to approve the merger.

THE BOARD OF DIRECTORS OF TSB RECOMMENDS A VOTE "FOR" THE PROPOSAL TO ADJOURN THE SPECIAL MEETING OF SHAREHOLDERS, INCLUDING, IF NECESSARY, TO ALLOW TIME FOR THE FURTHER SOLICITATION OF PROXIES TO APPROVE THE MERGER AGREEMENT.

## INFORMATION ABOUT TSB

### General

TSB is a North Carolina corporation and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, subject to supervision and examination by, and the regulations and reporting requirements of, the Federal Reserve Board. TSB was incorporated on May 2, 2006, by and at the direction of the board of directors of The Scottish Bank for the sole purpose of acquiring The Scottish Bank through a share exchange and serving as the holding company of The Scottish Bank. Effective on September 14, 2006, TSB acquired all of the outstanding shares of common stock of The Scottish Bank in a share exchange pursuant to an Agreement and Plan of Reorganization and Share Exchange dated May 16, 2006 and approved by The Scottish Bank's stockholders at a special meeting held on August 10, 2006. Information regarding operations prior to September 14, 2006 represent the operations of The Scottish Bank prior to the completion of the share exchange with TSB.

The Scottish Bank is an FDIC-insured, North Carolina state-chartered bank and was incorporated and commenced banking operations in 1998. The Scottish Bank provides consumer and commercial banking services in Mecklenburg County, North Carolina. The Scottish Bank opened for business on June 1, 1998 at its main office at 1057 Providence Road, Charlotte, North Carolina. On October 1, 1998, The Scottish Bank opened a branch office at 325 South Sharon Amity Road, Charlotte, North Carolina. On March 26, 2001, The Scottish Bank opened a branch office at 4519 Sharon Road, Charlotte, North Carolina, and in May 2007 received approvals to relocate this branch to 6525 Morrison Boulevard, which is also in the SouthPark area of Charlotte. TSB anticipates that this branch relocation will occur in the fourth quarter of 2007. On March 22, 2004, The Scottish Bank opened a branch office at 7609 Matthews-Mint Hill Road, Mint Hill, North Carolina, which is a community neighboring Charlotte. The Scottish Bank operates to serve The Scottish Banking needs of individuals and small businesses in its market area. The Scottish Bank offers a range of banking services including checking and savings accounts; commercial, consumer, and personal and mortgage loans; safe deposit boxes; automated teller machines; and other associated services. The Scottish Bank participates in a national network of automated teller machines that may be used by Bank customers in communities throughout the country. The Scottish Bank also offers credit cards through a relationship with a correspondent bank. Commercial customers may utilize a Bank employed courier for the collection of noncash deposits. Also, The Scottish Bank is open for business on Saturdays from 9:00 AM to 12:00 noon at the 1057 Providence Road location.

On December 14, 2006, TSB formed TSB Statutory Trust I (the "Trust"), a Delaware statutory trust. The Trust has not conducted any operations subsequent to its formation other than the issuance of \$3.0 million in trust preferred securities in 2006 and its loan to TSB of the proceeds from the sale of the trust preferred securities.

TSB has no business or operations other than those activities conducted by The Scottish Bank and the Trust. The Scottish Bank's directors and executive officers are the same as those of TSB.

### Primary Market Area

The Scottish Bank's market area consists of Charlotte, Mecklenburg County, North Carolina and surrounding areas. Charlotte is the county seat and the commercial center of Mecklenburg County with a population of approximately 664,000.

### Services

The Scottish Bank's operations are primarily retail oriented and directed toward individuals and small-and medium-sized businesses located in The Scottish Bank's primary market area. The majority

of The Scottish Bank's deposits and loans are derived from customers in its primary market area, but we also make loans and have deposit relationships with individual and business customers in areas surrounding our immediate banking market. We also market certificates of deposit through the advertising of our deposit rates and may, from time to time, obtain some funds through deposit brokers. We provide most traditional commercial and consumer banking services, but our principal activities are the taking of demand and time deposits and the making of consumer and commercial loans. Our primary source of revenue is interest income derived from lending activities.

## **Lending Activities**

### ***General***

The Scottish Bank makes a variety of types of consumer and commercial loans to individuals and small-and medium-sized businesses for various personal and business purposes, including term and installment loans, equity lines of credit, and overdraft checking credit. For financial reporting purposes, its loan portfolio generally is divided into real estate loans, home equity lines of credit, commercial loans, and consumer loans. Those categories are discussed further below. The Scottish Bank also makes credit card services available to our customers through a correspondent bank.

### ***Real Estate-Secured Loans***

The Scottish Bank's real estate loan classification includes loans secured by real estate (other than home equity lines of credit described below) which are made to purchase, construct or improve residential or commercial real estate, for real estate development purposes, and for various other commercial and consumer purposes (whether or not those purposes are related to real estate collateral). On December 31, 2006, loans amounting to approximately 64.1% of the loan portfolio were classified as real estate loans. Of those loans, approximately 82.5% were classified as commercial real estate loans, 9.3% were classified as construction loans, and 8.2% were secured by one-to-four family residences.

Commercial real estate and construction loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In the case of commercial real estate loans, loan repayment may be dependent on the successful operation of income producing properties, a business, or a real estate project and, thus, may, to a greater extent than in the case of other loans, be subject to the risk of adverse conditions in the economy generally or in the local real estate market in particular.

Construction loans involve special risks due to the fact that loan funds are advanced upon the security of houses or other improvements that are under construction and that are of uncertain value prior to the completion of construction. For that reason, it is more difficult to evaluate accurately the total loan funds required to complete a project and the related loan-to-value ratios. To minimize these risks, The Scottish Bank limits loan amounts to 85.0% of the projected appraised value of the collateral upon completion of construction.

Many of The Scottish Bank's real estate loans, although secured by real estate, were made for purposes unrelated to the real estate collateral. This is reflective of its efforts to minimize credit risk by taking real estate as additional collateral, whenever possible, without regard to loan purpose. All real estate loans are secured by first or junior liens on real property, the majority of which is located in or near The Scottish Bank's banking market. However, a small number of loans are secured by real property located outside its banking market.

Real estate loans may be made at fixed or variable interest rates and, generally, have maturities that do not exceed five years and provide for payments based on amortization schedules of less than 20 years. However, a real estate loan that has a maturity of more than five years, or that is based on an amortization schedule of more than five years, generally will include contractual provisions which allow



The Scottish Bank to call the loan in full, or provide for a "balloon" payment in full, at the end of a period of no more than five years.

#### ***Home Equity Lines of Credit***

The Scottish Bank offers lines of credit which generally are used for consumer purposes and which also are secured by first or junior liens on residential real property. The commitment on each line is for a term of 15 years. During the terms of the lines of credit, borrowers may pay accrued interest only (calculated at variable interest rates), and outstanding principal balances are due in full at the maturity of the lines. At December 31, 2006, home equity lines of credit amounted to approximately 18.4% of The Scottish Bank's loan portfolio.

#### ***Commercial Loans***

The Scottish Bank's commercial loan classification includes loans to individuals and small- and medium-sized businesses for working capital, equipment purchases, and various other business purposes, but that classification excludes any such loan that is secured by real estate. These loans generally are secured by inventory, equipment or similar assets, but they also may be made on an unsecured basis. At December 31, 2006, commercial loans made up approximately 16.4% of The Scottish Bank's loan portfolio. In addition to loans that are classified on as commercial loans, as described above, many of The Scottish Bank's loans included in the real estate loan classification were made for commercial purposes but are classified as real estate loans because they are secured by first or junior liens on real estate. Commercial loans may be made at variable or fixed rates of interest. However, any loan which has a maturity or amortization schedule of longer than five years normally would be made at an interest rate that varied with our prime lending rate and would include contractual provisions which allowed The Scottish Bank to call the loan in full, or provide for a "balloon" payment in full, at the end of a period of no more than five years.

Commercial loans typically are made on the basis of the borrower's ability to make repayment from business cash flow, and those loans typically are secured by business assets, such as accounts receivable, equipment and inventory. As a result, the ability of borrowers to repay commercial loans may be substantially dependent on the success of their businesses, and the collateral for commercial loans may depreciate over time and cannot be appraised with as much precision as real estate.

#### ***Consumer Loans***

The Scottish Bank's consumer loans consist primarily of loans for various consumer purposes, as well as the outstanding balances on nonreal estate secured consumer revolving credit accounts. These loans made up approximately 1.0% of its loan portfolio at December 31, 2006. A majority of these loans are secured by liens on various personal assets of the borrowers, but they also may be made on an unsecured basis. Additionally, real estate loans include loans secured by first or junior liens on real estate which were made for consumer purposes unrelated to the real estate collateral. Consumer loans generally are made at fixed interest rates and with maturities or amortization schedules which generally do not exceed five years. However, consumer-purpose loans secured by real estate (and, thus, classified as real estate loans as described above) may be made for terms of up to 20 years but under terms which allow The Scottish Bank to call the loan in full, or provide for a "balloon" payment, at the end of a period of no more than five years.

#### ***Loan Administration and Underwriting***

The Scottish Bank has adopted written loan policies and procedures, and its loan portfolio is administered under a defined process. That process includes guidelines for loan underwriting standards and risk assessment, procedures for loan approvals, loan grading, ongoing identification and

management of credit deterioration, and portfolio reviews to assess loss exposure and to test our compliance with our credit policies and procedures.

The underwriting standards for loans include an evaluation of various factors, including a loan applicant's income, cash flow, payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Though creditworthiness of the applicant is a primary consideration in the loan approval process, in the case of secured loans the underwriting process also includes an analysis of the value of the proposed collateral in relation to the proposed loan amount. The Scottish Bank considers the value of collateral, the degree to which that value is ascertainable with any certainty, the marketability of the collateral in the event of foreclosure or repossession, and the likelihood of depreciation in the collateral value.

A loan that involves an aggregate credit exposure of up to \$650,000, whether secured or unsecured, may be approved by the Chief Credit Officer. A loan that involves an aggregate credit exposure, whether secured or unsecured, between \$651,000 to \$1,000,000 must be approved by both the Chief Credit Officer and the Chief Executive Officer. A loan involving an aggregate exposure that exceeds \$1,000,000 must be approved by the board of directors' Loan Committee. That Committee consists of four outside directors and our Chief Executive Officer. A loan that exceeds the approval authority of the Committee must be approved by our full board of directors. The board of directors reviews monthly a list of all loans made during the month.

The Chief Credit Officer or The Scottish Bank's automated loan system assigns a grade to all loans based on various underwriting and other criteria. Any proposed loan that grades below a threshold set by The Scottish Bank's board of directors must be reviewed by the Chief Credit Officer before it or any additional loans can be made to that borrower even if the loan amount is within the loan officer's approval authority.

After funding, all loans are reviewed by The Scottish Bank's loan administration personnel for adequacy of documentation and compliance with regulatory requirements and loan underwriting criteria. All loans involving an aggregate exposure of more than \$1,000,000 or more ultimately are reviewed in detail by The Scottish Bank's board of directors. Thereafter, depending on the purpose of the loan and the type of collateral, loans are required to be reviewed at least annually by the loan officer who originated the loan, and those reviews are monitored by loan administration personnel. Loan administration personnel also periodically review various loans based on amount, type of collateral, documentation requirements, and other criteria. Additionally, The Scottish Bank retains the services of an independent credit risk management consultant that, no less than once a year, reviews problem loans, a random sampling of performing loans related to larger aggregate credit exposures and selected other loans.

During the life of each loan, its grade is reviewed and validated or modified to reflect changes in circumstances and risk. Loans generally are placed in a nonaccrual status if they become 90 days past due or whenever management believes that collection has become doubtful. Loans are charged off when the collection of principal and interest has become doubtful and the loans no longer can be considered sound collectible assets (or, in the case of unsecured loans, when they become 90 days past due).

#### ***Allowance for Loan Losses***

At December 31, 2006, The Scottish Bank's allowance for loan losses was \$1.7 million and amounted to approximately 1.17% of our total loans and approximately 88% of our nonperforming loans. The adequacy of the allowance is assessed by management and reviewed by The Scottish Bank's board of directors each month. At December 31, 2006, nonperforming loans amounted to approximately \$1.9 million and consisted solely of nonaccruing loans. On that date, there were no loans

that were 90 days or more past due for which The Scottish Bank was accruing interest, and The Scottish Bank had no other real estate owned.

### **Deposit Activities**

The Scottish Bank's deposit services include business and individual checking accounts, savings accounts, NOW accounts, certificates of deposit and money market checking accounts. The Scottish Bank monitors its competition in order to keep the rates paid on our deposits at a competitive level. At December 31, 2006, transaction accounts and noninterest-bearing accounts equaled approximately 19.6% and 13.6%, respectively, of total deposits, and time deposits of \$100,000 or more amounted to approximately \$47.5 million, or approximately 28.3% of total deposits. The majority of its deposits are derived from within its banking market. However, it also markets certificates of deposit through the advertising of deposit rates and may obtain funds through deposit brokers. At December 31, 2006, The Scottish Bank had no out-of-market deposits.

### **Investment Portfolio**

At December 31, 2006, The Scottish Bank's investment portfolio totaled approximately \$35.7 million and included municipal securities, corporate bonds, mortgage-backed securities guaranteed by GNMA or issued by FNMA and FHLMC (including collateralized mortgage obligations), and securities issued by a U.S. government-sponsored agency. These securities have various interest rate features, maturity dates and call options. All securities in the investment portfolio are classified as "available for sale." The Scottish Bank analyzes its portfolio's performance at least quarterly.

### **Competition**

Commercial banking in North Carolina is highly competitive, due in large part to North Carolina's early adoption of statewide branching. Over the years, federal and state legislation (including the elimination of restrictions on interstate banking) has heightened the competitive environment in which all financial institutions conduct their business, and the potential for competition among financial institutions of all types has increased significantly. Mecklenburg County, North Carolina is the home of two of the largest commercial banks in the United States, each of which has numerous branches located in our banking market. The Scottish Bank competes with other commercial banks, savings banks and credit unions, including multiple out-of-state financial institutions that have acquired banks with offices in Mecklenburg County, including some of the largest financial institutions in the country.

Interest rates, both on loans and deposits, and prices of fee-based services are significant competitive factors among financial institutions generally. Other important competitive factors include office location, office hours, the quality of customer service, community reputation, continuity of personnel and services, and, in the case of larger commercial customers, relative lending limits and the ability to offer sophisticated cash management and other commercial banking services. Many of The Scottish Bank's competitors have greater resources, broader geographic markets, more extensive branch networks, and higher lending limits than The Scottish Bank. They also can offer more products and services and can better afford and make more effective use of media advertising, support services and electronic technology than The Scottish Bank can. In terms of assets, The Scottish Bank is one of the smaller commercial banks in North Carolina.

Substantially all of The Scottish Bank's customers are individuals and small-and medium-sized businesses. The Scottish Bank endeavors to differentiate itself from its larger competitors with its focus on relationship banking, personalized service, direct customer contact, and our ability to make credit and other business decisions locally. The Scottish Bank also depends on its reputation as a community bank in its banking market, its involvement in the communities it serves, the experience of its senior

management team, and the quality of its associates. TSB believes that The Scottish Bank's focus allows it to be more responsive to its customers' needs and more flexible in approving loans based on collateral quality and personal knowledge of its customers.

### **Employees**

TSB, through The Scottish Bank, employed 49 employees, of which 36 were full-time employees, at September 1, 2007. None of the employees are covered by a collective bargaining agreement. TSB believes its relations with its employees to be good.

### **Properties**

The Scottish Bank leases three full-service branch sites. One is located at 1057 Providence Road, Charlotte, North Carolina. The lease expires on November 30, 2008. The lease payments are \$10,612 per month. A second office is located at 325 South Sharon Amity Road, Charlotte, North Carolina. The lease expires on July 31, 2008. The monthly lease payments are \$5,000. The third office is located at 4519 Sharon Road. The lease expires on October 31, 2007, but can be continued on a month-to-month basis. The initial monthly rent was \$10,008, which increases each year with the CPI index. If the lease is continued on a month-to-month basis after expiration, the rent will increase by 25%. In May 2001, the Scottish Bank leased office space at 4521 Sharon Road, Charlotte, North Carolina for its commercial lending personnel and corporate communications department and, in August 2006, increased the amount of space leased. The lease expires on April 19, 2008. Monthly rent payments for the original space as well as the increased space are \$10,335, and increase 3.5% each year. On April 4, 2007, the Scottish Bank entered into a lease for Suite 110 of the Morrison Building located at 6525 Morrison Boulevard in Charlotte. This facility will replace both the Sharon Road branch location and the commercial lending and corporate communications office space also located on Sharon Road. The lease will commence upon completion of the facility, which is estimated to be December 1, 2007, and will expire 122 months after commencement. Subject to the Scottish Bank's compliance with the terms of the lease, the landlord has agreed not to charge rent for the first two months of the lease. Thereafter, monthly lease payments will be \$18,878 for the first year, increasing approximately 2% each year.

The Scottish Bank owns a full-service branch location at 7609 Matthews-Mint Hill Road, Mint Hill, North Carolina. Book value of the land is \$600,000, and the book value of the building is \$385,000. Depreciation expense is \$802 per month.

The Scottish Bank also leases two sites for Automated Teller Machines ("ATM"). The first site is located at 4201-A Park Road, Charlotte, North Carolina. The lease expires June 30, 2010 and requires monthly lease payments of \$700. The second site is located at 923 Providence Road, Charlotte, North Carolina. The lease expires on October 14, 2009, and requires monthly lease payments of \$500.

### **Legal Proceedings**

There are no material pending legal proceedings to which TSB or any of its subsidiaries is a party or of which any of its property is the subject.

### **Market Price and Dividends**

TSB's common stock, which was held by approximately [ ] holders of record at [ ], began trading on the Over-the-Counter Bulletin Board on September 14, 2006 under the ticker symbol "TSBC.OB." From August 16, 2005 until completion of the share exchange on September 14, 2006, The Scottish Bank's common stock traded on the Over-the-Counter Bulletin Board under the ticker symbol "SHKL.OB." Prior to August 16, 2005, The Scottish Bank's common stock was not traded on any exchange or established securities market.

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The following table sets forth the high and low per share sales prices on the Over-the-Counter Bulletin Board for The Scottish Bank's common stock for each quarter from August 16, 2005 to and not including September 14, 2006 and the high and low per share sales prices on the Over-the-Counter Bulletin Board for TSB's common stock for each quarter from September 14, 2006 to September 30, 2007 and from October 1, 2007 to [            ], 2007. These sales prices have been adjusted for the stock splits described below.

	Low	High
<b>The Bank</b>		
August 16, 2005 - September 30, 2005	\$ 18.595	\$ 18.884
October 1, 2005 - December 31, 2005	17.355	19.421
January 1, 2006 - March 31, 2006	16.694	19.421
April 1, 2006 - June 30, 2006	18.227	21.364
July 1, 2006 - September 13, 2006	18.273	20.909
<b>The Company</b>		
September 14, 2006 - September 30, 2006	18.455	19.318
October 1, 2006 - December 31, 2006	16.864	18.636
January 1, 2007 - March 31, 2007	16.591	17.727
April 1, 2007 - June 30, 2007	16.250	17.091
July 1, 2007 - September 30, 2007	16.050	34.500
October 1, 2007 - [            ], 2007	[            ]	[            ]

On February 15, 2006, The Scottish Bank declared a stock split in the form of a ten-percent stock dividend to shareholders of record on March 15, 2006. The shares were distributed on April 10, 2006. On March 27, 2007, TSB declared a stock split in the form of a ten-percent stock dividend to shareholders of record on April 15, 2007. The shares were distributed on May 15, 2007.

No cash dividends have ever been paid on The Scottish Bank's or TSB's common stock. Under the Merger Agreement, TSB is restricted from paying any dividends on its common stock.

Under North Carolina law, TSB may pay dividends as declared by its board of directors, provided that no such distribution results in its insolvency on a going-concern or balance-sheet basis. However, although TSB is a legal entity separate and distinct from The Scottish Bank, its principal source of funds with which it can pay dividends to its shareholders is dividends it receives from The Scottish Bank. For that reason, its ability to pay dividends effectively is subject to the same limitations that apply to The Scottish Bank. Under North Carolina law, The Scottish Bank may pay dividends only from its undivided profits. However, if The Scottish Bank's surplus is less than 50% of its paid-in capital stock, then The Scottish Bank's directors may not declare any cash dividend until The Scottish Bank has transferred from undivided profits to surplus 25% of its undivided profits or any lesser percentage necessary to raise its surplus to an amount equal to 50% of its paid-in capital stock.

In addition to the restrictions described above, other state and federal statutory and regulatory restrictions apply to The Scottish Bank's payment of cash dividends. As an insured depository institution, federal law prohibits The Scottish Bank from making any capital distributions, including the payment of a cash dividend, if it is, or after making the distribution it would become, "undercapitalized" (as that term is defined in the Federal Deposit Insurance Act). Also, if in the opinion of the Federal Deposit Insurance Corporation (or, "FDIC") an insured depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution, could include the payment of dividends), the FDIC may require, after notice and hearing, that the institution cease and desist from that practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. The FDIC has

issued policy statements that provide that insured banks generally should pay dividends only from their current operating earnings, and, under the Federal Deposit Insurance Act, no dividend may be paid by an insured bank while it is in default on any assessment due the FDIC. The Bank's payment of dividends also could be affected or limited by other factors, such as events or circumstances which lead the FDIC to require (as further described below) that they maintain capital in excess of regulatory guidelines.

TSB did not purchase any shares of its common stock during the three months ended September 30, 2007.

### **Management's Discussion and Analysis**

Management's discussion and analysis discusses and analyzes the major components of the results of operations and financial condition, liquidity, and capital resources of TSB and should be read in conjunction with TSB's financial statements and their related notes included elsewhere in this proxy statement/prospectus. Information presented prior to September 14, 2006 represents the operations of The Scottish Bank prior to the completion of the share exchange with TSB.

### ***Critical Accounting Estimates***

Significant accounting policies, as described in Note 1 of the Audited Consolidated Financial Statements of TSB Financial Corporation included elsewhere in this proxy statement/prospectus, are an integral part of understanding this Management's Discussion and Analysis. Although many of these policies are based on estimates, the following estimates are considered more complex and considered critical to estimate values of assets and liabilities.

TSB recognizes that credit losses will be experienced and that the risk of loss will vary due to the type of loan being made as well as creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan as well as general economic conditions. Management actively monitors asset quality. The degree to which any particular assumption affects the allowance for credit losses depends on the severity of the change and its relationship to the other assumptions as well as management's estimate of the risk of loss. During the fourth quarter of 2006, TSB improved its methodology for calculating its allowance for loan losses, employing an analysis of each outstanding loan and TSB's historical loan losses and sound credit quality. Previously, TSB had employed a more general methodology, evaluating the loan portfolio as a whole. The process of determining the level of the allowance for credit losses requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

SFAS 123(R) requires all forms of share-based compensation payments, including stock options, to be recognized as compensation expense. The compensation expense is the fair value of the awards at the measurement date. Further, SFAS 123(R) requires compensation cost to be recognized over the requisite service period for all awards granted subsequent to adoption. As required by SFAS 123(R), TSB will continue to recognize compensation cost over the explicit vesting period for all awards that were not vested as of January 1, 2006. TSB adopted the provisions of SFAS 123(R) using the modified prospective transition method, which recognizes stock option awards as compensation expense for unvested awards as of January 1, 2006 and awards granted or modified subsequent to that date. In accordance with the modified prospective transition method, TSB's consolidated statements of income and cash flows for the years ended December 31, 2005 and 2004 have not been restated and do not include the impact of SFAS 123(R).

***Recent Accounting Pronouncements and Regulatory Changes***

In September 2006, the Emerging Issues Task Force (EITF) issued EITF Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF Issue 06-4"). EITF Issue 06-4 requires that for endorsement split-dollar insurance arrangements that provide a benefit to an employee that extends to postretirement periods, an employer should recognize a liability for future benefits in accordance with FASB Statement No. 106 or Accounting Principles Board (APB) Opinion No. 12 based on the substantive agreement of the employee. If the employee has effectively agreed to maintain a life insurance policy during postretirement periods, the costs of the life insurance policy during the postretirement periods should be accrued in accordance with either FASB Statement No. 106 or APB Opinion No. 12. EITF Issue 06-4 is effective for fiscal years beginning after December 15, 2007. TSB is currently evaluating the impact of EITF Issue 06-4 on its financial statements.

In March 2007, the Emerging Issues Task Force (EITF) issued EITF 06-10, "Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements" ("EITF Issue 06-10"). EITF Issue 06-10 requires that an employer recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, or APB Opinion No. 12, if the employer has agreed to maintain a life insurance policy during the employee's retirement or to provide the employee with a death benefit based on the substantive arrangement with the employee. The EITF also affirmed as a consensus the tentative conclusion reached at the November 16, 2006 EITF meeting that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF Issue 06-10 is effective for fiscal years beginning after December 15, 2007. TSB is currently evaluating the impact of EITF Issue 06-10 on its financial statements.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. TSB is currently evaluating the impact of SFAS 159 on its financial statements.

Section 404 of the Sarbanes-Oxley Act requires companies subject to the reporting requirements of the Securities Exchange Act of 1934 to include in their annual reports a report of management on the company's internal control over financial reporting, along with an attestation report and audit report of the company's registered public accounting firm as to the company's internal control over financial reporting. The internal control report must include: a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company; management's assessment of the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year; a statement identifying the framework used by management to evaluate the effectiveness of the company's internal control over financial reporting; and a statement that the registered public accounting firm that audited the company's financial statements included in the annual report has issued an attestation report on management's assessment of the company's internal control over financial reporting. As a small issuer and absent any further extensions of the phase-in date, TSB will first be required to comply with Section 404 of the Sarbanes-Oxley Act with respect to its Annual Report on Form 10-KSB for the year ending December 31, 2007. In that first year, TSB will not be required to include the attestation report and audit report of TSB's registered public accounting firm as to TSB's internal control over financial reporting, which will be required in subsequent years' annual reports.

In the event that there is no further extension to the phase-in date for compliance with Section 404, TSB's net income may be adversely affected in 2007, and more significantly in 2008, related to the expense of compliance with Section 404.

***Fiscal Year 2006***

*Results of Operations*

TSB's total assets grew \$24.8 million, or 14.5%, from \$171.1 million at December 31, 2005 to \$195.9 million at December 31, 2006. The increase was primarily due to an increase in loans and was funded by increases in deposits. TSB's net income was \$1.2 million or \$1.08 per diluted share in 2006, an increase of \$116 thousand or 10.5% from 2005's net income of \$1.1 million or \$0.98 per diluted share. The increase resulted primarily from an increase in TSB's net interest income as a result of growth in earning assets.

Net-interest income, the principal source of TSB's earnings, was \$6.1 million, or 3.44% of average earning assets, for the year ended December 31, 2006, compared to \$5.7 million, or 3.67% of average earning assets, for the year ended December 31, 2005. The yield on earning assets was 6.73%, and the rate on average interest bearing liabilities was 3.90%, for 2006, compared to 5.78% and 2.64%, respectively, for the year ended December 31, 2005. The net-interest margin continues to be impacted by competition for new loans and deposits, as well as the continuing low yields available on short-term investments and federal funds sold. Additionally, TSB's primary focus on asset growth during the first nine months of 2006 had a negative impact on the net-interest margin.



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The following table presents the daily average balances, interest income/expense and average rates earned and paid on interest-earning assets and interest-bearing liabilities of TSB for the last two years.

**Table 1. Average balance sheet (Dollars in 000's)**

	2006			2005		
	Average Balance	Interest Income/Expense	Annualized Average Yield/Cost %	Average Balance	Interest Income/Expense	Annualized Average Yield/Cost %
<b>Interest-earning assets:</b>						
Federal funds sold	\$ 1,152	\$ 56	4.86%	\$ 1,919	\$ 52	2.71%
Investment securities	37,924	1,707	4.50%	33,214	1,362	4.10%
Loans	137,813	10,145	7.36%	120,174	7,562	6.29%
<b>Total interest-earning assets</b>	<b>176,889</b>	<b>11,908</b>		<b>155,307</b>	<b>8,976</b>	
Yield on average interest-earning assets			6.73%			5.78%
<b>Noninterest-earning assets:</b>						
Cash and due from banks	3,352			3,009		
Premises and equipment	1,308			1,390		
Other assets	4,980			3,402		
<b>Total noninterest-earning assets</b>	<b>9,640</b>			<b>7,801</b>		
<b>Total assets</b>	<b>\$ 186,529</b>			<b>\$ 163,108</b>		
<b>Interest-bearing liabilities:</b>						
NOW accounts	\$ 20,790	\$ 524	2.52%	\$ 15,365	\$ 204	1.33%
Money market and savings	21,036	536	2.55%	21,104	287	1.36%
Time certificates and IRA's	93,792	4,147	4.42%	75,597	2,331	3.08%
Other borrowed funds	13,705	611	4.46%	12,300	457	3.72%
<b>Total interest-bearing liabilities</b>	<b>149,323</b>	<b>5,818</b>		<b>124,366</b>	<b>3,279</b>	
Cost on average interest-bearing liabilities			3.90%			2.64%
<b>Noninterest-bearing liabilities:</b>						
Demand deposits	22,852			25,232		
Other liabilities	449			565		
<b>Total noninterest-bearing liabilities</b>	<b>23,301</b>			<b>25,797</b>		
<b>Total liabilities</b>	<b>172,624</b>			<b>150,163</b>		
<b>Stockholders' equity</b>	<b>13,905</b>			<b>12,945</b>		

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	2006		2005	
Total liabilities and equity	\$	186,529	\$	163,108
Net interest income and Interest rate spread	\$	6,090	2.83%	\$ 5,697 3.14%
Net yield on average interest-earning assets			3.44%	3.67%

Changes in interest income and interest expense can result from changes in both volume and rate. The following table sets forth the dollar amount of increase (decrease) in interest income and interest

expense resulting from changes in the volume of interest earning assets and interest bearing liabilities and from changes in yields and rates.

**Table 2. Rate Volume Analysis (Dollars in 000's)**

Interest-earning assets	2006 Compared to 2005		
	Interest Income/ Expense Variance	Variance Attributed to	
		Rate	Volume
Federal funds sold	\$ 4	\$ 41	\$ (37)
Investment securities	345	133	212
Loans	2,583	1,286	1,297
<b>Total</b>	<b>2,932</b>	<b>1,460</b>	<b>1,472</b>
Interest-bearing liabilities:			
NOW accounts	320	183	137
Money market and savings	250	251	(1)
Time certificates and IRA's	1,815	1,013	802
Other borrowed funds	154	91	63
<b>Total</b>	<b>2,539</b>	<b>1,538</b>	<b>1,001</b>
<b>Net Interest Income</b>	<b>\$ 393</b>	<b>\$ (78)</b>	<b>\$ 471</b>

The provision for loan losses was \$74 thousand for the year ended December 31, 2006, compared to \$132 thousand for the comparable period in 2005. The decrease in the provision for loan losses was primarily the result of the change, effected in the fourth quarter of 2006, in the methodology employed in calculating the allowance for loan losses described above. In addition, the provision for loan losses for 2006 was impacted by (1) an increase in gross loans during the year of \$19.7 million, and (2) the absence of any charge offs for the year.

Non-interest income was \$642 thousand for the year ended December 31, 2006, compared to \$601 thousand for the period ended December 31, 2005. TSB recognized a gain on the sale of its ownership of a mortgage company of \$122 thousand and a loss of \$149 thousand on the sale of \$4.8 million securities held for sale during 2006. Service charges on deposits increased 9% from the prior year, mainly due to higher insufficient funds charges.

Non-interest expense was \$4.9 million for the year ended December 31, 2006, as compared with \$4.6 million for the comparable period in 2005. Personnel expenses for the year ended December 31, 2006 were \$2.8 million, compared to \$2.5 million for the year ended December 31, 2005, mainly due to increased staffing in the commercial loan department to support growth within TSB's loan portfolio. TSB implemented FAS 123R during the year ended December 31, 2006, and recorded gross compensation expense of \$32 thousand, compared to \$0 for the same period in 2005. Management monitors all categories of non-interest expense in an attempt to improve productivity and operating performance.

TSB recorded income tax expense of \$509 thousand (an effective tax rate of 29.5%) for the year ended December 31, 2006, compared to an income tax expense of \$514 thousand (an effective tax rate of 31.8%) during the year ended December 31, 2005. The decline in TSB's effective tax rate reflects an increase in proportionate income from non-taxable securities. The change in methodology for calculating the allowance for loan losses, and the related impact on the provision for loan losses in 2006 compared to 2005, accounted for substantially all of the \$116 thousand increase in net income in 2006 compared to 2005.

*Liquidity, Interest Rate Sensitivity and Market Risks*

Credit risk is the primary risk to TSB and is addressed in the "Lending Activities" of this discussion. Secondary to credit risk is liquidity and interest rate risk as a significant risk and focus for management. Management must balance the need for funds to address depositor cash flow requirements and the availability to fund loan growth with the need for net interest income to promote strong net earnings.

Cash flow needs can be impacted by how rates are set in a competitive market such as the one in which TSB operates. If deposit rates are higher than the competition, cash flow will increase as deposits increase, however, if loan rates are lower than the competition, outstanding loans will increase resulting in the need for funds. In either scenario, earnings will be negatively impacted. Thus, it is necessary for management to manage liquidity needs and availability. Deposits are the primary source of The Scottish Bank's funds for lending and other investment purposes. In addition to deposits, The Scottish Bank derives funds from loan principal repayments, interest payments, investment income, interest from its Federal Funds deposits, and otherwise from its operations. Loan repayments are a relatively stable source of funds while deposit inflows and outflows may be significantly influenced by general interest rates and money market conditions. Other borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. The Scottish Bank also borrows funds from its commercial customers in the form of overnight repurchase agreements. Additionally, liquidity is supported by the securities portfolio which is available for sale if needed for a funding source.

Management relies on information provided by loan pipeline reports as well as maturity schedules to anticipate cash flow needs. The interest rate analysis provided in the following table indicates the portion of TSB's balance sheet that is projected to mature in various time periods. This analysis is static and anticipates items with no maturity will reprice in the current period which may not actually occur.

**Table 3. Distribution of interest-earning assets and interest-bearing liabilities (Dollars in 000's)**

December 31, 2006	One Year or Less	One to Five Years	Over Five Years	Total
<b>Interest-earning assets:</b>				
Federal funds sold	\$ 4,834	\$	\$	\$ 4,834
Investment securities	5,048	17,846	13,083	35,977
Loans	72,407	59,143	13,440	144,990
<b>Total</b>	<b>\$ 82,289</b>	<b>\$ 76,989</b>	<b>\$ 26,523</b>	<b>\$ 185,801</b>
<b>Interest-bearing liabilities:</b>				
Savings, NOW, money market	\$ 21,697	\$	\$ 31,810	\$ 53,507
Time deposits, \$100,000 and over	45,645	1,900		47,545
Time deposits, under \$100,000	36,942	3,960		40,903
Other borrowings	1,732	8,093	3,000	12,825
<b>Total</b>	<b>\$ 106,016</b>	<b>\$ 13,953</b>	<b>\$ 34,810</b>	<b>\$ 154,780</b>
<b>Interest sensitivity gap</b>	<b>\$ (23,727)</b>	<b>\$ 63,036</b>	<b>\$ (8,287)</b>	<b>\$ 31,021</b>
<b>Cumulative gap</b>	<b>\$ (23,727)</b>	<b>\$ 39,309</b>	<b>\$ 31,022</b>	
<b>Ratio of interest-sensitive assets to interest-sensitive liabilities</b>	<b>77.62%</b>	<b>551.77%</b>	<b>76.19%</b>	<b>120.04%</b>
<b>Cumulative ratio of interest-sensitive assets to interest-sensitive liabilities</b>	<b>77.62%</b>	<b>132.77%</b>	<b>120.04%</b>	<b>120.04%</b>

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The following table sets forth the time to contractual maturity of certain components of The Scottish Bank's loan portfolio at December 31, 2006. Equity lines of credit are included in Real Estate Mortgage and all reprice within one year.

**Table 4. Analysis of certain loan maturities and repricing at December 31, 2006 (Dollars in 000's)**

	Due within One Year	Due after One Year through Five Years	Due after Five Years	Total
Commercial	\$ 13,698	\$ 9,693	\$ 417	\$ 23,808
Real Estate	22,196	61,029	9,604	92,829
HELOC	25,913			25,913
Consumer & Other	1,038	1,266	136	2,440
<b>Total Loans</b>	<b>\$ 62,845</b>	<b>\$ 71,988</b>	<b>\$ 10,157</b>	<b>\$ 144,990</b>
Total Fixed Rate	\$ 45,181	\$ 55,082	\$ 7,205	\$ 107,468
Total Floating Rate	17,664	16,906	2,952	37,522
<b>Total Loans</b>	<b>\$ 62,845</b>	<b>\$ 71,988</b>	<b>\$ 10,157</b>	<b>\$ 144,990</b>

The following table sets forth certain information regarding the amortized cost, market value, and weighted yields of The Scottish Bank's investment securities portfolio at the dates indicated.

**Table 5. Analysis of securities available for sale (Dollars in 000's)**

December 31, 2006	Due One Year or Less	One Year Through Five Years	Five Years Through Ten Years	Greater Than Ten Years	Total	Estimated Market Value	Average Life in Years
U.S. Government agencies	\$ 3,501	\$ 9,829	\$	\$	\$ 13,330	\$ 13,160	2.1
Mortgage backed securities	1,547	6,779	2,873	1,199	12,398	12,248	4.6
Municipal securities		1,238	2,892	6,119	10,249	10,252	12.8
<b>Total</b>	<b>\$ 5,048</b>	<b>\$ 17,846</b>	<b>\$ 5,765</b>	<b>\$ 7,318</b>	<b>\$ 35,977</b>	<b>\$ 35,660</b>	<b>6.0</b>
<b>Weighted average yields:</b>							
U.S. Government agencies	3.30%	4.51%			4.19%		
Mortgage backed securities	5.04%	4.99%	5.17%	5.33%	5.07%		
Municipal securities		5.89%	6.27%	6.41%	6.00%		
<b>Total</b>	<b>2.88%</b>	<b>3.82%</b>	<b>4.06%</b>	<b>5.26%</b>	<b>5.01%</b>		
<b>December 31, 2005</b>							
U.S. Government agencies	\$ 1,499	\$ 13,982	\$ 995	\$	\$ 16,476	\$ 16,143	2.7
Mortgage backed securities			3,880	10,436	14,316	14,017	4.2
Municipal securities				4,770	4,770	4,786	10.7
<b>Total</b>	<b>\$ 1,499</b>	<b>\$ 13,982</b>	<b>\$ 4,875</b>	<b>\$ 15,206</b>	<b>\$ 35,562</b>	<b>\$ 34,946</b>	<b>4.4</b>
<b>Weighted average yields:</b>							
U.S. Government agencies	2.88%	3.82%	4.75%		3.92%		
Mortgage backed securities			3.88%	4.96%	4.68%		
Municipal securities				5.93%	5.93%		

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December 31, 2006	Due One Year or Less	One Year Through Five Years	Five Years Through Ten Years	Greater Than Ten Years	Total	Estimated Market Value	Average Life in Years
Total	2.88%	3.82%	4.06%	5.26%	4.49%		

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The following table presents the maturity of time deposits at the dates indicated.

**Table 6. Time deposits \$100 and over at December 31, 2006 (Dollars in 000's)**

	<b>2006</b>
Remaining maturity of three months or less	\$ 20,912
Remaining maturity of three months through six months	15,908
Remaining maturity of six months through twelve months	8,825
Remaining maturity over twelve months	1,900
<b>Total</b>	<b>\$ 47,545</b>

The following table sets forth certain key financial ratios for TSB that are a direct indication of TSB's performance.

**Table 7. Performance Based Measures**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Annualized return on average assets	0.65%	0.67%	0.58%
Annualized return on average stockholders' equity	8.75%	8.50%	6.65%
Average stockholders' equity as a percentage of average assets	7.45%	7.94%	8.79%

*Lending Activities*

*General.* The Scottish Bank's primary source of revenue is interest and fee income from its lending activities, consisting primarily of business loans secured by real estate and personal property, unsecured business loans, consumer loans secured by consumer products, unsecured consumer loans, and other loans. In addition to interest earned on loans, The Scottish Bank receives fees in connection with loan originations, loan modifications, late payments, and other miscellaneous services.

*Composition.* The Scottish Bank's loan portfolio totaled approximately \$145.0 million at December 31, 2006, representing 74% of The Scottish Bank's total assets. The following table sets forth the composition of The Scottish Bank's loan portfolio by type of loan at the dates indicated.

**Table 8. Analysis of loans (Dollars in 000's)**

	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Commercial	\$ 23,808	16%	\$ 25,536	20%
Real estate	92,829	64%	70,652	56%
Home equity line of credit	25,913	18%	27,534	22%
Consumer and other	2,440	2%	1,580	1%
<b>Total loans</b>	<b>\$ 144,990</b>	<b>100%</b>	<b>\$ 125,302</b>	<b>100%</b>

\*

Each loan category includes deferred origination fees.

*Asset Classification.* Applicable regulations require each insured bank to "classify" its own assets on a regular basis. In addition, in connection with examinations of financial institutions, regulatory examiners have authority to identify problem assets and, if appropriate,

classify them. Problem assets are classified as "substandard," "doubtful" or "loss," depending on the presence of certain characteristics as discussed below.



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An asset is considered "substandard" if not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a loss reserve is not warranted.

As of December 31, 2006, The Scottish Bank had \$1.9 million of loans classified as "substandard," no loans classified as "doubtful," and no loans classified as "loss." As of December 31, 2005, there were \$845 thousand of loans classified as "substandard," no loans classified as "doubtful," and no loans classified as "loss."

In connection with the filing of periodic reports with regulatory agencies, The Scottish Bank reports any assets which possess credit deficiencies or potential weaknesses deserving close attention by management. These assets may be considered "special mention" assets and do not yet warrant adverse classification. At December 31, 2006, The Scottish Bank had no loans in the "special mention" category.

When an insured institution classifies problem assets as either substandard or doubtful, it typically establishes general allowances for loan losses in an amount deemed prudent by management. These allowances represent loss allowances which have been established to recognize the inherent risks associated with lending activities and the risks associated with particular problem assets. When an insured institution classifies problem assets as "loss," it charges off the balance of the asset. The Scottish Bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the FDIC and the North Carolina Commissioner of Banks which can order the establishment of additional loss allowances.

*Allowances for Loan Losses.* In originating loans, The Scottish Bank recognizes that credit losses will be experienced and that the risk of loss will vary due to, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan as well as general economic conditions. It is management's policy to maintain an adequate allowance for loan losses based on, among other things, The Scottish Bank's historical loan loss experience, evaluation of economic conditions and regular review of delinquencies and loan portfolio quality. Specific allowances are provided for individual loans when ultimate collection is considered questionable by management after reviewing the current status of loans which are contractually past due and considering the net realizable value of the security for the loans.

Management actively monitors The Scottish Bank's asset quality. Although management believes it uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

During the fourth quarter of 2006, TSB improved its methodology for calculating for allowance for loan losses, employing an analysis of each outstanding loan and TSB's historical loan losses and sound credit quality. Previously TSB had employed a more general methodology, evaluating the loan portfolio as a whole.

No loans were restructured during 2006 and 2005. For the years ended December 31, 2006 and 2005, The Scottish Bank recognized interest income from impaired loans of approximately \$46,000 and \$12,000, respectively. Virtually all of the \$1.9 million impaired loans as of December 31, 2006 related to

two relationships. The allowance for loan losses included a specific reserve of \$143 thousand for any loss anticipated on these two relationships.

The allowance for loan losses is funded through the provision for loan losses which is an expense to TSB's current earnings. Loan growth as well as the status of impaired loans may impact the amount of the provision for loan loss and thus the expense in any quarter. The following table describes the activity related to The Scottish Bank's allowance for loan losses for the years indicated.

**Table 9. Allowance for loan losses (Dollars in 000's)**

	December 31,		
	2006	2005	2004
Beginning balance	\$ 1,623	\$ 1,526	\$ 1,318
Charge-offs		(55)	
Recoveries		20	62
Provision for loan losses	74	132	146
Ending balance	\$ 1,697	\$ 1,623	\$ 1,526

The allowance for loan losses is established as losses are estimated by management's analysis of the loan portfolio. The methodology used to calculate the allowance for loan losses was revised in the fourth quarter of 2006 to recognize the low historical losses and sound credit quality. Additionally, management recognizes that there are inherent risks in the model by which the allowance for loan losses is derived as well as operational risk and economic risk and have been included in the analysis to derive the overall allowance for loan losses. Management believes the allowance for loan losses of \$1.7 million provides adequate coverage of the probable loss exposure in the portfolio. The following table depicts the allocation of the allowance for loan losses for the years indicated and the percentage of loans depicts the percentage of total loans for each category. The year ended 2006 reflects the revised methodology which resulted in a smaller unallocated allowance.

**Table 10. Allocation of loans (Dollars in 000's)**

	December 31,					
	2006		2005		2004	
Commercial	\$ 401	13%	\$ 308	20%	\$ 340	24%
Real estate	987	68%	669	57%	722	52%
Home equity lines of credit	221	18%	138	22%	134	23%
Consumer	33	1%	15	1%	16	1%
Unallocated	55		493		314	
Total	\$ 1,697	100%	\$ 1,623	100%	\$ 1,526	100%

### *Investments*

Interest income from investment securities generally provides the second largest source of income to TSB after interest and fees on loans. In addition, TSB receives interest income on federal funds invested overnight with other financial institutions.

On December 31, 2006, TSB's investment securities portfolio totaled \$35.7 million and consisted of U.S. Government Agency obligations, mortgage backed securities, and municipal securities. Management's decisions involving securities are based upon the composition and structure of the balance sheet and the objectives of asset/liability management strategies. TSB does not purchase or

hold securities for trading purposes. Management views the portfolio as a source of liquidity and only secondarily as a source of income. All securities purchased are categorized as available for sale. As such, from time to time, TSB may sell securities as asset/liability management strategies change. During 2006 TSB sold \$4.8 million of securities in an effort to achieve a change of composition and structure of the balance sheet. These sales produced a loss of \$149 thousand, and the proceeds were used to reduce borrowings.

As of June 1, 1998 (date of opening), The Scottish Bank adopted Statement SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS 115, the accounting for investment securities held as assets is dependent upon their classification as held to maturity, available for sale, or trading assets. Such assets classified as held to maturity are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Assets available for sale and trading assets are carried at market value. Unrealized holding gains and losses for assets available for sale are reported as other comprehensive income. Unrealized holding gains and losses for trading assets are included in earnings of the current period. In order for the securities to qualify as assets held to maturity, The Scottish Bank must have both the positive intention and the ability to hold them to maturity. Management utilizes these criteria in determining the accounting treatment accorded such securities. TSB reviews all securities to determine if any impairments are considered other than temporary. All impairments that are considered other than temporary are recognized through current period earnings. As of December 31, 2006, TSB did not identify any impairment in securities to be other than temporary.

The Scottish Bank's investment strategy is intended, among other things, to (1) provide and maintain liquidity, (2) maintain a balance of high quality, diversified investments to minimize risk, (3) maximize returns, and (4) manage interest rate risk. The Scottish Bank does not engage in hedging activities.

#### *Deposits and Borrowings*

*General.* Deposits are the primary source of The Scottish Bank's funds for lending and other investment purposes. In addition to deposits, The Scottish Bank derives funds from loan principal repayments, interest payments, investment income, interest from its Federal Funds deposits, and otherwise from its operations. Loan repayments are a relatively stable source of funds while deposit inflows and outflows may be significantly influenced by general interest rates and money market conditions. Other borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. The Scottish Bank also borrows funds from its commercial customers in the form of overnight repurchase agreements.

*Deposits.* Since its opening in June 1998, The Scottish Bank has experienced consistent deposit growth. On December 31, 2006 and 2005, The Scottish Bank's deposits totaled \$167.9 million and \$140.3 million, respectively.

The Scottish Bank attracts both short-term and long-term deposits from the general public by offering a variety of accounts and interest rates. The Scottish Bank offers checking accounts, savings accounts, and fixed-rate time certificates of deposit. Deposits are generally obtained from The Scottish Bank's market area. The Scottish Bank utilized traditional marketing methods to attract new customers and deposits, including print media, radio, and direct mail. TSB had no brokered deposits at December 31, 2006 or 2005.

The following table sets forth certain information regarding TSB's deposits at the dates indicated.

**Table 11. Analysis of deposits (Dollars in 000's)**

	December 31, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
<b>Interest-bearing deposits:</b>				
NOW accounts	\$ 31,810	19%	\$ 16,995	12%
Money market and savings	21,696	13%	16,213	12%
Time deposits	88,448	53%	84,735	60%
<b>Total interest bearing deposits</b>	<b>141,954</b>	<b>85%</b>	<b>117,943</b>	<b>84%</b>
<b>Non-interest bearing deposits:</b>				
Demand deposits	25,926	15%	22,373	16%
<b>Total deposits</b>	<b>\$ 167,880</b>	<b>100%</b>	<b>\$ 140,316</b>	<b>100%</b>

As of December 31, 2006, the aggregated amount of time deposits in amounts greater than or equal to \$100,000 was \$47.5 million.

#### *Borrowings*

At December 31, 2006, TSB had \$12.8 million in other borrowed funds, compared to \$17.2 million at December 31, 2005. There were no federal funds purchased at December 31, 2006 compared to \$7.1 million at December 31, 2005. Federal Home Loan Bank advances were \$8.0 million at December 31, 2006 and 2005. Repurchase agreements with commercial customers decreased from \$2.1 million at December 31, 2005 to \$1.7 million at December 31, 2006. Other borrowed funds are an integral part of TSB's overall funding strategy, and have varying terms and