FORM 8-K

Current report filing

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SOUTHBANC SHARES INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) February 14, 2000

SOUTHBANC SHARES, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-23751	58-2361245
(State or other Jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

907 N. Main Street, Anderson, South Carolina 29621
(Address of principal executive offices)

(864) 225-0241
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

ITEM 5. Other Events.

On February 14, 2000, SouthBanc Shares, Inc. ("SouthBanc") and Heritage Bancorp, Inc. ("Heritage"), entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Heritage will merge with and into SouthBanc. As a result of the merger, Heritage Federal Bank will become a wholly owned subsidiary of SouthBanc. The Merger Agreement is filed as Exhibit 2.1 hereto and is incorporated herein by reference.

Pursuant to the terms of the Merger Agreement, each share of Heritage common stock, $0.01 par value per share, issued and outstanding at the effective time of the merger, will become and be converted into the right to receive, at the election of the holder, either shares of SouthBanc common stock, par value $.01 per share, or $17.65 in cash. The elections of Heritage shareholders will

be subject to the requirement that 50% of Heritage shares be exchanged for cash and 50% be exchanged for SouthBanc common stock. The number of shares of SouthBanc common stock into which each Heritage share will be exchanged will be based on the price of SouthBanc common stock over a measurement period prior to the closing, as follows: if the average closing price of SouthBanc common stock during the measurement period is $15.92 or less, the exchange ratio will be 1.109; if the average price of SouthBanc common stock is between $15.92 and $20.60, the exchange ratio will be $17.65 divided by average closing price; if the average price of SouthBanc common stock is $20.60 or more and less than $23.41, the exchange ratio will be 0.857; and if the average price of SouthBanc common stock is more than $23.41, the exchange ratio will be $20.06 divided by average closing price.

If the average closing price of SouthBanc common stock during the measurement period is less than $14.05, Heritage may elect to terminate the agreement unless SouthBanc elects to increase the exchange ratio. In that case, the exchange ratio will equal $15.57 divided by the average closing price of SouthBanc common stock.

The merger will be structured as a tax-free reorganization and will be accounted under the purchase method of accounting. Consummation of the merger is subject to various conditions, including the approval of the shareholders of SouthBanc and Heritage and the receipt of all requisite regulatory approvals.

In connection with the Merger Agreement, SouthBanc granted to Heritage a stock option pursuant to a Stock Option Agreement, dated as of February 14, 1999, which, under certain defined circumstances, would enable Heritage to purchase up to 19.9% of SouthBanc's issued and outstanding shares of common stock at a price of $17.50 per share. The Stock Option Agreement provides that the total profit receivable thereunder may not exceed $2.0 million plus reasonable out-of-pocket expenses. A copy of the Stock Option Agreement is attached hereto as Exhibit 4.1. In addition, Heritage granted to SouthBanc an identical option to acquire up to 19.9% of Heritage's common stock at a price of $13.25 per share. A copy of the Stock Option Agreement is attached hereto as Exhibit 10.1.

Following consummation of the merger, the Board of Directors of SouthBanc will have eight members and will be composed of five members of SouthBanc's current Board of Directors and three members of Heritage's current Board of Directors.

The summary of the Merger Agreement is not complete and is qualified in its entirety by reference to the complete text of such documents filed as an exhibit herewith and incorporated herein by reference.

ITEM 7. Financial Statements and Other Exhibits.

Exhibit 2.1 Agreement and Plan of Merger, dated as of February 14, 2000, by and between SouthBanc Shares, Inc. and Heritage Bancorp, Inc.

Exhibit 4.1 Stock Option Agreement dated as of February 14, 2000 by and between SouthBanc Shares, Inc. and Heritage Bancorp, Inc.

Exhibit 10.1 Stock Option Agreement dated February 14, 2000 by and between Heritage Bancorp, Inc. and SouthBanc Shares, Inc.

SIGNATURES

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

SouthBanc Shares, Inc.

Dated: February 18, 2000

By: /s/ Robert W. Orr

Robert W. Orr
President and Chief Executive Officer

Exhibit 2.1

AGREEMENT AND PLAN OF MERGER

DATED AS OF FEBRUARY 14, 2000

BY AND BETWEEN

SOUTHBANC SHARES, INC.

AND

HERITAGE BANCORP, INC.

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Agreement and Plan of Merger

This is an Agreement and Plan of Merger, dated as of the 14th day of

February, 2000 ("Agreement"), by and between SouthBanc Shares, Inc., a Delaware corporation ("SouthBanc"), and Heritage Bancorp, Inc., a Delaware corporation ("Heritage").

Introductory Statement

The Board of Directors of each of SouthBanc and Heritage (i) has determined that this Agreement and the business combination and related transactions contemplated hereby are advisable and in the best interests of SouthBanc and Heritage, respectively, and in the best long-term interests of their respective stockholders, (ii) has determined that this Agreement and the transactions contemplated hereby are consistent with, and in furtherance of, its respective business strategies and (iii) has approved, at meetings of each of such Boards of Directors, this Agreement.

The parties hereto intend that the Merger as defined herein shall qualify as a reorganization under the provisions of Section 368(a) of the IRC (as defined in Section 8.1) for federal income tax purposes, and that the Merger shall be accounted for as a purchase transaction for accounting purposes.

SouthBanc and Heritage desire to make certain representations, warranties and agreements in connection with the business combination and related transactions provided for herein and to prescribe various conditions to such transactions.

As a condition and inducement to SouthBanc"s willingness to enter into this Agreement and the SouthBanc Stock Option Agreement referred to below, SouthBanc and Heritage are entering into a Stock Option Agreement dated as of the date hereof in the form of Exhibit A (the "Heritage Stock Option Agreement"), pursuant to which Heritage is granting to SouthBanc an option to purchase shares of Heritage Common Stock (as defined in Section 8.1), and as a condition and inducement to Heritage"s willingness to enter into this Agreement and the Heritage Stock Option Agreement, Heritage and SouthBanc are entering into a Stock Option Agreement dated as of the date hereof in the form of Exhibit B (the "SouthBanc Stock Option Agreement"), pursuant to which SouthBanc is granting to Heritage an option to purchase shares of SouthBanc Common Stock (as defined in Section 8.1).

In consideration of their mutual promises and obligations hereunder, the parties hereto adopt and make this Agreement and prescribe the terms and conditions hereof and the manner and basis of carrying it into effect, which shall be as follows:

ARTICLE I
The Merger

Section 1.1. Structure of the Merger. On the Effective Date (as defined in Section 7.1), Heritage will merge with and into SouthBanc ("Merger") pursuant to the provisions of, and with the effect provided for in, Delaware Law (as defined in Section 8.1). Upon consummation of the Merger, the separate corporate existence of Heritage shall cease. SouthBanc shall be the surviving corporation (hereinafter sometimes referred to in such capacity as the "Surviving Corporation") in the Merger and shall continue to be governed by the laws of the State of Delaware and its name and separate corporate existence, with all of its rights, privileges, immunities, powers and franchises, shall continue unaffected by the Merger. From and after the Effective Time (as defined in Section 7.1), SouthBanc shall possess all of the properties and rights and be subject to all of the liabilities and obligations of Heritage, all as more fully described under Delaware Law.

Section 1.2. Effect on Outstanding Shares of Heritage Common Stock.

(a) By virtue of the Merger, automatically and without any action on the part of the holder thereof, each share of Heritage Common Stock issued and

outstanding at the Effective Time, other than Excluded Shares (as defined in Section 8.1), shall become and be converted into, at the election of the holder as provided in and subject to the limitations set forth in this Agreement, either (i) the right to receive $17.65 in cash without interest (the "Cash Consideration") or (ii) the number of shares of SouthBanc common stock equal to the Exchange Ratio (as defined below) (the "Stock Consideration"). The Cash Consideration and the Stock Consideration are sometimes referred to herein collectively as the "Merger Consideration." The Exchange Ratio shall be equal (rounded to the nearest one-thousandth) to (w) 1.109 if the SouthBanc Price (as defined in Section 8.1) is $15.92 or less, (x) the result obtained by dividing $17.65 by the SouthBanc Price if the SouthBanc Price is greater than $15.92 and less than $20.60, (y) 0.857 if the SouthBanc Price is $20.60 or more and less than $23.41 or (z) the result obtained by dividing $20.06 by the SouthBanc Price if the SouthBanc Price is $23.41 or more; provided, however, that if a Triggering Event (as defined in Section 8.1) has occurred and the SouthBanc Price is greater than $23.41, then the Exchange Ratio shall be equal to 0.857.

(b) Notwithstanding any other provision of this Agreement, no fraction of a share of SouthBanc Common Stock and no certificates or scrip therefor will be issued in the Merger; instead, SouthBanc shall pay to each holder of Heritage Common Stock who would otherwise be entitled to a fraction of a share of SouthBanc Common Stock an amount in cash, rounded to the nearest cent, determined by multiplying such fraction by the SouthBanc Price.

(c) If, between the date of this Agreement and the Effective Time (and as permitted by Section 3.2), the outstanding shares of SouthBanc Common Stock or the outstanding shares of Heritage Common Stock shall have been changed into a different number of shares or into a different class by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Merger Consideration shall be adjusted appropriately to provide the holders of Heritage Common Stock the same economic effect as contemplated by this Agreement prior to such event.

(d) As of the Effective Time, each Excluded Share, other than Dissenters" Shares (as defined in Section 1.9), shall be canceled and retired and shall cease to exist, and no exchange or payment shall be made with respect thereto. All shares of SouthBanc Common Stock that are held by Heritage, if any, other than shares held in a fiduciary capacity or in satisfaction of a debt previously contracted, shall be canceled and shall constitute authorized but unissued shares. In addition, no Dissenters" Shares shall be converted into the Merger Consideration pursuant to this Section 1.2 but instead shall be treated in accordance with the provisions set forth in Section 1.9 of this Agreement.

Section 1.3. Election and Proration Procedures.

(a) An election form (an "Election Form") and other appropriate and customary transmittal materials, which shall specify that delivery shall be effected, and risk of loss and title to the certificates theretofore representing Heritage Common Stock ("Certificates") shall pass, only upon proper delivery of such Certificates to a bank or trust company designated by SouthBanc and reasonably satisfactory to Heritage (the "Exchange Agent") in such form as Heritage and SouthBanc shall mutually agree shall be mailed on the Mailing Date (as defined below) to each holder of record of shares of Heritage Common Stock (other than holders of Dissenters" Shares or shares of Heritage Common Stock to be canceled as provided in Section 1.2(d)) as of a record date which shall be the same date as the record date for eligibility to vote on the Merger. The "Mailing Date" shall be the date on which proxy materials relating to the Merger are mailed to holders of shares of Heritage Common Stock.

(b) Each Election Form shall entitle the holder of shares of Heritage Common Stock (or the beneficial owner through appropriate and customary documentation and instructions) to (i) elect to receive the Cash Consideration for all of such holder's shares (a "Cash Election"), (ii) elect to receive the Stock Consideration for all of such holder's shares (a "Stock Election"), (iii) elect to receive the Cash Consideration with respect to some of such holder's shares and the Stock Consideration with respect to such holder's remaining shares (a "Mixed Election"), or (iv) make no election or to indicate that such holder has no preference as to the receipt of the Cash Consideration or the Stock Consideration (a "Non-Election"). Holders of record of shares of Heritage Common Stock who hold such shares as nominees, trustees or in other representative capacities (a "Representative") may submit multiple Election

Forms, provided that such Representative certifies that each such Election Form covers all the shares of Heritage Common Stock held by that Representative for a particular beneficial owner. Shares of Heritage Common Stock as to which a Cash Election has been made (including pursuant to a Mixed Election) are referred to herein as "Cash Election Shares." Shares of Heritage Common Stock as to which a Stock Election has been made (including pursuant to a Mixed Election) are referred to herein as "Stock Election Shares." Shares of Heritage Common Stock as to which no election has been made are referred to as "Non-Election Shares." The aggregate number of shares of Heritage Common Stock with respect to which a Stock Election has been made is referred to herein as the "Stock Election Number."

(c) To be effective, a properly completed Election Form shall be submitted to the Exchange Agent on or before 5:00 p.m. New York City time on the 20th calendar day following the Mailing Date (or such other time and date as Heritage and SouthBanc may mutually agree) (the "Election Deadline"). An election shall have been properly made only if the Exchange Agent shall have actually received a properly completed Election Form by the Election Deadline. An Election Form shall be deemed properly completed only if accompanied by one or more Certificates (or customary affidavits and, if required by SouthBanc pursuant to Section 1.4(i), indemnification regarding the loss or destruction of such Certificates or the guaranteed delivery of such Certificates) representing all shares of Heritage Common Stock covered by such Election Form, together with duly executed transmittal materials included with the Election Form. Any Heritage stockholder may at any time prior to the Election Deadline change his or her election by written notice received by the Exchange Agent prior to the Election Deadline accompanied by a properly completed and signed revised Election Form. Any Heritage stockholder may, at any time prior to the Election Deadline, revoke his or her election by written notice received by the Exchange Agent prior to the Election Deadline or by withdrawal prior to the Election Deadline of his or her Certificates, or of the guarantee of delivery of such Certificates, previously deposited with the Exchange Agent. All elections shall be revoked automatically if the Exchange Agent is notified in writing by SouthBanc and Heritage that this Agreement has been terminated. If a stockholder either (i) does not submit a properly completed Election Form by the Election Deadline, or (ii) revokes its Election Form prior to the Election Deadline, the shares of Heritage Common Stock held by such stockholder shall be designated Non-Election Shares. SouthBanc shall cause the Certificates representing Heritage Common Stock described in (ii) to be promptly returned without charge to the person submitting the Election Form upon written request to that effect from the person who submitted the Election Form. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent shall have reasonable discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in any Election Form, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive.

(d) Notwithstanding any other provision contained in this Agreement, 50% of the total number of shares of Heritage Common Stock outstanding at the Effective Time, less 50% of the aggregate number of shares of Heritage Common Stock acquired by SouthBanc prior to the Effective Time (the "Stock Conversion Number"), shall be converted into the Stock Consideration and the remaining outstanding shares of Heritage Common Stock shall be converted into the Cash Consideration (in each case, excluding (i) shares of Heritage Common Stock to be canceled as provided in Section 1.2(d) and (ii) Dissenters" Shares (the shares remaining outstanding after such exclusion constituting, for purposes of this Agreement, the "Outstanding Heritage Shares")); provided, however, that for federal income tax purposes, it is intended that the Merger will qualify as a reorganization under the provisions of Section 368(a) of the IRC and, notwithstanding anything to the contrary contained herein, in order that the Merger will not fail to satisfy continuity of interest requirements under applicable federal

income tax principles relating to reorganizations under Section 368(a) of the IRC, as reasonably determined by counsel to SouthBanc and Heritage, SouthBanc shall increase the number of outstanding Heritage shares that will be converted into the Stock Consideration and reduce the number of outstanding Heritage shares that will be converted into the right to receive the Cash Consideration.

(e) Within five business days after the later to occur of the Election Deadline or the Effective Time, SouthBanc shall cause the Exchange Agent to effect the allocation among holders of Heritage Common Stock of rights to receive the Cash Consideration and the Stock Consideration as follows:

(i) If the Stock Election Number exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares shall be converted into the right to receive the Cash Consideration, and each holder of Stock Election Shares will be entitled to receive the Stock Consideration in respect of that number of Stock Election Shares 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 the Stock Conversion Number and the denominator of which is the Stock Election Number, with the remaining number of such holder's Stock Election Shares being converted into the right to receive the Cash Consideration;

(ii) If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number 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 Non-Election Shares and Cash Election Shares shall be treated in the following manner:

(A) if the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Cash Consideration and each holder of Non-Election Shares shall receive the Stock Consideration in respect of that number of Non-Election Shares equal to the product obtained by multiplying (x) the number of Non-Election 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 Non-Election Shares, with the remaining number of such holder's Non-Election Shares being converted into the right to receive the Cash Consideration; or

(B) if the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election 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 Non-Election 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.

For purposes of this Section 1.3(e), if SouthBanc is obligated to increase the number of Outstanding Heritage Shares to be converted into shares of SouthBanc Common Stock as a result of the application of the last clause of Section 1.3(d) above, then the higher number shall be substituted for the Stock Conversion Number in the calculations set forth in this Section 1.3(e).

Section 1.4. Exchange Procedures.

(a) Appropriate transmittal materials ("Letter of Transmittal") in a form satisfactory to SouthBanc and Heritage shall be mailed as soon as practicable after the Effective Time to each holder of record of Heritage Common Stock as of the Effective Time who did not previously submit a completed Election Form. A Letter of Transmittal will be deemed properly completed only if accompanied by certificates representing all shares of Heritage Common Stock to be converted thereby.

(b) At and after the Effective Time, each Certificate (except as specifically set forth in Section 1.2) shall represent only the right to receive the Merger Consideration.

(c) Prior to the Effective Time, SouthBanc shall deposit, or shall cause to be deposited, with the Exchange Agent, for the benefit of the holders of shares of Heritage Common Stock, for exchange in accordance with this Section 1.4, an amount of cash sufficient to pay the aggregate Cash Consideration and the aggregate amount of cash in lieu of fractional shares to be paid pursuant to Section 1.2, and SouthBanc shall reserve for issuance with its transfer agent

and registrar a sufficient number of shares of SouthBanc Common Stock to provide for payment of the aggregate Stock Consideration.

(d) The Letter of Transmittal shall (i) specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, (ii) be in a form and contain any other provisions as SouthBanc may reasonably determine and (iii) include instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon the proper surrender of the Certificates to the Exchange Agent, together with a properly completed and duly executed Letter of Transmittal, the holder of such Certificates shall be entitled to receive in exchange therefor (m) a certificate representing that number of whole shares of SouthBanc Common Stock that such holder has the right to receive pursuant to Section 1.2, if any, and (n) a check in the amount equal to the cash that such holder has the right to receive pursuant to Section 1.2, if any, (including any cash in lieu of fractional shares, if any, that such holder has the right to receive pursuant to Section 1.2) and any dividends or other distributions to which such holder is entitled pursuant to this Section 1.4. Certificates so surrendered shall forthwith be canceled. As soon as practicable following receipt of the properly completed Letter of Transmittal and any necessary accompanying documentation, the Exchange Agent shall distribute SouthBanc Common Stock and cash as

provided herein. The Exchange Agent shall not be entitled to vote or exercise any rights of ownership with respect to the shares of SouthBanc Common Stock held by it from time to time hereunder, except that it shall receive and hold all dividends or other distributions paid or distributed with respect to such shares for the account of the persons entitled thereto. If there is a transfer of ownership of any shares of Heritage Common Stock not registered in the transfer records of Heritage, the Merger Consideration shall be issued to the transferee thereof if the Certificates representing such Heritage Common Stock are presented to the Exchange Agent, accompanied by all documents required, in the reasonable judgment of SouthBanc and the Exchange Agent, (x) to evidence and effect such transfer and (y) to evidence that any applicable stock transfer taxes have been paid.

(e) No dividends or other distributions declared or made after the Effective Time with respect to SouthBanc Common Stock shall be remitted to any person entitled to receive shares of SouthBanc Common Stock hereunder until such person surrenders his or her Certificates in accordance with this Section 1.4. Upon the surrender of such person"s Certificates, such person shall be entitled to receive any dividends or other distributions, without interest thereon, which theretofore had become payable with respect to shares of SouthBanc Common Stock represented by such person"s Certificates.

(f) The stock transfer books of Heritage shall be closed immediately upon the Effective Time and from and after the Effective Time there shall be no transfers on the stock transfer records of Heritage of any shares of Heritage Common Stock. If, after the Effective Time, Certificates are presented to SouthBanc, they shall be canceled and exchanged for the Merger Consideration deliverable in respect thereof pursuant to this Agreement in accordance with the procedures set forth in this Section 1.4.

(g) Any portion of the aggregate amount of cash to be paid pursuant to Section 1.2, any dividends or other distributions to be paid pursuant to this Section 1.4 or any proceeds from any investments thereof that remains unclaimed by the stockholders of Heritage for six months after the Effective Time shall be repaid by the Exchange Agent to SouthBanc upon the written request of SouthBanc. After such request is made, any stockholders of Heritage who have not theretofore complied with this Section 1.4 shall look only to SouthBanc for the Merger Consideration deliverable in respect of each share of Heritage Common Stock such stockholder holds, as determined pursuant to Section 1.2 of this Agreement, without any interest thereon. If outstanding Certificates are not surrendered prior to the date on which such payments would otherwise escheat to or become the property of any governmental unit or agency, the unclaimed items shall, to the extent permitted by any abandoned property, escheat or other applicable laws, become the property of SouthBanc (and, to the extent not in its possession, shall be paid over to it), free and clear of all claims or interest of any person previously entitled to such claims. Notwithstanding the foregoing, neither the Exchange Agent nor any party to this Agreement (or any affiliate thereof) shall be liable to any former holder of Heritage Common Stock for any amount delivered to a public official pursuant to applicable abandoned property,

escheat or similar laws.

(h) SouthBanc and the Exchange Agent shall be entitled to rely upon Heritage"s stock transfer books to establish the identity of those persons entitled to receive the Merger Consideration, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of stock represented by any Certificate, SouthBanc and the Exchange Agent shall be entitled to deposit any Merger Consideration represented thereby in escrow with an independent third party and thereafter be relieved with respect to any claims thereto.

(i) If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by the Exchange Agent, the posting by such person of a bond in such amount as the Exchange Agent may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration deliverable in respect thereof pursuant to Section 1.2.

Section 1.5. Effect on Outstanding Shares of SouthBanc Common Stock.

At and after the Effective Time, each share of SouthBanc Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding share of common stock of the Surviving Corporation and shall not be affected by the Merger.

Section 1.6. Directors of SouthBanc after Effective Time. From and after the Effective Time, until duly changed in compliance with applicable law, the Board of Directors of SouthBanc shall consist of (i) Robert W. Orr and four directors designated by SouthBanc and (ii) J. Edward Wells and two directors designated by Heritage.

Section 1.7. Certificate of Incorporation and Bylaws of the Surviving Corporation. The certificate of incorporation and bylaws of SouthBanc in effect immediately prior to the Effective Time shall be the certificate of incorporation and bylaws of the Surviving Corporation until thereafter amended in accordance with applicable law.

Section 1.8. Heritage Stock Options and Restricted Stock.

(a) At the Effective Time, each option to acquire shares of Heritage Common Stock ("Heritage Option") granted pursuant to Heritage"s 1998 Stock Option Plan (the "Heritage Option Plan") that is then outstanding and unexercised, whether or not vested, shall be canceled, and in lieu thereof the holders of such options shall be paid in cash an amount equal to the product of (i) the number of shares of Heritage Common Stock subject to such option at the Effective Time and (ii) an amount by which the $17.65 exceeds the exercise price per share of such option, net of any cash which must be withheld under federal and state income and employment tax requirements. In the event that the exercise price of a Heritage Option is greater than $17.65, then at the Effective Time such Heritage Option shall be canceled without any payment made in exchange therefor. At the Effective Time the Heritage Option Plan shall be deemed terminated.

(b) Each restricted share of Heritage Common Stock granted pursuant to the Heritage Bancorp, Inc. Management Recognition and Development Plan (each such share, a "Heritage Restricted Share") that is outstanding immediately prior to the Effective Time shall vest and become free of restrictions to the extent provided by the terms thereof. Each award of Heritage Restricted Shares shall be converted, as of the Effective Time, into the Merger Consideration and the aggregate Merger Consideration, net of any cash which must be withheld under federal and state income and employment tax requirements, shall be delivered to the respective holders of Heritage Restricted Shares as soon as practicable following the Effective Time.

Section 1.9. Dissenters" Rights. Notwithstanding any other provision of this Agreement to the contrary, shares of Heritage Common Stock that are outstanding immediately prior to the Effective Time and which are held by stockholders who shall have not voted in favor of the Merger or consented thereto in writing and who properly shall have demanded appraisal for such shares in accordance with Delaware Law (collectively, the "Dissenters" Shares") shall not be converted into or represent the right to receive the Merger Consideration. Such stockholders instead shall be entitled to receive payment of the appraised value of such shares held by them in accordance with the provisions of Delaware Law, except that all Dissenters" Shares held by stockholders who shall have failed to perfect or who effectively shall have withdrawn or otherwise lost their rights to appraisal of such shares under Delaware Law shall thereupon be deemed to have been converted into and to have become exchangeable, as of the Effective Time, for the right to receive, without any interest thereon, the Merger Consideration upon surrender in the manner provided in Section 1.4 of the Heritage Certificate or Heritage Certificates that, immediately prior to the Effective Time, evidenced such shares. Heritage shall give SouthBanc (i) prompt notice of any written demands for appraisal of any shares of Heritage Common Stock, attempted withdrawals of such demands and any other instruments served pursuant to Delaware Law and received by Heritage relating to stockholders" rights of appraisal, and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands under Delaware Law consistent with the obligations of Heritage thereunder. Heritage shall not, except with the prior written consent of SouthBanc, (x) make any payment with respect to such demand, (y) offer to settle or settle any demand for appraisal or (z) waive any failure to timely deliver a written demand for appraisal or timely take any other action to perfect appraisal rights in accordance with Delaware Law.

ARTICLE II
Representations and Warranties

Section 2.1. Representations and Warranties of Heritage. Heritage represents and warrants to SouthBanc that:

(a) Organization.

(i) Heritage is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is registered as a savings and loan holding company.

(ii) Heritage Federal Bank ("Heritage Federal") is a federally chartered savings bank duly organized and validly existing under the laws of the United States of America. The deposits of Heritage Federal are insured by the Savings Association Insurance Fund of the FDIC (as defined in Section 8.1) to the extent provided in the FDIA (as defined in Section 8.1).

(iii) Heritage and Heritage Federal each has all requisite corporate power and authority to own, lease and operate its properties and to conduct the business currently being conducted by it. Heritage and Heritage Federal are each duly qualified or licensed as a foreign corporation to transact business and are in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so qualified or licensed and in good standing would not have a Material Adverse Effect (as defined in Section 8.1) on Heritage.

(b) Subsidiaries.

(i) Schedule 2.1(b) sets forth (A) the name, percentage ownership and number of shares of stock owned or controlled by Heritage of each Subsidiary (as defined in Section 8.1); and (B) the jurisdiction of incorporation, capitalization and ownership of each Subsidiary. All such Subsidiaries and ownership interests are in compliance with all applicable laws,

rules and regulations relating to investments in equity ownership interests by savings and loan holding companies or federally chartered savings associations.

(ii) Heritage owns of record and beneficially all the capital stock of each of its Subsidiaries free and clear of any claims, liens, encumbrances or restrictions and there are no agreements or understandings with respect to the voting or disposition of any such shares. The outstanding shares of capital stock of each Subsidiary have been validly authorized and are validly issued, fully paid and nonassessable. Each of Heritage"s Subsidiaries is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation, has all requisite corporate power and authority to own, lease and operate its properties and to conduct the business currently being conducted by it and is duly qualified or licensed as a foreign corporation to transact business and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so qualified or licensed and in good standing would not have a Material Adverse Effect on Heritage.

(iii) None of Heritage"s Subsidiaries holds shares of its capital stock in its treasury, and there are not, and on the Closing Date there will not be, outstanding (A) any options, warrants or other rights with respect to the capital stock of any Subsidiary, (B) any securities convertible into or exchangeable for shares of such capital stock or any other debt or

equity security of any Subsidiary or (C) any other commitments of any kind for the issuance of additional shares of capital stock or other debt or equity security of any Subsidiary or options, warrants or other rights with respect to such securities.

(iv) No Subsidiary of Heritage other than Heritage Federal is an "insured depository institution" as defined in the FDIA and the applicable regulations thereunder.

(c) Capital Structure.

(i) The authorized capital stock of Heritage consists of:

(A) 10,000,000 shares of Heritage Common Stock; and

(B) 500,000 shares of preferred stock, par value $.01 per share.

(ii) As of the date of this Agreement:

(A) 4,301,089 shares of Heritage Common Stock are issued and outstanding, all of which are validly issued, fully paid and nonassessable;

(B) no shares of Heritage preferred stock are issued and outstanding or held in Heritage"s treasury;

(C) 416,588 share of Heritage Common Stock are reserved for issuance pursuant to outstanding Heritage Options under the Heritage Option Plan; and

(D) 512,811 shares of Heritage Common Stock are held by Heritage in its treasury or by its Subsidiaries.

(iii) Set forth on Schedule 2.1(c) is a complete and accurate

list of all outstanding Heritage Options, including the names of the optionees, dates of grant, exercise prices, dates of vesting, dates of termination and shares subject to each grant. Following the Effective Time, no holder of Heritage Options will have any right to receive shares of SouthBanc Common Stock upon the exercise of Heritage Options.

(iv) No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which stockholders of Heritage may vote are issued or outstanding.

(v) Except as set forth in this Section 2.1(c) or on Schedule 2.1(c), as of the date of this Agreement, (A) no shares of capital stock or other voting securities of Heritage are issued, reserved for issuance or outstanding and (B) neither Heritage nor any of its Subsidiaries has or is bound by any outstanding subscriptions, options, warrants, calls, rights,

convertible securities, commitments or agreements of any character obligating Heritage or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, any additional shares of capital stock of Heritage or obligating Heritage or any of its Subsidiaries to grant, extend or enter into any such option, warrant, call, right, convertible security, commitment or agreement. As of the date hereof, there are no outstanding contractual obligations of Heritage or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Heritage or any of its Subsidiaries.

(d) Authority. Heritage has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate actions on the part of Heritage"s Board of Directors, and no other corporate proceedings on the part of Heritage are necessary to authorize this Agreement or to consummate the transactions contemplated by this Agreement other than the approval and adoption of this Agreement by the affirmative vote of the holders of a majority of the outstanding shares of Heritage Common Stock. This Agreement has been duly and validly executed and delivered by Heritage and constitutes a valid and binding obligation of Heritage, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors" rights and remedies generally and subject, as to enforceability, to general principles of equity, whether applied in a court of law or a court of equity.

(e) Fairness Opinion. Heritage has received the opinion of Trident Securities to the effect that, as of the date hereof, the Merger Consideration to be received by Heritage"s stockholders is fair, from a financial point of view, to such stockholders.

(f) No Violations; Consents.

(i) The execution, delivery and performance of this Agreement by Heritage do not, and the consummation of the transactions contemplated by this Agreement will not, (A) assuming that the consents and approvals referred to in Section 2.1(f)(ii) are obtained, violate of any law, rule or regulation or any judgment, decree, order, governmental permit or license to which Heritage or any of its Subsidiaries (or any of their respective properties) is subject, (B) violate the certificate of incorporation or bylaws of Heritage or the similar organizational documents of any of its Subsidiaries or (C) constitute a breach or violation of, or a default under (or an event which, with due notice or lapse of time or both, would constitute a default under), or result in the termination of, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the properties or assets of Heritage or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, indenture, deed of trust, loan agreement or other agreement, instrument or obligation to which Heritage or any of its Subsidiaries is a party, or to which any of their respective properties or assets may be subject, except, in the case of (C), for any such breaches, violations or defaults that would not, individually or in the aggregate, have a Material Adverse Effect on Heritage.

(ii) Except for (A) the filing of an application with the OTS (as defined in Section 8.1) under the HOLA (as defined in Section 8.1) and approval of such application, (B) the filing of a certificate of merger with the Delaware Secretary of State pursuant to Delaware Law, (C) the registration under

the Securities Act (as defined in Section 8.1) of the shares of SouthBanc Common Stock to be issued in exchange for shares of Heritage Common Stock, (D) the registration or qualification of the shares of SouthBanc Common Stock to be issued in exchange for shares of Heritage Common Stock under state securities or "blue sky" laws, and (E) such filings, authorizations or approvals as may be set forth in Schedule 2.1(f), no consents or approvals of or filings or registrations with any Governmental Entity (as defined in Section 8.1) or with any third party are necessary in connection with the execution and delivery by Heritage of this Agreement or the consummation by Heritage of the Merger and the other transactions contemplated by this Agreement. As of the date hereof, Heritage knows of no reason pertaining to Heritage why any of the approvals referred to in this Section 2.1(f) should not be obtained without the imposition of any material condition or restriction described in Section 5.1(b).

(g) Reports and Financial Statements.

(i) Heritage and each of its Subsidiaries have each timely filed all material reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since December 31, 1997 with (A) the FDIC, (B) the OTS, (C) the NASD (as defined in Section 8.1) and (D) the SEC (as defined in Section 8.1) (collectively, "Heritage"s Reports") and have paid all fees and assessments due and payable in connection therewith. As of their respective dates, none of Heritage"s Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. All of Heritage"s Reports filed with the SEC complied in all material respects with the applicable requirements of the Exchange Act (as defined in Section 8.1) and the rules and regulations of the SEC promulgated thereunder.

(ii) Each of the financial statements of Heritage included in Heritage"s Reports filed with the SEC complied as to form, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto. The financial statements included in Heritage"s Reports were prepared from the books and records of Heritage and its Subsidiaries, fairly present the consolidated financial position of Heritage and its Subsidiaries in each case at and as of the dates indicated and the consolidated results of operations, retained earnings and cash flows of Heritage and its Subsidiaries for the periods indicated, and, except as otherwise set forth in the notes thereto, were prepared in accordance with GAAP (as defined in Section 8.1) consistently applied throughout the periods covered thereby; provided, however, that the unaudited financial statements for interim periods are subject to normal year-end adjustments (which will not be material individually or in the aggregate) and lack a statement of cash flows and footnotes.

(h) Absence of Certain Changes or Events. Except as disclosed in Heritage"s Reports filed with the SEC prior to the date of this Agreement, since September 30, 1999, (i) Heritage and its Subsidiaries have not incurred any liability, except in the ordinary course of their business consistent with past practice, (ii) Heritage and its Subsidiaries have conducted their respective businesses only in the ordinary and usual course of such businesses consistent with their past practices, (iii) there has not been any Material Adverse Effect with respect to Heritage, (iv) there has been no increase in the salary, compensation, pension or other benefits payable or to become payable by Heritage or any of its Subsidiaries to any of their respective directors, officers or employees, other than in conformity with the policies and practices of such entity in the usual and ordinary course of its business, (v) neither Heritage nor any of its Subsidiaries has paid or made any accrual or arrangement for payment of bonuses or special compensation of any kind or any severance or termination pay to any of their directors, officers or employees, and (vi) there has been no change in any accounting principles, practices or methods of Heritage or any of its Subsidiaries other than as required by GAAP.

(i) Absence of Claims. There are no suits, actions or proceedings pending or, to the knowledge of Heritage, threatened against or affecting

Heritage or any of its Subsidiaries or any property or asset of Heritage or any of its Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on Heritage, nor are there any judgments, decrees, injunctions, rules or orders of any Governmental Entity or arbitrator outstanding against Heritage which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on Heritage.

(j) Absence of Regulatory Actions. Since December 31, 1997, neither Heritage nor any of its Subsidiaries has been a party to any cease and desist order, written agreement or memorandum of understanding with, or any commitment letter or similar undertaking to, or has been subject to any action, proceeding, order or directive by, or has been a recipient of any extraordinary supervisory letter from any Government Regulator (as defined in Section 8.1), or has adopted any board resolutions at the request of any Government Regulator, or has been advised by any Government Regulator that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such action, proceeding, order, directive, written agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter, board resolutions or similar undertaking.

(k) Taxes. All federal, state, local and foreign tax returns required to be filed by or on behalf of Heritage or any of its Subsidiaries have been timely filed or requests for extensions have been timely filed and any such extension shall have been granted and not have expired, and all such filed returns are complete and accurate in all material respects. All taxes shown on such returns, all taxes required to be shown on returns for which extensions have been granted and all other taxes required to be paid by Heritage or any of its Subsidiaries have been paid in full or adequate provision has been made for any such taxes on Heritage"s balance sheet (in accordance with GAAP). As of the date of this Agreement, there is no audit examination, deficiency assessment, tax investigation or refund litigation with respect to any taxes of Heritage or any of its Subsidiaries, and no claim has been made by any authority in a jurisdiction where Heritage or any of its Subsidiaries do not file tax returns that Heritage or any such Subsidiary is

subject to taxation in that jurisdiction. All taxes, interest, additions and penalties due with respect to completed and settled examinations or concluded litigation relating to Heritage or any of its Subsidiaries have been paid in full or adequate provision has been made for any such taxes on Heritage"s balance sheet (in accordance with GAAP). Heritage and its Subsidiaries have not executed an extension or waiver of any statute of limitations on the assessment or collection of any material tax due that is currently in effect. Heritage and each of its Subsidiaries has withheld and paid all taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party, and Heritage and each of its Subsidiaries has timely complied with all applicable information reporting requirements under Part III, Subchapter A of Chapter 61 of the IRC and similar applicable state and local information reporting requirements.

(l) Agreements.

(i) Heritage and its Subsidiaries are not bound by any material contract (as defined in Item 601(b)(10) of Regulation S-K promulgated by the SEC), to be performed after the date hereof that has not been filed with or incorporated by reference in Heritage"s Reports.

(ii) Schedule 2.1(l) lists any contract, arrangement, commitment or understanding (whether written or oral) to which Heritage or any of its Subsidiaries is a party or is bound:

(A) with any executive officer or other key employee of Heritage or any of its Subsidiaries the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving Heritage or any of its Subsidiaries of the nature contemplated by this Agreement;

(B) with respect to the employment of any directors, officers employees or consultants;

(C) (including any stock option plan, phantom stock or stock appreciation rights plan, restricted stock plan or stock purchase plan) any of the benefits of which will be increased, or the vesting or payment of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(D) containing covenants that limit the ability of Heritage or any of its Subsidiaries to compete in any line of business or with any person, or that involve any restriction on the geographic area in which, or method by which, Heritage (including any successor thereof) or any of its Subsidiaries may carry on its business (other than as may be required by law or any regulatory agency);

(E) pursuant to which Heritage or any of its Subsidiaries may become obligated to invest in or contribute capital to any entity;

(F) not fully disclosed in Heritage"s Reports that relates to borrowings of money (or guarantees thereof) by Heritage or any of its Subsidiaries, other than in the ordinary course of business; or

(G) which is a lease or license with respect to any property, real or personal, whether as landlord, tenant, licensor or licensee, involving a liability or obligation as obligor in excess of $25,000 on an annual basis.

To the knowledge of Heritage, each of the agreements and other documents referenced in Schedule 2.1(l) is a valid, binding and enforceable obligation of
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the parties sought to be bound thereby, subject to applicable bankruptcy, insolvency and similar laws affecting creditors" rights and remedies generally and subject, as to enforceability, to general principles of equity, whether applied in a court of law or a court of equity. Heritage has previously delivered to SouthBanc true and complete copies of each agreement and other documents referenced in Schedule 2.1(l).

(iii) Neither Heritage nor any of its Subsidiaries is in default under (and no event has occurred which, with due notice or lapse of time or both, would constitute a default under) or is in violation of any provision of any note, bond, indenture, mortgage, deed of trust, loan agreement, lease or other agreement to which it is a party or by which it is bound or to which any of its respective properties or assets is subject and, to the knowledge of Heritage, no other party to any such agreement (excluding any loan or extension of credit made by Heritage or any of its Subsidiaries) is in default in any respect thereunder, except for such defaults or violations that would not, individually or in the aggregate, have a Material Adverse Effect on Heritage.

(iv) Heritage and each of its Subsidiaries owns or possesses valid and binding licenses and other rights to use without payment all patents, copyrights, trade secrets, trade names, service marks and trademarks used in its businesses, and neither Heritage nor any of its Subsidiaries has received any notice of conflict with respect thereto that asserts the right of others. Each of Heritage and its Subsidiaries has performed all the obligations required to be performed by it and are not in default under any contact, agreement, arrangement or commitment relating to any of the foregoing.

(m) Labor Matters. Heritage and its Subsidiaries are in material
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compliance with all applicable laws respecting employment, retention of independent contractors and employment practices, terms and conditions of employment and wages and hours. Neither Heritage nor any of its Subsidiaries is or has ever been a party to, or is or has ever been bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization with respect to its employees, nor is Heritage or any of its Subsidiaries the subject of any proceeding asserting that it has committed an unfair labor practice or seeking to compel it or any such Subsidiary to bargain with any labor organization as to wages and conditions of employment nor has any such proceeding been threatened, nor is there any

strike, other labor dispute or organizational effort involving Heritage or any of its Subsidiaries pending or threatened.

(n) Employee Benefit Plans.

(i) Schedule 2.1(n) contains a complete and accurate list of all pension, retirement, stock option, stock purchase, stock ownership, savings, stock appreciation right, profit sharing, deferred compensation, consulting, bonus, group insurance, severance and other benefit plans, contracts, agreements and arrangements, including, but not limited to, "employee benefit plans," as defined in Section 3(3) of ERISA (as defined in Section 8.1), incentive and welfare policies, contracts, plans and arrangements and all trust agreements related thereto with respect to any present or former directors, officers or other employees of Heritage or any of its Subsidiaries (hereinafter referred to collectively as the "Heritage Employee Plans"). Heritage has previously delivered or made available to SouthBanc true and complete copies of each agreement, plan and other documents referenced in Schedule 2.1(n). There has been no announcement or commitment by Heritage or any of its Subsidiaries to create an additional Heritage Employee Plan, or to amend any Heritage Employee Plan, except for amendments required by applicable law which do not materially increase the cost of such Heritage Employee Plan.

(ii) There is no pending or threatened litigation, administrative action or proceeding relating to any Heritage Employee Plan. All of the Heritage Employee Plans comply in all material respects with all applicable requirements of ERISA, the IRC and other applicable laws. There has occurred no "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the IRC) with respect to the Heritage Employee Plans which is likely to result in the imposition of any penalties or taxes upon Heritage or any of its Subsidiaries under Section 502(i) of ERISA or Section 4975 of the IRC.

(iii) No liability to the Pension Benefit Guarantee Corporation has been or is expected by Heritage or any of its Subsidiaries to be incurred with respect to any Heritage Employee Plan which is subject to Title IV of ERISA ("Heritage Pension Plan"), or with respect to any "single-employer plan" (as defined in Section 4001(a) of ERISA) currently or formerly maintained by Heritage or any ERISA Affiliate (as defined in Section 8.1). No Heritage Pension Plan had an "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, as of the last day of the end of the most recent plan year ending prior to the date hereof; the fair market value of the assets of each Heritage Pension Plan exceeds the present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under such Heritage Pension Plan as of the end of the most recent plan year with respect to the respective Heritage Pension Plan ending prior to the date hereof, calculated on the basis of the actuarial assumptions used in the most recent actuarial valuation for such Heritage Pension Plan as of the date hereof; and no notice of a "reportable event" (as defined in Section 4043 of ERISA) for which the 30-day reporting requirement has not been waived has been required to be filed for any Heritage Pension Plan within the 12-month period ending on the date hereof. Neither Heritage nor any of its Subsidiaries has provided, or is required to provide, security to any Heritage Pension Plan or to any single-employer plan of an ERISA Affiliate pursuant to Section

401(a)(29) of the IRC. Neither Heritage, its Subsidiaries, nor any ERISA Affiliate has contributed to any "multiemployer plan," as defined in Section 3(37) of ERISA, on or after September 26, 1980.

(iv) Except as disclosed on Schedule 2.1(n), each Heritage Employee Plan that is an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) and which is intended to be qualified under Section 401(a) of the IRC (a "Heritage Qualified Plan") has received a favorable determination letter from the IRS (as defined in Section 8.1), and Heritage and its Subsidiaries are not aware of any circumstances likely to result in revocation of any such favorable determination letter. Each Heritage Qualified Plan that is an "employee stock ownership plan" (as defined in Section 4975(e)(7) of the IRC) has satisfied all of the applicable requirements of Sections 409 and 4975(e)(7) of the IRC and the regulations thereunder in all respects and any assets of any such Heritage

Qualified Plan that, as of the end of the plan year, are not allocated to participants" individual accounts are pledged as security for, and may be applied to satisfy, any securities acquisition indebtedness.

(v) Heritage and its Subsidiaries do not have any obligations for post-retirement or post-employment benefits under any Heritage Employee Plan that cannot be amended or terminated upon 60 days" notice or less without incurring any liability thereunder, except for coverage required by Part 6 of Title I of ERISA or Section 4980B of the IRC, or similar state laws, the cost of which is borne by the insured individuals. With respect to Heritage or any of its Subsidiaries, for the Heritage Employee Plans listed in Schedule 2.1(n), the
---------- execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not result in any payment or series of payments by Heritage or any of its Subsidiaries to any person which is an "excess parachute payment" (as defined in Section 280G of the IRC) or is a nondeductible payment under Section 162(m) of the IRC, increase or secure (by way of a trust or other vehicle) any benefits payable under any Heritage Employee Plan or accelerate the time of payment or vesting of any such benefit.

(o) Title to Assets. Heritage and each of its Subsidiaries has good and
---------- insurable title to its properties and assets (including any intellectual property asset such as any trademark, service mark, trade name or copyright) and property acquired in a judicial foreclosure proceeding or by way of a deed in lieu of foreclosure or similar transfer whether real or personal, tangible or intangible, in each case free and clear of any liens, security interests, encumbrances, mortgages, pledges, restrictions, charges or rights or interests of others, except pledges to secure deposits and other liens incurred in the ordinary course of business. Each lease pursuant to which Heritage or any of its Subsidiaries is lessee or lessor is valid and in full force and effect and neither Heritage nor any of its Subsidiaries, nor any other party to any such lease is in default or in violation of any provisions of any such lease. All material tangible properties of Heritage and each of its Subsidiaries are in a good state of maintenance and repair, conform with all applicable ordinances, regulations and zoning laws and are considered by Heritage to be adequate for the current business of Heritage and its Subsidiaries. To the knowledge of Heritage, none of the buildings, structures or other improvements located on its real property encroaches upon or over any adjoining parcel or real estate or any easement or right-of-way.

(p) Compliance with Laws. Heritage and each of its Subsidiaries has all
---------- permits, licenses, certificates of authority, orders and approvals of, and has made all filings, applications and registrations with, all Governmental Entities that are required in order to permit it to carry on its business as it is presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect, and no suspension or cancellation of any of them is threatened. Neither Heritage nor any of its Subsidiaries is in violation of, and Heritage and its Subsidiaries have not been given notice or been charged with any violation of, any law, ordinance, regulation, order, writ, rule, decree or condition to approval of any Governmental Entity which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on Heritage.

(q) Fees. Other than financial advisory services performed for Heritage by
---- Trident Securities pursuant to an agreement dated February 9, 2000, a true and complete copy of which has been previously delivered to SouthBanc, neither Heritage nor any of its Subsidiaries, nor any of their respective officers, directors, employees or agents, has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder's fees, and no broker or finder has acted directly or indirectly for Heritage or any of its Subsidiaries in connection with this Agreement or the transactions contemplated hereby.

(r) Environmental Matters. There is no suit, claim, action, demand,
---------- executive or administrative order, directive, investigation or proceeding pending or, to the knowledge of Heritage, threatened before any court, governmental agency or board or other forum against Heritage or any of its Subsidiaries for alleged noncompliance (including by any predecessor) with, or

liability under, any Environmental Law (as defined in Section 8.1) or relating to the presence of or release into the environment of any Hazardous Material (as defined in Section 8.1), whether or not occurring at or on a site owned, leased or operated by it or any of its Subsidiaries. To Heritage"s knowledge, the properties currently owned or operated by Heritage or any of its Subsidiaries (including, without limitation, soil, groundwater or surface water on, under or adjacent to the properties, and buildings thereon) are not contaminated with and do not otherwise contain any Hazardous Material other than as permitted under applicable Environmental Law. Neither Heritage nor any of its Subsidiaries has received any notice, demand letter, executive or administrative order, directive, request or other communication (written or oral) for information from any federal, state, local or foreign governmental entity or any third party indicating that it may be in violation of, or liable under, any Environmental Law. To Heritage"s knowledge, there are no underground storage tanks on, in or under any properties owned or operated by Heritage or any of its Subsidiaries and no underground storage tanks have been closed or removed from any properties owned or operated by Heritage or any of its Subsidiaries. To Heritage"s knowledge, during the period of Heritage"s or any of its Subsidiaries" ownership or operation of any of their respective current properties, there has been no contamination by or release of Hazardous Materials in, on, under or affecting such properties. To Heritage"s knowledge, prior to the period of Heritage"s or any of its Subsidiaries" ownership or operation of any of their respective current properties, there was no contamination by or release of Hazardous Material in, on, under or affecting such properties.

(s) Loan Portfolio; Allowance; Asset Quality.

(i) With respect to each Loan (as defined in Section 8.1) owned by Heritage or its Subsidiaries in whole or in part:

(A) to the knowledge of Heritage, the note and the related security documents are each legal, valid and binding obligations of the maker or obligor thereof, enforceable against such maker or obligor in accordance with their terms;

(B) neither Heritage nor any of its Subsidiaries, nor any prior holder of a loan, has modified the note or any of the related security documents in any material respect or satisfied, canceled or subordinated the note or any of the related security documents except as otherwise disclosed by documents in the applicable loan file;

(C) Heritage or a Subsidiary of Heritage is the sole holder of legal and beneficial title to each loan (or Heritage"s or its Subsidiary"s applicable participation interest, as applicable), except as otherwise referenced on the books and records of Heritage or a Subsidiary of Heritage;

(D) the note and the related security documents, copies of which are included in the loan files, are true and correct copies of the documents they purport to be and have not been suspended, amended, modified, canceled or otherwise changed except as otherwise disclosed by documents in the applicable loan file;

(E) there is no pending or threatened condemnation proceeding or similar proceeding affecting the property that serves as security for a loan, except as otherwise referenced on the books and records of Heritage;

(F) to the knowledge of Heritage, there is no litigation or proceeding pending or threatened relating to the property that serves as security for a loan that would have a Material Adverse Effect upon the related loan; and

(G) with respect to a loan held in the form of a participation, the participation documentation is legal, valid, binding and enforceable in accordance with its terms.

(ii) The allowance for possible loan losses reflected in Heritage"s audited balance sheet at September 30, 1999 was, and the allowance for possible losses shown on the balance sheets in Heritage"s Reports for periods ending after September 30, 1999, in the opinion of management, was or will be adequate, as of the dates thereof, under GAAP.

(iii) Schedule 2.1(s) sets forth a true and complete listing, as of

December 31, 1999, of:

(A) all Loans that have been classified (whether regulatory or internal) as "Special Mention," "Substandard," "Doubtful," "Loss" or words of similar import listed by category, including the amounts thereof; and

(B) Loans (1) that are contractually past due 90 days or more in the payment of principal and/or interest, (2) that are on a non-accrual status, (3) where the interest rate terms have been reduced and/or the maturity dates have been extended subsequent to the agreement under which the Loan was originally created due to concerns regarding the borrower"s ability to pay in accordance with such initial terms, or (4) where a specific reserve allocation exists in connection therewith, listed by category, including the amounts thereof.

(iv) To the knowledge of Heritage, neither Heritage nor any of its Subsidiaries is a party to any Loan that is in violation of any law, regulation or rule of any Governmental Entity. Any asset of Heritage or any of its Subsidiaries that is classified as "Real Estate Owned" or words of similar import that is included in any non-performing assets of Heritage or any of its Subsidiaries is listed on Schedule 2.1(s) and is carried net of reserves at the lower of cost or fair value, less estimated selling costs, based on current independent appraisals or evaluations or current management appraisals or evaluations; provided, however, that "current" shall mean within the past 12 months.

(t) Deposits. None of the deposits of Heritage or any of its Subsidiaries is a "brokered" deposit.

(u) Anti-takeover Provisions Inapplicable. Heritage and its Subsidiaries have taken all actions required to exempt SouthBanc, the Agreement, and the Merger from any provisions of an antitakeover nature contained in their organizational documents, and the provisions of any federal or state "anti-takeover," "fair price," "moratorium," "control share acquisition" or similar laws or regulations.

(v) Insurance. In the opinion of management, Heritage and its Subsidiaries are presently insured for amounts deemed reasonable by management against such risks as companies engaged in a similar business would, in accordance with good business practice, customarily be insured. All of the insurance policies and bonds maintained by Heritage and its Subsidiaries are in full force and effect, Heritage and its Subsidiaries are not in default thereunder and all material claims thereunder have been filed in due and timely fashion.

(w) Investment Securities; Derivatives.

(i) Except for restrictions that exist for securities to be classified as "held to maturity," none of the investment securities held by Heritage or any of its Subsidiaries, is subject to any restriction (contractual or statutory) that would materially impair the ability of the entity holding such investment freely to dispose of such investment at any time.

(ii) Neither Heritage nor any of its Subsidiaries is a party to or has agreed to enter into an exchange-traded or over-the-counter equity, interest rate, foreign exchange or other swap, forward, future, option, cap, floor or collar or any other contract that is a derivative contract (including various combinations thereof) or owns securities that (A) are referred to generically as "structured notes," "high risk mortgage derivatives," "capped floating rate notes" or "capped floating rate mortgage derivatives" or (B) are likely to have changes in

value as a result of interest or exchange rate changes that significantly exceed normal changes in value attributable to interest or exchange rate changes.

(x) Indemnification. Except as provided in the certificate of incorporation or bylaws of Heritage and the similar organizational documents of its Subsidiaries, neither Heritage nor any Subsidiary is a party to any agreement that provides for the indemnification of any of its present or former directors, officers or employees, or other persons who serve or served as a director, officer or employee of another corporation, partnership or other enterprise at the request of Heritage and, to the knowledge of Heritage, there are no claims for which any such person would be entitled to indemnification under the certificate of incorporation or bylaws of Heritage or the similar organizational documents of any of its Subsidiaries, under any applicable law or regulation or under any indemnification agreement.

(y) Books and Records. The books and records of Heritage and its Subsidiaries on a consolidated basis have been, and are being, maintained in accordance with applicable legal and accounting requirements and reflect in all material respects the substance of events and transactions that should be included therein.

(z) Corporate Documents. Heritage has previously furnished or made available to SouthBanc a complete and correct copy of the certificate of incorporation, bylaws and similar organizational documents of Heritage and each of Heritage"s Subsidiaries, as in effect as of the date of this Agreement. Neither Heritage nor any of Heritage"s Subsidiaries is in violation of its certificate of incorporation, bylaws or similar organizational documents. The minute books of Heritage and each of Heritage"s Subsidiaries constitute a complete and correct record of all actions taken by their respective boards of directors (and each committee thereof) and their stockholders.

(aa) Registration Statement. The information regarding Heritage and its Subsidiaries to be supplied by Heritage for inclusion in the Registration Statement (as defined in Section 4.8) will not, at the time the Registration Statement becomes effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(bb) Community Reinvestment Act Compliance. Heritage Federal is in material compliance with the applicable provisions of the CRA (as defined in Section 8.1) and the regulations promulgated thereunder, and Heritage Federal currently has a CRA rating of satisfactory or better. To the knowledge of Heritage, there is no fact or circumstance or set of facts or circumstances that would cause Heritage Federal to fail to comply with such provisions or cause the CRA rating of Heritage Federal to fall below satisfactory.

(cc) Undisclosed Liabilities. As of the date hereof, Heritage and its Subsidiaries have not incurred any debt, liability or obligation of any nature whatsoever (whether accrued, contingent, absolute or otherwise and whether due or to become due) except for (i) liabilities reflected on or reserved against in the consolidated financial statements of Heritage as

of September 30, 1999, (ii) liabilities incurred since September 30, 1999 in the ordinary course of business consistent with past practice that, either alone or when combined with all similar liabilities, have not had, and would not reasonably be expected to have, a Material Adverse Effect on Heritage and (iii) liabilities incurred for legal, accounting, financial advising fees and out-of-pocket expenses in connection with the transactions contemplated by this Agreement.

(dd) Year 2000 Matters. Heritage and its Subsidiaries have not experienced any data processing or other computer malfunctions related to processing date information on and after January 1, 2000 and none of the third party service providers or customers of Heritage or its Subsidiaries have reported year 2000 data processing problems to Heritage that, individually or in the aggregate, would have a Material Adverse Effect on Heritage.

(ee) Tax Treatment of the Merger. Heritage has no knowledge of any fact or circumstance relating to it that would prevent the transactions contemplated by this Agreement from qualifying as a reorganization under the IRC.

Section 2.2. Representations and Warranties of SouthBanc. SouthBanc represents and warrants to Heritage that:

(a) Organization.

(i) SouthBanc is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is registered as a savings and loan holding company.

(ii) Perpetual Bank, a Federal Savings Bank ("Perpetual Bank") is a federally chartered savings bank duly organized and validly existing under the laws of the United States of America. The deposits of Perpetual Bank are insured by the Savings Association Insurance Fund of FDIC to the extent provided in the FDIA.

(iii) SouthBanc and Perpetual Bank each has all requisite corporate power and authority to own, lease and operate its properties and to conduct the business currently being conducted by it. SouthBanc and Perpetual Bank are each duly qualified or licensed as a foreign corporation to transact business and are in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so qualified or licensed and in good standing would not have a Material Adverse Effect on SouthBanc.

(b) Subsidiaries.

(i) Schedule 2.2(b) sets forth (A) the name, percentage ownership and number of shares of stock owned or controlled by SouthBanc of each Subsidiary; and (B) the jurisdiction of incorporation, capitalization and ownership of each Subsidiary. All such Subsidiaries and ownership interests are in compliance with all applicable laws, rules and

regulations relating to investments in equity ownership interests by savings and loan holding companies or federally chartered savings associations.

(ii) SouthBanc owns of record and beneficially all the capital stock of each of its Subsidiaries free and clear of any claims, liens, encumbrances or restrictions and there are no agreements or understandings with respect to the voting or disposition of any such shares. The outstanding shares of capital stock of each Subsidiary have been validly authorized and are validly issued, fully paid and nonassessable. Each of SouthBanc"s Subsidiaries is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation, has all requisite corporate power and authority to own, lease and operate its properties and to conduct the business currently being conducted by it and is duly qualified or licensed as a foreign corporation to transact business and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so qualified or licensed and in good standing would not have a Material Adverse Effect on SouthBanc.

(iii) None of SouthBanc"s Subsidiaries holds shares of its capital stock in its treasury, and there are not, and on the Closing Date there will not be, outstanding (A) any options, warrants or other rights with respect to the capital stock of any Subsidiary, (B) any securities convertible into or exchangeable for shares of such capital stock or any other debt or equity security of any Subsidiary or (C) any other commitments of any kind for the issuance of additional shares of capital stock or other debt or equity security of any Subsidiary or options, warrants or other rights with respect to such securities.

(iv) No Subsidiary of SouthBanc other than Perpetual Bank is an "insured depository institution" as defined in the FDIA and the applicable regulations thereunder.

(c) Capital Structure.

(i) The authorized capital stock of SouthBanc consists of:

(A) 7,500,000 shares of SouthBanc Common Stock; and

(B) 250,000 of preferred stock, par value $.01 per share.

(ii) As of the date of this Agreement:

(A) 3,089,113 shares of SouthBanc Common Stock are issued and outstanding, all of which are validly issued, fully paid and nonassessable;

(B) no shares of SouthBanc preferred stock are issued and outstanding or held in SouthBanc"s treasury;

(C) 388,701 shares of SouthBanc Common Stock are reserved for issuance pursuant to outstanding grants or awards under SouthBanc"s stock option plans;

(D) 250,000 shares of SouthBanc Common Stock are reserved for issuance pursuant to SouthBanc"s Dividend Reinvestment Plan; and

(E) 1,232,917 shares of SouthBanc Common Stock are held by SouthBanc in its treasury or by its Subsidiaries.

(iii) No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which stockholders of SouthBanc may vote are issued or outstanding.

(iv) Except as set forth in this Section 2.2(c), as of the date of this Agreement, (A) no shares of capital stock or other voting securities of SouthBanc are issued, reserved for issuance or outstanding and (B) neither SouthBanc nor any of its Subsidiaries has or is bound by any outstanding subscriptions, options, warrants, calls, rights, convertible securities, commitments or agreements of any character obligating SouthBanc or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, any additional shares of capital stock of SouthBanc or obligating SouthBanc or any of its Subsidiaries to grant, extend or enter into any such option, warrant, call, right, convertible security, commitment or agreement. As of the date hereof, there are no outstanding contractual obligations of SouthBanc or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of SouthBanc or any of its Subsidiaries.

(v) The shares of SouthBanc Common Stock to be issued in exchange for shares of Heritage Common Stock upon consummation of the Merger in accordance with this Agreement have been duly authorized and, when issued in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable and subject to no preemptive rights.

(d) Authority. SouthBanc has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate actions on the part of SouthBanc"s Board of Directors, and no other corporate proceedings on the part of SouthBanc are necessary to authorize this Agreement or to consummate the transactions contemplated by this Agreement other than the approval and adoption of this Agreement by the affirmative vote of the holders of a majority of the outstanding shares of SouthBanc Common Stock. This Agreement has been duly and validly executed and delivered by SouthBanc and constitutes a valid and binding obligation of SouthBanc, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors" rights and remedies generally and subject, as

to enforceability, to general principles of equity, whether applied in a court of law or a court of equity.

(e) Fairness Opinion. SouthBanc has received the opinion of Sandler O'Neill & Partners, L.P. to the effect that, as of the date hereof, the Merger Consideration is fair, from a financial point of view, to SouthBanc"s stockholders.

(f) No Violations; Consents.

(i) The execution, delivery and performance of this Agreement by SouthBanc do not, and the consummation of the transactions contemplated by this Agreement will not, (A) assuming that the consents and approvals referred to in Section 2.2(f)(ii) are obtained, violate any law, rule or regulation or any judgment, decree, order, governmental permit or license to which SouthBanc or any of its Subsidiaries (or any of their respective properties) is subject, (B) violate the certificate of incorporation or bylaws of SouthBanc or the similar organizational documents of any of its Subsidiaries or (C) constitute a breach or violation of, or a default under (or an event which, with due notice or lapse of time or both, would constitute a default under), or result in the termination of, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the properties or assets of SouthBanc or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, indenture, deed of trust, loan agreement or other agreement, instrument or obligation to which SouthBanc or any of its Subsidiaries is a party, or to which any of their respective properties or assets may be subject, except, in the case of (C), for any such breaches, violations or defaults that would not, individually or in the aggregate, have a Material Adverse Effect on SouthBanc.

(ii) Except for (A) the filing of an application with the OTS under the HOLA and approval of such application, (B) the filing of a certificate of merger with the Delaware Secretary of State pursuant to Delaware Law, (C) the registration under the Securities Act of the shares of SouthBanc Common Stock to be issued in exchange for shares of Heritage Common Stock, (D) the registration or qualification of the shares of SouthBanc Common Stock to be issued in exchange for shares of Heritage Common Stock under state securities or "blue sky" laws, and (E) such filings, authorizations or approvals as may be set forth in Schedule 2.2(f), no consents or approvals of or filings or registrations with any Governmental Entity or with any third party are necessary in connection with the execution and delivery by SouthBanc of this Agreement or the consummation by SouthBanc of the Merger and the other transactions contemplated by this Agreement. As of the date hereof, SouthBanc knows of no reason pertaining to SouthBanc why any of the approvals referred to in this Section 2.2(f) should not be obtained without the imposition of any material condition or restriction described in Section 5.1(b).

(g) Reports and Financial Statements.

(i) SouthBanc and each of its Subsidiaries have each timely filed all material reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since December 31, 1997 with (A) the FDIC, (B) the OTS, (C) the NASD and (D) the SEC (collectively, "SouthBanc"s Reports") and have paid all fees and assessments due and payable in connection therewith. As of their respective

dates, none of SouthBanc"s Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. All of SouthBanc"s Reports filed with the SEC complied in all material respects with the applicable requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder.

(ii) Each of the financial statements of SouthBanc included in SouthBanc"s Reports filed with the SEC complied as to form, as of their

respective dates of filing with the SEC, in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto. The financial statements included in SouthBanc"s Reports were prepared from the books and records of SouthBanc and its Subsidiaries, fairly present the consolidated financial position of SouthBanc and its Subsidiaries in each case at and as of the dates indicated and the consolidated results of operations, retained earnings and cash flows of SouthBanc and its Subsidiaries for the periods indicated, and, except as otherwise set forth in the notes thereto, were prepared in accordance with GAAP consistently applied throughout the periods covered thereby; provided, however, that the unaudited financial statements for interim periods are subject to normal year-end adjustments (which will not be material individually or in the aggregate) and lack a statement of cash flows and footnotes.

(h) Absence of Certain Changes or Events. Except as disclosed in
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SouthBanc"s Reports filed with the SEC prior to the date of this Agreement, since September 30, 1999, (i) SouthBanc and its Subsidiaries have not incurred any liability, except in the ordinary course of their business consistent with past practice, (ii) SouthBanc and its Subsidiaries have conducted their respective businesses only in the ordinary and usual course of such businesses consistent with their past practices, (iii) there has not been any Material Adverse Effect with respect to SouthBanc, (iv) there has been no increase in the salary, compensation, pension or other benefits payable or to become payable by SouthBanc or any of its Subsidiaries to any of their respective directors, officers or employees, other than in conformity with the policies and practices of such entity in the usual and ordinary course of its business, (v) neither SouthBanc nor any of its Subsidiaries has paid or made any accrual or arrangement for payment of bonuses or special compensation of any kind or any severance or termination pay to any of their directors, officers or employees, and (vi) there has been no change in any accounting principles, practices or methods of SouthBanc or any of its Subsidiaries other than as required by GAAP.

(i) Absence of Claims. There are no suits, actions or proceedings pending
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or, to the knowledge of SouthBanc, threatened against or affecting SouthBanc or any of its Subsidiaries or any property or asset of SouthBanc or any of its Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on SouthBanc, nor are there any judgments, decrees, injunctions, rules or orders of any Governmental Entity or arbitrator outstanding against SouthBanc which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on SouthBanc.

(j) Absence of Regulatory Actions. Since December 31, 1997, neither
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SouthBanc nor any of its Subsidiaries has been a party to any cease and desist order, written agreement or memorandum of understanding with, or any commitment letter or similar

undertaking to, or has been subject to any action, proceeding, order or directive by, or has been a recipient of any extraordinary supervisory letter from Government Regulator, or has adopted any board resolutions at the request of any Government Regulator, or has been advised by any Government Regulator that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such action, proceeding, order, directive, written agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter, board resolutions or similar undertaking.

(k) Taxes. All federal, state, local and foreign tax returns required to
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be filed by or on behalf of SouthBanc or any of its Subsidiaries have been timely filed or requests for extensions have been timely filed and any such extension shall have been granted and not have expired, and all such filed returns are complete and accurate in all material respects. All taxes shown on such returns, all taxes required to be shown on returns for which extensions have been granted and all other taxes required to be paid by SouthBanc or any of its Subsidiaries have been paid in full or adequate provision has been made for any such taxes on SouthBanc"s balance sheet (in accordance with GAAP). As of the date of this Agreement, there is no audit examination, deficiency assessment, tax investigation or refund litigation with respect to any taxes of SouthBanc or any of its Subsidiaries, and no claim has been made by any authority in a jurisdiction where SouthBanc or any of its Subsidiaries do not file tax returns

that SouthBanc or any such Subsidiary is subject to taxation in that jurisdiction. All taxes, interest, additions and penalties due with respect to completed and settled examinations or concluded litigation relating to SouthBanc or any of its Subsidiaries have been paid in full or adequate provision has been made for any such taxes on SouthBanc"s balance sheet (in accordance with GAAP). SouthBanc and its Subsidiaries have not executed an extension or waiver of any statute of limitations on the assessment or collection of any material tax due that is currently in effect. SouthBanc and each of its Subsidiaries has withheld and paid all taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party, and SouthBanc and each of its Subsidiaries has timely complied with all applicable information reporting requirements under Part III, Subchapter A of Chapter 61 of the IRC and similar applicable state and local information reporting requirements.

(l) Agreements.

(i) SouthBanc and its Subsidiaries are not bound by any material contract (as defined in Item 601(b)(10) of Regulation S-K promulgated by the SEC), to be performed after the date hereof that has not been filed with or incorporated by reference in SouthBanc"s Reports.

(ii) Schedule 2.2(l) lists any contract, arrangement, commitment or understanding (whether written or oral) to which SouthBanc or any of its Subsidiaries is a party or is bound:

(A) with any executive officer or other key employee of SouthBanc or any of its Subsidiaries the benefits of which are contingent, or the terms of which

are materially altered, upon the occurrence of a transaction involving SouthBanc or any of its Subsidiaries of the nature contemplated by this Agreement;

(B) with respect to the employment of any directors, officers employees or consultants;

(C) (including any stock option plan, phantom stock or stock appreciation rights plan, restricted stock plan or stock purchase plan) any of the benefits of which will be increased, or the vesting or payment of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(D) containing covenants that limit the ability of SouthBanc or any of its Subsidiaries to compete in any line of business or with any person, or that involve any restriction on the geographic area in which, or method by which, SouthBanc (including any successor thereof) or any of its Subsidiaries may carry on its business (other than as may be required by law or any regulatory agency);

(E) pursuant to which SouthBanc or any of its Subsidiaries may become obligated to invest in or contribute capital to any entity;

(F) not fully disclosed in SouthBanc"s Reports that relates to borrowings of money (or guarantees thereof) by SouthBanc or any of its Subsidiaries, other than in the ordinary course of business; or

(G) which is a lease or license with respect to any property, real or personal, whether as landlord, tenant, licensor or licensee, involving a liability or obligation as obligor in excess of $25,000 on an annual basis.

To the knowledge of SouthBanc, each of the agreements and other documents referenced in Schedule 2.2(l) is a valid, binding and enforceable obligation of the parties sought to be bound thereby, subject to applicable bankruptcy, insolvency and similar laws affecting creditors" rights and remedies generally and subject, as to enforceability, to general principles of equity, whether applied in a court of law or a court of equity. SouthBanc has previously delivered to Heritage true and complete copies of each agreement and other

documents referenced in Schedule 2.2(l).

(iii) Neither SouthBanc nor any of its Subsidiaries is in default under (and no event has occurred which, with due notice or lapse of time or both, would constitute a default under) or is in violation of any provision of any note, bond, indenture, mortgage, deed of trust, loan agreement, lease or other agreement to which it is a party or by which it is bound or to which any of its respective properties or assets is subject and, to the knowledge of SouthBanc, no other party to any such agreement (excluding any loan or extension of credit made by SouthBanc or any of its Subsidiaries) is in default in any respect thereunder, except for such defaults or

violations that would not, individually or in the aggregate, have a Material Adverse Effect on SouthBanc.

(iv) SouthBanc and each of its Subsidiaries owns or possesses valid and binding licenses and other rights to use without payment all patents, copyrights, trade secrets, trade names, service marks and trademarks used in its businesses, and neither SouthBanc nor any of its Subsidiaries has received any notice of conflict with respect thereto that asserts the right of others. Each of SouthBanc and its Subsidiaries has performed all the obligations required to be performed by it and are not in default under any contact, agreement, arrangement or commitment relating to any of the foregoing.

(m) Labor Matters. SouthBanc and its Subsidiaries are in material compliance with all applicable laws respecting employment, retention of independent contractors and employment practices, terms and conditions of employment and wages and hours. Neither SouthBanc nor any of its Subsidiaries is or has ever been a party to, or is or has ever been bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization with respect to its employees, nor is SouthBanc or any of its Subsidiaries the subject of any proceeding asserting that it has committed an unfair labor practice or seeking to compel it or any such Subsidiary to bargain with any labor organization as to wages and conditions of employment nor has any such proceeding been threatened, nor is there any strike, other labor dispute or organizational effort involving SouthBanc or any of its Subsidiaries pending or threatened.

(n) Employee Benefit Plans.

(i) Schedule 2.2(n) contains a complete and accurate list of all pension, retirement, stock option, stock purchase, stock ownership, savings, stock appreciation right, profit sharing, deferred compensation, consulting, bonus, group insurance, severance and other benefit plans, contracts, agreements and arrangements, including, but not limited to, "employee benefit plans," as defined in Section 3(3) of ERISA, incentive and welfare policies, contracts, plans and arrangements and all trust agreements related thereto with respect to any present or former directors, officers or other employees of SouthBanc or any of its Subsidiaries (hereinafter referred to collectively as the "SouthBanc Employee Plans"). SouthBanc has previously delivered or made available to Heritage true and complete copies of each agreement, plan and other agreements referenced in Schedule 2.2(n). There has been no announcement or commitment by SouthBanc or any of its Subsidiaries to create an additional SouthBanc Employee Plan, or to amend any SouthBanc Employee Plan, except for amendments required by applicable law which do not materially increase the cost of such SouthBanc Employee Plan.

(ii) There is no pending or threatened litigation, administrative action or proceeding relating to any SouthBanc Employee Plan. All of the SouthBanc Employee Plans comply in all material respects with all applicable requirements of ERISA, the IRC and other applicable laws. There has occurred no "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the IRC) with respect to the SouthBanc Employee Plans which is

likely to result in the imposition of any penalties or taxes upon SouthBanc or any of its Subsidiaries under Section 502(i) of ERISA or Section 4975 of the IRC.

(iii) No liability to the Pension Benefit Guarantee Corporation has been or is expected by SouthBanc or any of its Subsidiaries to be incurred with respect to any SouthBanc Employee Plan which is subject to Title IV of ERISA ("SouthBanc Pension Plan"), or with respect to any "single-employer plan" (as defined in Section 4001(a) of ERISA) currently or formerly maintained by SouthBanc or any ERISA Affiliate. No SouthBanc Pension Plan had an "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, as of the last day of the end of the most recent plan year ending prior to the date hereof; the fair market value of the assets of each SouthBanc Pension Plan exceeds the present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under such SouthBanc Pension Plan as of the end of the most recent plan year with respect to the respective SouthBanc Pension Plan ending prior to the date hereof, calculated on the basis of the actuarial assumptions used in the most recent actuarial valuation for such SouthBanc Pension Plan as of the date hereof; and no notice of a "reportable event" (as defined in Section 4043 of ERISA) for which the 30-day reporting requirement has not been waived has been required to be filed for any SouthBanc Pension Plan within the 12-month period ending on the date hereof. Neither SouthBanc nor any of its Subsidiaries has provided, or is required to provide, security to any SouthBanc Pension Plan or to any single-employer plan of an ERISA Affiliate pursuant to Section 401(a)(29) of the IRC. Neither SouthBanc, its Subsidiaries, nor any ERISA Affiliate has contributed to any "multiemployer plan," as defined in Section 3(37) of ERISA, on or after September 26, 1980.

(iv) Each SouthBanc Employee Plan that is an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) and which is intended to be qualified under Section 401(a) of the IRC (a "SouthBanc Qualified Plan") has received a favorable determination letter from the IRS, and SouthBanc and its Subsidiaries are not aware of any circumstances likely to result in revocation of any such favorable determination letter. Each SouthBanc Qualified Plan that is an "employee stock ownership plan" (as defined in Section 4975(e)(7) of the IRC) has satisfied all of the applicable requirements of Sections 409 and 4975(e)(7) of the IRC and the regulations thereunder in all respects and any assets of any such SouthBanc Qualified Plan that, as of the end of the plan year, are not allocated to participants' individual accounts are pledged as security for, and may be applied to satisfy, any securities acquisition indebtedness.

(v) SouthBanc and its Subsidiaries do not have any obligations for post-retirement or post-employment benefits under any SouthBanc Employee Plan that cannot be amended or terminated upon 60 days' notice or less without incurring any liability thereunder, except for coverage required by Part 6 of Title I of ERISA or Section 4980B of the IRC, or similar state laws, the cost of which is borne by the insured individuals. With respect to SouthBanc or any of its Subsidiaries, for the SouthBanc Employee Plans listed in Schedule 2.2(n), the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not result in any payment or series of payments by SouthBanc or any

of its Subsidiaries to any person which is an "excess parachute payment" (as defined in Section 280G of the IRC) or is a nondeductible payment under Section 162(m) of the IRC, increase or secure (by way of a trust or other vehicle) any benefits payable under any SouthBanc Employee Plan or accelerate the time of payment or vesting of any such benefit.

(o) Title to Assets. SouthBanc and each of its Subsidiaries has good and insurable title to its properties and assets (including any intellectual property asset such as any trademark, service mark, trade name or copyright) and property acquired in a judicial foreclosure proceeding or by way of a deed in lieu of foreclosure or similar transfer whether real or personal, tangible or intangible, in each case free and clear of any liens, security interests, encumbrances, mortgages, pledges, restrictions, charges or rights or interests of others, except pledges to secure deposits and other liens incurred in the ordinary course of business. Each lease pursuant to which SouthBanc or any of its Subsidiaries is lessee or lessor is valid and in full force and effect and

neither SouthBanc nor any of its Subsidiaries, nor any other party to any such lease is in default or in violation of any provisions of any such lease. All material tangible properties of SouthBanc and each of its Subsidiaries are in a good state of maintenance and repair, conform with all applicable ordinances, regulations and zoning laws and are considered by SouthBanc to be adequate for the current business of SouthBanc and its Subsidiaries. To the knowledge of SouthBanc, none of the buildings, structures or other improvements located on its real property encroaches upon or over any adjoining parcel or real estate or any easement or right-of-way.

(p) Compliance with Laws. SouthBanc and each of its Subsidiaries has
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all permits, licenses, certificates of authority, orders and approvals of, and has made all filings, applications and registrations with, all Governmental Entities that are required in order to permit it to carry on its business as it is presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect, and no suspension or cancellation of any of them is threatened. Neither SouthBanc nor any of its Subsidiaries is in violation of, and SouthBanc and its Subsidiaries have not been given notice or been charged with any violation of, any law, ordinance, regulation, order, writ, rule, decree or condition to approval of any Governmental Entity which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on SouthBanc.

(q) Fees. Other than financial advisory services performed for
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SouthBanc by RP Financial, LC. pursuant to an agreement dated January 11, 2000 and Sandler O'Neill & Partners, L.P. pursuant to an agreement dated February 2, 2000, true and complete copies of which have been previously delivered to Heritage, neither SouthBanc nor any of its Subsidiaries, nor any of their respective officers, directors, employees or agents, has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder's fees, and no broker or finder has acted directly or indirectly for SouthBanc or any of its Subsidiaries in connection with this Agreement or the transactions contemplated hereby.

(r) Environmental Matters. There is no suit, claim, action, demand,
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executive or administrative order, directive, investigation or proceeding pending or, to the knowledge of SouthBanc, threatened before any court, governmental agency or board or other forum against SouthBanc or any of its Subsidiaries for alleged noncompliance (including by any predecessor)

with, or liability under, any Environmental Law or relating to the presence of or release into the environment of any Hazardous Material, whether or not occurring at or on a site owned, leased or operated by it or any of its Subsidiaries. To SouthBanc's knowledge, the properties currently owned or operated by SouthBanc or any of its Subsidiaries (including, without limitation, soil, groundwater or surface water on, under or adjacent to the properties, and buildings thereon) are not contaminated with and do not otherwise contain any Hazardous Material other than as permitted under applicable Environmental Law. Neither SouthBanc nor any of its Subsidiaries has received any notice, demand letter, executive or administrative order, directive, request or other communication (written or oral) for information from any federal, state, local or foreign governmental entity or any third party indicating that it may be in violation of, or liable under, any Environmental Law. To SouthBanc's knowledge, there are no underground storage tanks on, in or under any properties owned or operated by SouthBanc or any of its Subsidiaries and no underground storage tanks have been closed or removed from any properties owned or operated by SouthBanc or any of its Subsidiaries. To SouthBanc's knowledge, during the period of SouthBanc's or any of its Subsidiaries' ownership or operation of any of their respective current properties, there has been no contamination by or release of Hazardous Materials in, on, under or affecting such properties. To SouthBanc's knowledge, prior to the period of SouthBanc's or any of its Subsidiaries' ownership or operation of any of their respective current properties, there was no contamination by or release of Hazardous Material in, on, under or affecting such properties.

(s) Loan Portfolio; Allowance; Asset Quality.

(i) With respect to each Loan owned by SouthBanc or its

Subsidiaries in whole or in part:

(A) to the knowledge of SouthBanc, the note and the related security documents are each legal, valid and binding obligations of the maker or obligor thereof, enforceable against such maker or obligor in accordance with their terms;

(B) neither SouthBanc nor any of its Subsidiaries, nor any prior holder of a loan, has modified the note or any of the related security documents in any material respect or satisfied, canceled or subordinated the note or any of the related security documents except as otherwise disclosed by documents in the applicable loan file;

(C) SouthBanc or a Subsidiary of SouthBanc is the sole holder of legal and beneficial title to each loan (or SouthBanc's or its Subsidiary's applicable participation interest, as applicable), except as otherwise referenced on the books and records of SouthBanc or a Subsidiary of SouthBanc;

(D) the note and the related security documents, copies of which are included in the loan files, are true and correct copies of the documents they purport to be and have not been suspended, amended, modified, canceled or otherwise changed except as otherwise disclosed by documents in the applicable loan file;

(E) there is no pending or threatened condemnation proceeding or similar proceeding affecting the property that serves as security for a loan, except as otherwise referenced on the books and records of SouthBanc;

(F) to the knowledge of SouthBanc, there is no litigation or proceeding pending or threatened relating to the property that serves as security for a loan that would have a Material Adverse Effect upon the related loan; and

(G) with respect to a loan held in the form of a participation, the participation documentation is legal, valid, binding and enforceable in accordance with its terms.

(ii) The allowance for possible loan losses reflected in SouthBanc's audited balance sheet at September 30, 1999 was, and the allowance for possible losses shown on the balance sheets in SouthBanc's Reports for periods ending after September 30, 1999, in the opinion of management, was or will be adequate, as of the dates thereof, under GAAP.

(iii) Schedule 2.2(s) sets forth a true and complete listing, as
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of December 31, 1999, of:

(A) all Loans that have been classified (whether regulatory or internal) as "Special Mention," "Substandard," "Doubtful," "Loss" or words of similar import listed by category, including the amounts thereof; and

(B) Loans (1) that are contractually past due 90 days or more in the payment of principal and/or interest, (2) that are on a non-accrual status, (3) where the interest rate terms have been reduced and/or the maturity dates have been extended subsequent to the agreement under which the Loan was originally created due to concerns regarding the borrower's ability to pay in accordance with such initial terms, or (4) where a specific reserve allocation exists in connection therewith, listed by category, including the amounts thereof.

(iv) To the knowledge of SouthBanc, neither SouthBanc nor any of its Subsidiaries is a party to any Loan that is in violation of any law, regulation or rule of any Governmental Entity. Any asset of SouthBanc or any of its Subsidiaries that is classified as "Real Estate Owned" or words of similar import that is included in any non-performing assets of SouthBanc or any of its Subsidiaries is listed on Schedule 2.2(s) and is carried net of reserves at the
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lower of cost or fair value, less estimated selling costs, based on current independent appraisals or evaluations or current management appraisals or evaluations; provided, however, that "current" shall mean within the past 12

months.

(t) Deposits. None of the deposits of SouthBanc or any of its Subsidiaries is a "brokered" deposit.

(u) Anti-takeover Provisions Inapplicable. SouthBanc and its Subsidiaries have taken all actions required to exempt Heritage, the Agreement, and the Merger from any provisions of an antitakeover nature contained in their organizational documents, and the

provisions of any federal or state "anti-takeover," "fair price," "moratorium," "control share acquisition" or similar laws or regulations.

(v) Insurance. In the opinion of management, SouthBanc and its Subsidiaries are presently insured for amounts deemed reasonable by management against such risks as companies engaged in a similar business would, in accordance with good business practice, customarily be insured. All of the insurance policies and bonds maintained by SouthBanc and its Subsidiaries are in full force and effect, SouthBanc and its Subsidiaries are not in default thereunder and all material claims thereunder have been filed in due and timely fashion.

(w) Investment Securities; Derivatives.

(i) Except for restrictions that exist for securities to be classified as "held to maturity," none of the investment securities held by SouthBanc or any of its Subsidiaries, is subject to any restriction (contractual or statutory) that would materially impair the ability of the entity holding such investment freely to dispose of such investment at any time.

(ii) Neither SouthBanc nor any of its Subsidiaries is a party to or has agreed to enter into an exchange-traded or over-the-counter equity, interest rate, foreign exchange or other swap, forward, future, option, cap, floor or collar or any other contract that is a derivative contract (including various combinations thereof) or owns securities that (A) are referred to generically as "structured notes," "high risk mortgage derivatives," "capped floating rate notes" or "capped floating rate mortgage derivatives" or (B) are likely to have changes in value as a result of interest or exchange rate changes that significantly exceed normal changes in value attributable to interest or exchange rate changes.

(x) Indemnification. Except as provided in the certificate of incorporation or bylaws of SouthBanc and the similar organizational documents of its Subsidiaries, neither SouthBanc nor any Subsidiary is a party to any agreement that provides for the indemnification of any of its present or former directors, officers or employees or other persons who serve or served as a director, officer or employee of another corporation, partnership or other enterprise at the request of SouthBanc and, to the knowledge of SouthBanc, there are no claims for which any such person would be entitled to indemnification under the certificate of incorporation or bylaws of SouthBanc or the similar organizational documents of any of its Subsidiaries, under any applicable law or regulation or under any indemnification agreement.

(y) Books and Records. The books and records of SouthBanc and its Subsidiaries on a consolidated basis have been, and are being, maintained in accordance with applicable legal and accounting requirements and reflect in all material respects the substance of events and transactions that should be included therein.

(z) Corporate Documents. SouthBanc has previously furnished or made available to Heritage a complete and correct copy of the certificate of incorporation, bylaws and similar organizational documents of SouthBanc and each of SouthBanc's Subsidiaries, as in effect as of the date of this Agreement. Neither SouthBanc nor any of SouthBanc's Subsidiaries

is in violation of its certificate of incorporation, bylaws or similar organizational documents. The minute books of SouthBanc and each of SouthBanc's Subsidiaries constitute a complete and correct record of all actions taken by their respective boards of directors (and each committee thereof) and their stockholders.

(aa) Registration Statement. The information regarding SouthBanc and its Subsidiaries to be supplied by SouthBanc for inclusion in the Registration Statement will not, at the time the Registration Statement becomes effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(bb) Community Reinvestment Act Compliance. Perpetual Bank is in material compliance with the applicable provisions of the CRA and the regulations promulgated thereunder, and Perpetual Bank currently has a CRA rating of satisfactory or better. To the knowledge of SouthBanc, there is no fact or circumstance or set of facts or circumstances that would cause Perpetual Bank to fail to comply with such provisions or cause the CRA rating of Perpetual Bank to fall below satisfactory.

(cc) Undisclosed Liabilities. As of the date hereof, SouthBanc and its Subsidiaries have not incurred any debt, liability or obligation of any nature whatsoever (whether accrued, contingent, absolute or otherwise and whether due or to become due) except for (i) liabilities reflected on or reserved against in the consolidated financial statements of SouthBanc as of September 30, 1999, (ii) liabilities incurred since September 30, 1999 in the ordinary course of business consistent with past practice that, either alone or when combined with all similar liabilities, have not had, and would not reasonably be expected to have, a Material Adverse Effect on SouthBanc and (iii) liabilities incurred for legal, accounting, financial advising fees and out-of-pocket expenses in connection with the transactions contemplated by this Agreement.

(dd) Year 2000 Matters. SouthBanc and its Subsidiaries have not experienced any data processing or other computer malfunctions related to processing date information on and after January 1, 2000 and none of the third party service providers or customers of SouthBanc or its Subsidiaries have reported year 2000 data processing problems to SouthBanc that, individually or in the aggregate, would have a Material Adverse Effect on SouthBanc.

(ee) Tax Treatment of the Merger. SouthBanc has no knowledge of any fact or circumstance relating to it that would prevent the transactions contemplated by this Agreement from qualifying as a reorganization under the IRC.

ARTICLE III
Conduct Pending the Merger

Section 3.1. Conduct of Business Prior to the Effective Time. Except as expressly provided in this Agreement, during the period from the date of this Agreement to the Effective Time, each of SouthBanc and Heritage shall, and shall cause each of their respective Subsidiaries to, use commercially reasonable efforts to (i) conduct its business in the regular, ordinary and usual course consistent with past practice, (ii) maintain and preserve intact its business organization, properties, leases, employees and advantageous business relationships and retain the services of its officers and key employees, (iii) take no action that would adversely affect or delay the ability of Heritage or SouthBanc to perform their respective covenants and agreements on a timely basis under this Agreement and (iv) take no action that would adversely affect or delay the ability of Heritage or SouthBanc to obtain any necessary approvals,

consents or waivers of any governmental authority required for the transactions contemplated hereby or which would reasonably be expected to result in any such approvals, consents or waivers containing any material condition or restriction.

Section 3.2. Forbearances. Without limiting the covenants set forth in Section 3.1 hereof, except as expressly contemplated or permitted by this Agreement or as set forth on Schedule 3.2 and except to the extent required by law or regulation or any Governmental Entity, during the period from the date of this Agreement to the Effective Time, neither SouthBanc nor Heritage shall, and neither SouthBanc nor Heritage shall permit any of their respective Subsidiaries to, without the prior written consent of the other party:

(a) other than in the ordinary course of business, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance (it being understood and agreed that incurrence of indebtedness in the ordinary course of business shall include, without limitation, the creation of deposit liabilities, borrowings from the Federal Home Loan Bank, sales of certificates of deposit and entering into repurchase agreements);

(b) (i) adjust, split, combine or reclassify any capital stock;

(ii) make, declare or pay any dividend, or make any other distribution on its capital stock (except (A) in the case of SouthBanc, for regular quarterly cash dividends at a rate not in excess of $.15 per share of SouthBanc Common Stock, (B) in the case of Heritage, for regular quarterly cash dividends at a rate not in excess of $.075 per share of Heritage Common Stock and (C) dividends paid by any of the Subsidiaries of each of SouthBanc and Heritage for the purpose of enabling SouthBanc or Heritage to pay the dividends specified in (A) and (B));

(iii) grant any stock appreciation rights or grant any individual, corporation or other entity any right to acquire any shares of its capital stock; or

(iv) issue any additional shares of capital stock or any securities or obligations convertible or exercisable for any shares of its capital stock except pursuant to (A) the exercise of stock options, outstanding as of the date hereof, (B) in the case of SouthBanc, its Dividend Reinvestment Plan or (C) the Heritage Stock Option Agreement or the SouthBanc Stock Option Agreement;

(c) sell, transfer, mortgage, encumber or otherwise dispose of any of its material properties or assets to any individual, corporation or other entity other than a Subsidiary, or cancel, release or assign any indebtedness to any such person or any claims held by any such person, except in the ordinary course of business or pursuant to contracts or agreements in force at the date of this Agreement;

(d) except pursuant to contracts or agreements in force at the date of or permitted by this Agreement, make any equity investment in excess of $100,000, either by purchase of stock or securities, contributions to capital, property transfers, or purchase of any property or assets of any other individual, corporation or other entity;

(e) enter into, renew, amend or terminate any contract or agreement, or make any change in any of its leases or contracts, other than with respect to those involving aggregate payments of less than, or the provision of goods or services with a market value of less than, $100,000 per annum and other than contracts or agreements covered by Section 3.2(f);

(f) make, renegotiate, renew, increase, extend, modify or purchase any loan, lease (credit equivalent), advance, credit enhancement or other extension of credit, or make any commitment in respect of any of the foregoing, except in conformity with existing lending practices;

(g) (i) increase in any manner the compensation or fringe benefits

of any of its employees or directors except in the ordinary course of business consistent with past practices, or pay any pension, retirement allowance or contribution not required by any existing plan or agreement to any such employees or directors;

(ii) become a party to, amend or commit itself to any pension, retirement, profit-sharing or welfare benefit plan or agreement or employment agreement with or for the benefit of any employee or director;

(iii) accelerate the vesting of, or the lapsing of restrictions with respect to, any stock options or other stock-based compensation; or

(iv) elect to any senior executive office any person who is not a member of its senior executive officer team as of the date of this Agreement or elect to its Board of Directors any person who is not a member of its Board of Directors as of the date of this Agreement, or hire any employee with an annual total compensation payment in excess of $100,000;

(h) settle any claim, action or proceeding involving payment by it of money damages in excess of $25,000 or impose any material restriction on its operations or the operations of any of its Subsidiaries;

(i) amend its certificate of incorporation or its bylaws;

(j) restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;

(k) make any capital expenditures in excess of $100,000 per expenditure other than pursuant to binding commitments existing on the date hereof and other than expenditures necessary to maintain existing assets in good repair or to make payment of necessary taxes;

(l) establish or commit to the establishment of any new branch or other office facilities or file any application to relocate or terminate the operation of any banking office;

(m) take any action that is intended or expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time prior to the Effective Time, or in any of the conditions to the Merger set forth in Article V not being satisfied or in a violation of any provision of this Agreement;

(n) engage in any transaction that is not in the usual and ordinary course of business and consistent with past practices;

(o) implement or adopt any change in its accounting principles, practices or methods, other than as may be required by GAAP or regulatory guidelines;

(p) knowingly take any action that would prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368 of the IRC; or

(q) agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the actions prohibited by this Section 3.2.

Any request by either party or response thereto by the other party shall be made in accordance with the notice provisions of Section 8.7 and shall note that it is a request pursuant to this Section 3.2.

ARTICLE IV
Covenants

Section 4.1. Acquisition Proposals. From and after the date hereof until the termination of this Agreement, Heritage agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries' employees, representatives, agents or affiliates (including, without limitation, any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate, solicit or knowingly encourage (including by way of furnishing non-public information or assistance), or facilitate knowingly, any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal (as defined in Section 8.1), or enter into or maintain or continue discussions or negotiate with any person or entity in furtherance of such inquiries or to obtain an Acquisition Proposal or agree to or endorse any Acquisition Proposal, or authorize or permit any of its officers, directors or employees or any of its Subsidiaries or any investment banker, financial advisor, attorney, accountant or other representative retained by any of its Subsidiaries to take any such action, and that it shall notify the other party orally (within 1 business day) and in writing (as promptly as practicable, but in no event later than 2 calendar days) of such inquiries and proposals which it or any of its Subsidiaries or any such officer, director, employee, investment banker, financial advisor, attorney, accountant or other representative may receive relating to any of such matters and, if such inquiry or proposal is in writing, it shall deliver to the other party a copy of such inquiry or proposal promptly; provided, however, that nothing contained in this Section 4.1 shall prohibit the Board of Directors of Heritage from:

(i) furnishing information to, or entering into discussions or negotiations with any person or entity that makes an unsolicited written, bona fide proposal to acquire Heritage pursuant to a merger, consolidation, share exchange, business combination, tender or exchange offer or other similar transaction, if, and only to the extent that:

(A) the Board of Directors receives a written opinion from its independent financial advisor that such proposal may be superior to the Merger from a financial point-of-view to Heritage's stockholders;

(B) the Board of Directors determines in good faith that such action is necessary for the Board of Directors to comply with its fiduciary

duties to stockholders under applicable law (such proposal that satisfies (A) and (B) being referred to herein as a "Superior Proposal"); and

(C) prior to furnishing such information to, or entering into discussions or negotiations with, such person or entity, it:

(1) provides reasonable notice to SouthBanc to the effect that it is furnishing information to, or entering into discussions or negotiations with, another party; and

(2) receives from such person or entity an executed confidentiality agreement in reasonably customary form;

(ii) complying with Rule 14e-2 promulgated under the Exchange Act with regard to a tender or exchange offer; or

(iii) failing to make or withdrawing or modifying its recommendation and entering into a Superior Proposal if there exists a Superior Proposal and the Board of Directors determines in good faith that such action is necessary for the Board of Directors to comply with its fiduciary duties to stockholders under applicable law.

Section 4.2. Access and Information. Upon reasonable notice,

Heritage and SouthBanc shall (and shall cause their respective Subsidiaries to) afford to the other and their respective representatives (including, without limitation, directors, officers and employees of such party and its affiliates and counsel, accountants and other professionals retained by such party) such reasonable access during normal business hours throughout the period prior to the Effective Time to the books, records (including, without limitation, tax returns and work papers of independent auditors), properties, personnel and to such other information as either party may reasonably request and during such period, each of Heritage and SouthBanc shall, and shall cause their respective Subsidiaries to, make available to the other party a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal securities laws or federal or state banking laws; provided, however, that no investigation pursuant to this Section 4.2 shall affect or be deemed to modify any representation or warranty made herein. SouthBanc and Heritage will not, and will use their best efforts to cause their respective representatives not to, use any information obtained pursuant to this Section 4.2 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. Subject to the requirements of applicable law, each of SouthBanc and Heritage will keep confidential, and will use their best efforts to cause their respective representatives to keep confidential, all information and documents obtained pursuant to this Section 4.2 unless such information (i) was already known to such party or an affiliate of such party, other than pursuant to a confidentiality agreement or other confidential relationship, (ii) becomes available to such party or an affiliate of such party from other sources not known by such party to be bound by a confidentiality agreement or other obligation of secrecy, (iii) is

disclosed with the prior written approval of the other party or (iv) is or becomes readily ascertainable from published information or trade sources. In the event that this Agreement is terminated or the transactions contemplated by this Agreement shall otherwise fail to be consummated, each party shall promptly cause all copies of documents or extracts thereof containing information and data as to the other party hereto (or an affiliate of any party hereto) to be returned to the party that furnished the same.

Section 4.3. Applications; Consents. As soon as practicable after the date hereof, SouthBanc and Heritage shall cooperate with each other and use their reasonable best efforts to prepare and file all necessary applications, notices and filings to obtain all permits, consents, approvals and authorizations of all third parties and Governmental Entities that are necessary or advisable to consummate the transactions contemplated by this Agreement. SouthBanc and Heritage shall have the right to review in advance, and will consult with each other on, all the information relating to Heritage and SouthBanc, as the case may be, and any of their respective Subsidiaries, which appear in any filing made with, or written materials submitted to, any third party or Governmental Entity in connection with the transactions contemplated by this Agreement. The parties hereto agree that they will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to completion of the transactions contemplated herein.

Section 4.4. Antitakeover Provisions. SouthBanc, Heritage and their respective Subsidiaries shall take all steps required by any relevant federal or state law or regulation or under any relevant agreement or other document to exempt or continue to exempt the other party, the Agreement and the Merger from any provisions of an antitakeover nature in SouthBanc's, Heritage's or their respective Subsidiaries' certificates of incorporation and bylaws, or similar organizational documents, and the provisions of any federal or state antitakeover laws.

Section 4.5. Additional Agreements. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use all reasonable efforts to take promptly, or cause to be taken promptly, all actions and to do promptly, or cause to be done promptly, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement as expeditiously as

possible, including using efforts to obtain all necessary actions or non-actions, extensions, waivers, consents and approvals from all applicable Governmental Entities, effecting all necessary registrations, applications and filings (including, without limitation, filings under any applicable state securities laws) and obtaining any required contractual consents and regulatory approvals.

Section 4.6. Publicity. The initial press release announcing this Agreement shall be a joint press release and thereafter Heritage and SouthBanc shall consult with each other prior to issuing any press releases or otherwise making public statements with respect to the Merger and any other transaction contemplated hereby and in making any filings with any Governmental Entity or with any national securities exchange or market with respect thereto.

Section 4.7. Stockholders Meetings. SouthBanc and Heritage each shall take all action necessary, in accordance with applicable law and its respective certificate of incorporation and bylaws, to convene a meeting of its respective stockholders (each, a "Stockholder Meeting") as promptly as practicable for the purpose of considering and voting on approval and adoption of the transactions provided for in this Agreement. Except to the extent legally required for the discharge by the Board of Directors of its fiduciary duties, the Board of Directors of each of SouthBanc and Heritage shall (i) recommend at its Stockholder Meeting that the stockholders vote in favor of and approve the transactions provided for in this Agreement and (ii) use its reasonable best efforts to solicit such approvals. SouthBanc and Heritage shall coordinate and cooperate with respect to the timing of their respective Stockholder Meetings.

Section 4.8. Registration of SouthBanc Common Stock.

(a) As promptly as reasonably practicable following the date hereof, SouthBanc and Heritage shall cooperate in preparing and each shall cause to be filed with the SEC mutually acceptable proxy materials which shall constitute the Joint Proxy Statement-Prospectus relating to the matters to be submitted to the SouthBanc stockholders at the SouthBanc Stockholders Meeting and the matters to be submitted to the Heritage stockholders at the Heritage Stockholders Meeting (such proxy statement/prospectus, and any amendments or supplements thereto, the "Joint Proxy Statement-Prospectus") and SouthBanc shall prepare and file with the SEC a registration statement on Form S-4 with respect to the issuance of SouthBanc Common Stock in the Merger (such Form S-4, and any amendments or supplements thereto, the "Registration Statement"). The Joint Proxy Statement-Prospectus will be included as a prospectus in and will constitute a part of the Registration Statement as SouthBanc's prospectus. Each of SouthBanc and Heritage shall use reasonable best efforts to have the Joint Proxy Statement-Prospectus cleared by the SEC and the Registration Statement declared effective by the SEC and to keep the Registration Statement effective as long as is necessary to consummate the Merger and the transactions contemplated thereby. SouthBanc and Heritage shall, as promptly as practicable after receipt thereof, provide the other party copies of any written comments and advise the other party of any oral comments, with respect to the Joint Proxy Statement-Prospectus or Registration Statement received from the SEC. The parties shall cooperate and provide the other with a reasonable opportunity to review and comment on any amendment or supplement to the Joint Proxy Statement-Prospectus and the Registration Statement prior to filing such with the SEC, and will provide each other with a copy of all such filings made with the SEC. Notwithstanding any other provision herein to the contrary, no amendment or supplement (including by incorporation by reference) to the Joint Proxy Statement-Prospectus or the Registration Statement shall be made without the approval of both parties, which approval shall not be unreasonably withheld or delayed; provided that with respect to documents filed by a party which are incorporated by reference in the Registration Statement or Joint Proxy Statement-Prospectus, this right of approval shall apply only with respect to information relating to the other party or its business, financial condition or results of operations. SouthBanc will use reasonable best efforts to cause the Joint Proxy Statement-Prospectus to be mailed to SouthBanc stockholders, and Heritage will use reasonable

best efforts to cause the Joint Proxy Statement-Prospectus to be mailed to Heritage"s stockholders, in each case as promptly as practicable after the Registration Statement is declared effective under the Securities Act. Each party will advise the other party, promptly after it receives notice thereof, of the time when the Registration Statement has become effective, the issuance of any stop order, the suspension of the qualification of the SouthBanc Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Joint Proxy Statement-Prospectus or the Registration Statement. If at any time prior to the Effective Time any information relating to SouthBanc or Heritage, or any of their respective affiliates, officers or directors, should be discovered by SouthBanc or Heritage which should be set forth in an amendment or supplement to any of the Registration Statement or the Joint Proxy Statement-Prospectus so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and, to the extent required by law, rules or regulations, an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and disseminated to the stockholders of SouthBanc and Heritage.

(b) SouthBanc shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or to file a general consent to service of process) required to be taken under any applicable state securities laws in connection with the Merger and each of Heritage and SouthBanc shall furnish all information concerning it and the holders of its Common Stock as may be reasonably requested in connection with any such action.

(c) Prior to the Effective Time, SouthBanc shall notify the Nasdaq National Market of the additional shares of SouthBanc Common Stock to be issued by SouthBanc in exchange for the shares of Heritage Common Stock.

Section 4.9. Affiliate Letters. Heritage shall use its best efforts to cause each director, executive officer and other person who is an "affiliate" of Heritage under Rule 145 of the Securities Act to deliver to SouthBanc as soon as practicable and prior to the mailing of the Joint Proxy Statement-Prospectus executed letter agreements, each substantially in the form attached hereto as Exhibit C, providing that such person will comply with Rule 145.

Section 4.10 Notification of Certain Matters. Each party shall give prompt notice to the other of: (i) any event or notice of, or other communication relating to, a default or event that, with notice or lapse of time or both, would become a default, received by it or any of its Subsidiaries subsequent to the date of this Agreement and prior to the Effective Time, under any contract material to the financial condition, properties, businesses or results of operations of each party and its Subsidiaries taken as a whole to which each party or any Subsidiary is a party or is subject; and (ii) any event, condition, change or occurrence which individually or in the aggregate has, or which, so far as reasonably can be foreseen at the time of its occurrence, is

reasonably likely to result in a Material Adverse Effect. Each of Heritage and SouthBanc shall give prompt notice to the other party of any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with any of the transactions contemplated by this Agreement.

Section 4.11. Employees, Directors and Officers.

(a) All persons who are employees of Heritage Federal immediately prior to the Effective Time ("Heritage"s Employees") shall, at the Effective Time, continue as employees of Heritage Federal ("Continuing Employees"). Subject to paragraph (f) of this Section 4.11, all Continuing Employees shall be employed at the will of Heritage Federal and no contractual right to employment shall inure to such employees because of this Agreement.

(b) Except as provided in Section 4.11(e), from and after the Effective Time, unless otherwise mutually determined, the SouthBanc Employee Plans and the Heritage Employee Plans in effect as of the date of this Agreement shall remain in effect with respect to employees of SouthBanc and Heritage and their respective Subsidiaries covered by such plans and arrangements at the Effective Time until such time as SouthBanc shall, subject to applicable law, the terms of this Agreement and the terms of such plans, adopt new benefit plans and arrangements with respect to the employees of SouthBanc and its Subsidiaries ("New Benefit Plans"), including all Continuing Employees. Prior to the Effective Time, SouthBanc and Heritage shall cooperate in reviewing, evaluating and analyzing the SouthBanc Employee Plans and the Heritage Employee Plans with a view toward developing appropriate New Benefit Plans.

(c) The foregoing subparagraph (b) notwithstanding, SouthBanc agrees to honor in accordance with their terms all benefits vested as of the Effective Time under the SouthBanc Employee Plans and the Heritage Employee Plans and all vested benefits or other vested amounts earned or accrued through such time under contracts, arrangement commitments or understandings described in Schedule 2.1(n) and Schedule 2.2(n), including benefits which vest or are
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otherwise accrued as a result of the consummation of the transactions contemplated by this Agreement.

(d) With respect to all New Benefit Plans, SouthBanc agrees that Continuing Employees shall receive (i) full credit for prior service with Heritage and Heritage Federal for purposes of eligibility for participation and vesting, (ii) a waiver of all waiting periods and preexisting condition exclusions or penalties and (iii) credit for deductibles, copayments or similar out-of-pocket expenses incurred under any Heritage Employee Plan with respect to the plan year in which the Effective Time occurs. Notwithstanding anything herein to the contrary, with respect to participation in Perpetual Bank's Employee Stock Ownership Plan, Continuing Employees will be eligible to participate in such plan on the earliest date required by ERISA and the IRC and with Continuing Employees receiving credit for years of service with Heritage or any of its Subsidiaries for the purpose of vesting, but not for the purpose of accrual of benefits or allocation of employer contributions.

(e) Notwithstanding anything in this Agreement to the contrary, the Heritage Federal Bank Employee Stock Ownership Plan (the "Heritage ESOP") shall be terminated as of the Effective Time. In connection with the termination of the Heritage ESOP, Heritage shall promptly apply to the IRS for a determination letter on the Heritage ESOP's tax-qualified status upon termination under Code Sections 401(a) and 4975. Prior to any distributions to any Heritage ESOP participants, the trustees for the Heritage ESOP shall have received a favorable letter from the IRS related to the tax qualified status of the Heritage ESOP upon termination. The parties acknowledge that the existing loan between Heritage and the Heritage ESOP (the "ESOP Loan") shall be repaid in full by the Heritage ESOP upon such termination or as soon thereafter as practicable. The parties further acknowledge that, as of the date hereof, the Heritage ESOP has unallocated assets with a current fair market value exceeding the outstanding balance (principal and accrued interest) of the ESOP Loan. The parties agree that, pursuant to the applicable provisions of the Heritage ESOP, participants in the Heritage ESOP shall benefit from these assets as an allocation of earnings in the manner and to the extent provided under the Heritage ESOP upon termination of the Heritage ESOP. Heritage may take such actions as it deems necessary or appropriate to effectuate this intent. In addition, Heritage may take such other actions, including the making of other amendments to the plan, that it deems necessary or appropriate to preserve the tax-qualified status of the Heritage ESOP or the exempt status of the ESOP Loan. From and after the Effective Time, the administrative and other authority previously exercised solely by a committee appointed by the Board of Directors of Heritage Federal shall be exercised by a committee appointed by the Board of Directors of Heritage in consultation with SouthBanc. The committee shall advise and consult with SouthBanc regarding all actions taken with respect to the Heritage ESOP following the Effective Time.

On or before the Effective Time, Heritage may make such contributions to the Heritage ESOP as may be necessary to permit the Heritage ESOP to make scheduled principal and interest payments on any outstanding exempt loan in accordance with past practice.

(f) From and after the Effective Time, J. Edward Wells shall

serve as Chairman of SouthBanc, H.A. Pickens, Jr. shall serve as Vice Chairman of SouthBanc and Robert W. Orr shall serve as President and Chief Executive Officer of SouthBanc. At the Effective Time, SouthBanc and Heritage Federal shall enter into employment agreements with J. Edward Wells substantially in the form attached hereto as Exhibits D and E, respectively. At the Effective Time, SouthBanc and Heritage Federal shall enter into Change in Control Agreements with Edwin I. Shealy, Will B. Ferguson, John M. Swofford and James H. Wasson, Jr. substantially in the form attached hereto as Exhibit F.

(g) SouthBanc shall cause Perpetual Bank to appoint J. Edward Wells to the Board of Directors of Perpetual Bank as of the Effective Time. Heritage shall cause Heritage Federal to appoint Robert W. Orr and one other member of the Board of Directors of SouthBanc, who shall be designated by SouthBanc, to the Board of Directors of Heritage Federal as of the Effective Time.

Section 4.12. Indemnification.

(a) From and after the Effective Time through the sixth anniversary of the Effective Date, SouthBanc agrees to indemnify and hold harmless each present and former director and officer of Heritage and its Subsidiaries and each officer or employee of Heritage and its Subsidiaries that is serving or has served as a director or trustee of another entity expressly at Heritage"s request or direction (each, an "Indemnified Party"), against any costs or expenses (including reasonable attorneys' fees), judgments, fines, amounts paid in settlement, losses, claims, damages or liabilities (collectively, "Costs") incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the Effective Time (including the transactions contemplated by this Agreement), whether asserted or claimed prior to, at or after the Effective Time, and to advance any such Costs to each Indemnified Party as they are from time to time incurred, in each case to the fullest extent such Indemnified Party would have been indemnified as a director, officer or employee of Heritage and its Subsidiaries and as then permitted under applicable law.

(b) Any Indemnified Party wishing to claim indemnification under Section 4.12(a), upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify SouthBanc thereof, but the failure to so notify shall not relieve SouthBanc of any liability it may have hereunder to such Indemnified Party if such failure does not materially and substantially prejudice SouthBanc. In the event of any such claim, action, suit, proceeding or investigation, (i) SouthBanc shall have the right to assume the defense thereof with counsel reasonably acceptable to the Indemnified Party and SouthBanc shall not be liable to such Indemnified Party for any legal expenses of other counsel subsequently incurred by such Indemnified Party in connection with the defense thereof, except that if SouthBanc does not elect to assume such defense within a reasonable time or counsel for the Indemnified Party at any time advises that there are issues which raise conflicts of interest between SouthBanc and the Indemnified Party (and counsel for SouthBanc does not disagree), the Indemnified Party may retain counsel satisfactory to such Indemnified Party, and SouthBanc shall remain responsible for the reasonable fees and expenses of such counsel as set forth above, to be paid promptly as statements therefor are received; provided, however, that SouthBanc shall be obligated pursuant to this paragraph (b) to pay for only one firm of counsel for all Indemnified Parties in any one jurisdiction with respect to any given claim, action, suit, proceeding or investigation unless the use of one counsel for such Indemnified Parties would present such counsel with a conflict of interest; (ii) the Indemnified Party will reasonably cooperate in the defense of any such matter; and (iii) SouthBanc shall not be liable for any settlement effected by an Indemnified Party without its prior written consent, which consent may not be withheld unless such settlement is unreasonable in light of such claims, actions, suits, proceedings or investigations against, or defenses available to, such Indemnified Party.

(c) SouthBanc shall pay all reasonable Costs, including attorneys' fees, that may be incurred by any Indemnified Party in successfully enforcing the indemnity and other obligations provided for in this Section 4.12 to the fullest extent permitted under applicable law.

The rights of each Indemnified Party hereunder shall be in addition to any other rights such Indemnified Party may have under applicable law.

(d) SouthBanc shall maintain Heritage's existing directors' and officers' liability insurance policy (or provide a policy providing comparable coverage and amounts on terms no less favorable to the persons currently covered by Heritage's existing policy, including SouthBanc's existing policy if it meets the foregoing standard) covering persons who are currently covered by such insurance for a period of three years after the Effective Time; provided, however, that in no event shall SouthBanc be obligated to expend, in order to maintain or provide insurance coverage pursuant to this Section 4.12(d), an amount per annum in excess of 200% of the amount of the annual premiums paid by Heritage as of the date hereof for such insurance ("Maximum Insurance Amount"); provided further, that if the amount of the annual premiums necessary to maintain or procure such insurance coverage exceeds the Maximum Insurance Amount, SouthBanc shall obtain the most advantageous coverage obtainable for an annual premium equal to the Maximum Insurance Amount.

(e) In the event SouthBanc or any of its successors or assigns (i) consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers or conveys all or substantially all of its properties and assets to any person or entity, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of SouthBanc assume the obligations set forth in this Section 4.12.

(f) The provisions of this Section 4.12 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and his or her representatives.

Section 4.13. Dividends. After the date of this Agreement, each of Heritage and SouthBanc shall coordinate with the other the declaration of any dividends in respect of Heritage Common Stock and SouthBanc Common Stock and the record dates and payment dates relating thereto, it being the intention of the parties hereto that holders of Heritage Common Stock shall not receive two dividends, or fail to receive one dividend, for any quarter with respect to their shares of Heritage Common Stock and any shares of SouthBanc Common Stock any such holder receives in exchange therefor in the Merger.

Section 4.14 Section 16 Matters. Prior to the Effective Time, Heritage and SouthBanc shall take all such steps as may be required to cause any dispositions of Heritage Common Stock (including derivative securities with respect to Heritage Common Stock) or acquisitions of SouthBanc Common Stock resulting from the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Heritage to be exempt under Rule 16b-3 promulgated under the Exchange Act.

ARTICLE V
Conditions to Consummation

Section 5.1. Conditions to Each Party's Obligations. The respective obligations of each party to effect the Merger shall be subject to the satisfaction of the following conditions:

(a) Stockholder Approvals. This Agreement shall have been approved by the requisite vote of Heritage's and SouthBanc's stockholders in accordance with applicable laws and regulations.

(b) Regulatory Approvals. All approvals, consents or waivers of any Governmental Entity required to permit consummation of the transactions contemplated by this Agreement shall have been obtained and shall remain in full

force and effect, and all statutory waiting periods shall have expired; provided, however, that none of such approvals, consents or waivers shall contain any condition or requirement that would so materially and adversely impact the economic or business benefits to SouthBanc or Heritage of the transactions contemplated hereby that, had such condition or requirement been known, such party would not, in its reasonable judgment, have entered into this Agreement.

(c) No Injunctions or Restraints; Illegality. No party hereto shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction that enjoins or prohibits the consummation of the Merger and no Governmental Entity shall have instituted any proceeding for the purpose of enjoining or prohibiting the consummation of the Merger or any transactions contemplated by this Agreement. No statute, rule or regulation shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits, restricts or makes illegal consummation of the Merger.

(d) Registration Statement; Blue Sky Laws. The Registration Statement shall have been declared effective by the SEC and no proceedings shall be pending or threatened by the SEC to suspend the effectiveness of the Registration Statement, and SouthBanc shall have received all required approvals by state securities or "blue sky" authorities with respect to the transactions contemplated by this Agreement.

(e) Third Party Consents. SouthBanc and Heritage shall have obtained the consent or approval of each person (other than the governmental approvals or consents referred to in Section 5.1(b)) whose consent or approval shall be required to consummate the transactions contemplated by this Agreement, except those for which failure to obtain such consents and approvals would not, individually or in the aggregate, have a Material Adverse Effect on SouthBanc (after giving effect to the consummation of the transactions contemplated hereby) or upon the consummation of the transactions contemplated hereby.

(f) Tax Opinion. SouthBanc and Heritage shall have received opinions of Malizia, Spidi, & Fisch, P.C. and Muldoon, Murphy & Faucette LLP, respectively, dated as of the Effective Date, in form and substance customary in transactions of the type contemplated hereby, and reasonably satisfactory to SouthBanc and Heritage, as the case may be, substantially

to the effect that on the basis of the facts, representations and assumptions set forth in such opinions which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the IRC and that accordingly:

(i) No gain or loss will be recognized by SouthBanc or Heritage as a result of the Merger;

(ii) Except to the extent of any cash received as part of the Merger Consideration or in lieu of a fractional share interest in SouthBanc Common Stock, no gain or loss will be recognized by the stockholders of Heritage who exchange their Heritage Common Stock for SouthBanc Common Stock pursuant to the Merger;

(iii) The tax basis of SouthBanc Common Stock received by stockholders who exchange their Heritage Common Stock for SouthBanc Common Stock in the Merger will be the same as the tax basis of Heritage Common Stock surrendered pursuant to the Merger, reduced by any amount allocable to a fractional share interest for which cash is received and increased by any gain recognized on the exchange; and

(iv) The holding period of SouthBanc Common Stock received by each stockholder in the Merger will include the holding period of Heritage Common Stock exchanged therefor, provided that such stockholder held such Heritage Common Stock as a capital asset on the Effective Date.

Such opinions may be based on, in addition to the review of such matters of fact and law as counsel considers appropriate, representations

contained in certificates of officers of SouthBanc, Heritage and others.

Section 5.2. Conditions to the Obligations of SouthBanc. The obligations of SouthBanc to effect the Merger shall be further subject to the satisfaction of the following additional conditions, any one or more of which may be waived by SouthBanc:

(a) Representations and Warranties; Performance of Obligations. Each of the obligations of Heritage required to be performed by it at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed and complied with in all material respects and the representations and warranties of Heritage contained in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made at and as of the Effective Time (except as to any representation or warranty that specifically relates to an earlier date), and SouthBanc shall have received a certificate to the foregoing effect signed by the chief executive officer and the chief financial or principal accounting officer of Heritage; provided, however, that for purposes of this paragraph, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct, either individually or in the aggregate, and without giving effect to any qualification as to materiality set forth in such representations and warranties, will have a Material Adverse Effect on Heritage.

(b) Dissenters' Shares. Dissenters' rights shall not have been exercised with respect to more than 10% of the outstanding shares of Heritage Common Stock.

(c) Good Standing and Other Certificates. SouthBanc shall have received certificates (such certificates to be dated as of a day as close as practicable to the Closing Date) from appropriate authorities as to the corporate existence of Heritage and its Subsidiaries and such other documents and certificates to evidence fulfillment of the conditions set forth in Sections 5.1 and 5.2 as SouthBanc may reasonably require.

Section 5.3. Conditions to the Obligations of Heritage. The obligations of Heritage to effect the Merger shall be further subject to the satisfaction of the following additional conditions, any one or more of which may be waived by Heritage:

(a) Representations and Warranties; Performance of Obligations. Each of the obligations of SouthBanc required to be performed by it at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed and complied with in all material respects and the representations and warranties of SouthBanc contained in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made at and as of the Effective Time (except as to any representation or warranty which specifically relates to an earlier date), and Heritage shall have received a certificate to the foregoing effect signed by the chief executive officer and the chief financial or principal accounting officer of SouthBanc; provided, however, that for purposes of this paragraph, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct, either individually or in the aggregate, and without giving effect to any qualification as to materiality set forth in such representations and warranties, will have a Material Adverse Effect on SouthBanc.

(b) Deposit of Merger Consideration. SouthBanc shall have deposited with the Exchange Agent sufficient cash to pay the aggregate Cash Consideration and Heritage shall have received a certificate from the Exchange Agent to such effect.

(c) Good Standing and Other Certificates. Heritage shall have

received certificates (such certificates to be dated as of a day as close as practicable to the Closing Date) from appropriate authorities as to the corporate existence of SouthBanc and its Subsidiaries and such other documents and certificates to evidence fulfillment of the conditions set forth in Sections 5.1 and 5.3 as Heritage may reasonably require.

ARTICLE VI
Termination

Section 6.1. Termination. This Agreement may be terminated, and the Merger abandoned, at any time prior to the Effective Time, either before or after any requisite stockholder approval:

(a) by the mutual consent of SouthBanc and Heritage in a written instrument, if the Board of Directors of each so determines by vote of a majority of the members of its entire Board; or

(b) by either the Board of Directors of SouthBanc or Heritage, in the event of the failure of the stockholders of Heritage or SouthBanc to approve the Agreement at its Stockholder Meeting called to consider such approval; provided, however, that Heritage or SouthBanc, as the case may be, shall only be entitled to terminate the Agreement pursuant to this clause if it has complied in all material respects with its obligations under Section 4.7; or

(c) by either the Board of Directors of SouthBanc or Heritage, if either (i) any approval, consent or waiver of a Governmental Entity required to permit consummation of the transactions contemplated by this Agreement shall have been denied or (ii) any Governmental Entity of competent jurisdiction shall have issued a final, unappealable order enjoining or otherwise prohibiting consummation of the transactions contemplated by this Agreement; or

(d) by either the Board of Directors of SouthBanc or Heritage, in the event that the Merger is not consummated by December 31, 2000, unless the failure to so consummate by such time is due to the breach of any representation, warranty or covenant contained in this Agreement by the party seeking to terminate; or

(e) by either the Board of Directors of SouthBanc or Heritage (provided that the party seeking termination is not then in material breach of any representation, warranty, covenant or other agreement contained herein), in the event of (i) a failure to perform or comply by the other party with any covenant or agreement of such other party contained in this Agreement, which failure or non-compliance is material in the context of the transactions contemplated by this Agreement, or (ii) any inaccuracies, omissions or breach in the representations, warranties, covenants or agreements of the other party contained in this Agreement the circumstances as to which either individually or in the aggregate have, or reasonably could be expected to have, a Material Adverse Effect on such other party; in either case which has not been or cannot be cured within 30 calendar days after written notice thereof is given by the party seeking to terminate to such other party; or

(f) by either the Board of Directors of SouthBanc or Heritage, if the Board of Directors of the other party does not publicly recommend in the Joint Proxy Statement-Prospectus that stockholders approve and adopt this Agreement or if, after recommending in the Joint Proxy Statement-Prospectus that stockholders approve and adopt this Agreement, the Board of Directors of the other party shall have withdrawn, qualified or revised such recommendation in any respect materially adverse to the party seeking to terminate this Agreement; or

(g) by Heritage, if the Board of Directors of Heritage reasonably determines that a proposal made by a third party to acquire, directly or indirectly, including pursuant to a tender offer, exchange offer, merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction, for consideration consisting of cash and/or

securities, more than 50% of the combined voting power of the shares of Heritage Common Stock then outstanding or all or substantially all of the assets of Heritage constitutes a Superior Proposal and that such proposal must be accepted in order for the Board of Directors to comply with its fiduciary duties to stockholders under applicable law; or

(h) by the Board of Directors of Heritage, within five business days after the end of the Measurement Period (as defined in Section 8.1), if the SouthBanc Price is less than $14.05; provided, however, that if within five calendar days after receipt of notice of termination pursuant to this paragraph (i), SouthBanc provides written notice to Heritage that it shall increase the Exchange Ratio to an amount equal (rounded to the nearest one-thousandth) to $15.57 divided by the SouthBanc Price, in which case no termination shall be deemed to have occurred pursuant to this Section 6.1(i) and this Agreement shall remain in full force and effect in accordance with its terms (except the Exchange Ratio shall have been so modified).

Section 6.2. Effect of Termination. In the event of termination of this Agreement by either SouthBanc or Heritage as provided in Section 6.1, this Agreement shall forthwith become void and have no effect, and there shall be no liability on the part of any party hereto or their respective officers and directors, except (i) the last two sentences of Section 4.2, and Sections 8.6 and 8.7, shall survive any termination of this Agreement, and (ii) that notwithstanding anything to the contrary contained in this Agreement, no party shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement.

ARTICLE VII
Closing, Effective Date and Effective Time

Section 7.1. Effective Date and Effective Time. The closing of the transactions contemplated hereby ("Closing") shall take place at the offices of Muldoon, Murphy & Faucette LLP, 5101 Wisconsin Avenue, N.W., Washington, D.C. 20016, unless another place is agreed to by SouthBanc and Heritage, on a date specified by the parties ("Closing Date") that is no later than 14 days following the date on which the expiration of the last applicable waiting period in connection with notices to and approvals of Governmental Entities shall occur and all conditions to the consummation of this Agreement are satisfied or waived (excluding conditions that, by their nature, cannot be satisfied until the Closing Date) unless extended by mutual agreement of the parties. Prior to the Closing Date, SouthBanc and Heritage shall execute a certificate of merger in accordance with all appropriate legal requirements, which shall be filed as required by law on the Closing Date, and the Merger provided for therein shall become effective upon such filing or on such date as may be specified in such certificate of merger. The date of such filing or such later effective date as specified in the certificate of merger is herein referred to as the "Effective Date." The "Effective Time" of the Merger shall be as set forth in the certificate of merger.

Section 7.2. Deliveries at the Closing. Subject to the provisions of Articles V and VI, on the Closing Date there shall be delivered to SouthBanc and Heritage the documents and instruments required to be delivered under Article V.

ARTICLE VIII
Certain Other Matters

Section 8.1. Certain Definitions; Interpretation. For purposes of this Agreement:

"Acquisition Proposal" means any proposal or offer with respect to any of the following (other than the transactions contemplated hereunder)

involving Heritage or any of its Subsidiaries: (i) any merger, consolidation, share exchange, business combination, or other similar transaction; (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 25% or more of its consolidated assets in a single transaction or series of transactions; (iii) any tender offer or exchange offer for 25% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act in connection therewith; or (iv) any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing;

"Acquisition Transaction" means any of the following (other than the transactions contemplated hereunder) involving SouthBanc or any of its Subsidiaries: (i) any merger, consolidation, share exchange, business combination, or other similar transaction; (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 25% or more of its consolidated assets in a single transaction or series of transactions; or (iii) any tender offer or exchange offer for 25% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act in connection therewith;

"CRA" means the Community Reinvestment Act;

"Delaware Law" means the Delaware General Corporation Law;

"Environmental Law" means any federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, directive, executive or administrative order, judgment, decree or injunction relating to (i) the protection, preservation or restoration of the environment (which includes, without limitation, air, water vapor, surface water, groundwater, drinking water supply, structures, soil, surface land, subsurface land, plant and animal life or any other natural resource), or to human health or safety as it relates to Hazardous Materials, or (ii) the exposure to, or the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of, Hazardous Materials, in each case as amended and as now in effect. The term Environmental Law includes all federal, state and local laws, rules, regulations or requirements relating to the protection of the environment or health and safety, including, without limitation, the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980,

the Superfund Amendments and Reauthorization Act of 1986, the Federal Water Pollution Control Act of 1972, the Federal Clean Air Act, the Federal Clean Water Act, the Federal Resource Conservation and Recovery Act of 1976 (including, but not limited to, the Hazardous and Solid Waste Amendments thereto and Subtitle I relating to underground storage tanks), the Federal Solid Waste Disposal and the Federal Toxic Substances Control Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Federal Occupational Safety and Health Act of 1970 as it relates to Hazardous Materials, the Federal Hazardous Substances Transportation Act, the Emergency Planning and Community Right-To-Know Act, the Safe Drinking Water Act, the Endangered Species Act, the National Environmental Policy Act, the Rivers and Harbors Appropriation Act or any so-called "Superfund" or "Superlien" law, each as amended and as now or hereafter in effect;

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended;

"ERISA Affiliate" means any entity that is considered one employer with SouthBanc or Heritage, as the case may be, under Section 4001(b)(1) of ERISA or Section 414 of the IRC;

"Exchange Act" means the Securities Exchange Act of 1934, as amended;

"Excluded Shares" shall consist of (i) Dissenters' Shares and (ii) shares held directly or indirectly by SouthBanc (other than shares held in a fiduciary capacity or in satisfaction of a debt previously contracted);

"FDIA" means the Federal Deposit Insurance Act, as amended;

"FDIC" means the Federal Deposit Insurance Corporation;

"GAAP" means generally accepted accounting principles;

"Government Regulators" means any federal or state governmental authority charged with the supervision or regulation of depository institutions or depository institution holding companies or engaged in the insurance of bank deposits;

"Governmental Entity" means any court, administrative agency or commission or other governmental authority or instrumentality;

"Hazardous Material" means any substance (whether solid, liquid or gas) which is or could be detrimental to human health or safety or to the environment, currently or hereafter listed, defined, designated or classified as hazardous, toxic, radioactive or dangerous, or otherwise regulated, under any Environmental Law, whether by type or by quantity, including any substance containing any such substance as a component. Hazardous Material includes, without limitation, any toxic waste, pollutant, contaminant, hazardous substance, toxic substance,

hazardous waste, special waste, industrial substance, oil or petroleum, or any derivative or by-product thereof, radon, radioactive material, asbestos, asbestos-containing material, urea formaldehyde foam insulation, lead and polychlorinated biphenyl;

"Heritage Common Stock" means the common stock, par value $.01 per share, of Heritage;

"HOLA" means the Home Owners" Loan Act, as amended;

"IRC" means the Internal Revenue Code of 1986, as amended;

"IRS" means the Internal Revenue Service;

"knowledge" means, with respect to a party hereto, actual knowledge of the members of the Board of Directors of that party or any officer of that party with the title ranking not less than senior vice president;

"Loan" means a loan, lease, advance, credit enhancement, guarantee or other extension of credit;

"Material Adverse Effect" means an effect which is material and adverse to the business, financial condition or results of operations of Heritage or SouthBanc, as the context may dictate, and its Subsidiaries taken as a whole; provided, however, that any such effect resulting from any (i) changes in laws, rules or regulations or generally accepted accounting principles or regulatory accounting requirements or interpretations thereof that apply to both SouthBanc and Perpetual Bank and Heritage and Heritage Federal, as the case may be, or to similarly situated financial and/or depository institutions or (ii) changes in economic conditions affecting financial institutions generally, including but not limited to, changes in the general level of market interest rates shall not be considered in determining if a Material Adverse Effect has occurred;

"Measurement Period" means the ten consecutive trading days immediately preceding the eleventh calendar day prior to the Closing Date;

"NASD" means the National Association of Securities Dealers, Inc.;

"OTS" means the Office of Thrift Supervision;

"person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization or other entity;

"SEC" means the Securities and Exchange Commission;

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"SouthBanc Common Stock" means the common stock, par value $0.01 per share, of SouthBanc;

"SouthBanc Price" means the average of the closing sales price of SouthBanc Common Stock, as reported on the Nasdaq National Market, for the Measurement Period; provided, however, that in the event SouthBanc Common Stock does not trade on one or more of the trading days in the Measurement Period, any such date shall be disregarded in computing the average closing sales price and the average shall be based upon the closing sales price and number of days on which SouthBanc Common Stock actually traded during the Measurement Period;

"Subsidiary" means a corporation, partnership, joint venture or other entity in which Heritage or SouthBanc, as the case may be, has, directly or indirectly, an equity interest representing 5% or more of any class of the capital stock thereof or other equity interests therein;

"taxes" means all income, franchise, gross receipts, real and personal property, real property transfer and gains, wage and employment taxes; and

"Triggering Event" means any one or more of the following events:

(i) SouthBanc shall have authorized, recommended, publicly proposed or publicly announced an intention to authorize, recommend or propose, or entered into an agreement with any person to effect an Acquisition Transaction;

(ii) Any person shall have made, in the reasonable opinion of the Board of Directors of SouthBanc, a bona fide proposal to SouthBanc or its stockholders by public announcement, or by written communication that is or becomes the subject of public disclosure, to engage in an Acquisition Transaction; and

(iii) Any person shall have commenced (as such term is defined in Rule 14d-2 under the Exchange Act) or shall have filed a registration statement under the Securities Act with respect to, a tender offer or exchange offer to purchase any shares of SouthBanc Common Stock such that, upon consummation of such offer, such person would own or control 25% or more of the then outstanding shares of SouthBanc Common Stock.

When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of, Exhibit or Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for ease of

reference only and shall not affect the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed followed by the words "without limitation." Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Any reference to gender in this Agreement shall be deemed to include any other gender.

Section 8.2. Survival. Only those agreements and covenants of the parties that are by their terms applicable in whole or in part after the Effective Time, including the last two sentences of Section 4.2 and Sections 4.11, 4.12, and 8.6 of this Agreement, shall survive the Effective Time. All other representations, warranties, agreements and covenants shall be deemed to be conditions of the Agreement and shall not survive the Effective Time.

Section 8.3. Waiver; Amendment. Prior to the Effective Time, any provision of this Agreement may be: (i) waived in writing by the party benefitted by the provision or (ii) amended or modified at any time (including the structure of the transaction) by an agreement in writing between the parties hereto except that, after the vote by the stockholders of Heritage or SouthBanc,

no amendment or modification may be made that would reduce the amount or alter or change the kind of consideration to be received by holders of Heritage Common Stock or contravene any provision of Delaware Law or the federal banking laws, rules and regulations.

Section 8.4. Counterparts. This Agreement may be executed in counterparts each of which shall be deemed to constitute an original, but all of which together shall constitute one and the same instrument.

Section 8.5. Governing Law. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of Delaware, without regard to conflicts of laws principles.

Section 8.6. Expenses. Each party hereto will bear all expenses incurred by it in connection with this Agreement and the transactions contemplated hereby, except that expenses incurred in connection with the filing, printing and mailing of the Joint Proxy Statement-Prospectus and Registration Statement shall be shared equally by SouthBanc and Heritage.

Section 8.7. Notices. All notices, requests, acknowledgments and other communications hereunder to a party shall be in writing and shall be deemed to have been duly given when delivered by hand, overnight courier or facsimile transmission (confirmed in writing) to such party at its address or facsimile number set forth below or such other address or facsimile transmission as such party may specify by notice (in accordance with this provision) to the other party hereto.

If to Heritage, to:

Heritage Bancorp, Inc.
201 W. Main Street
Laurens, South Carolina 29360

Facsimile: (864) 984-2293

Attention: J. Edward Wells
President and Chief Executive Officer

With copies to:

Paul M. Aguggia, Esq.
Muldoon, Murphy & Faucette LLP
5101 Wisconsin Ave., NW
Washington, DC 20016
Facsimile: (202) 966-9409

If to SouthBanc, to:

SouthBanc Shares, Inc.
907 Main Street
Anderson, South Carolina 29621
Facsimile: (864) 260-3662

Attention: Robert W. Orr
President and Chief Executive Officer

With copies to:

John J. Spidi, Esq.
Malizia Spidi & Fisch, PC
1301 K Street, N.W.
Suite 700 East
Washington, D.C. 20005
Facsimile: (202) 434-4661

Section 8.8. Entire Agreement; etc. This Agreement, together with the Stock Option Agreements and the Schedules, represents the entire understanding of the parties hereto with reference to the transactions contemplated hereby and supersedes any and all other oral or written agreements heretofore made. All terms and provisions of this Agreement shall be binding

upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. Except for Section 4.11 and 4.12, which confer rights on the parties described therein, nothing in this Agreement is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 8.9. Successors and Assigns; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that this Agreement may not be assigned by either party hereto without the written consent of the other party.

In Witness Whereof, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the 14th day of February, 2000.

SouthBanc Shares, Inc.

By: /s/ Robert W. Orr
Robert W. Orr
President and Chief Executive Officer

Heritage Bancorp, Inc.

By: /s/ J. Edward Wells
J. Edward Wells
President and Chief Executive Officer

EXHIBIT 4.1

THE TRANSFER OF THIS AGREEMENT IS SUBJECT TO
CERTAIN PROVISIONS CONTAINED HEREIN AND TO
RESALE RESTRICTIONS UNDER THE
SECURITIES ACT OF 1933, AS AMENDED

STOCK OPTION AGREEMENT, dated February 14, 2000, between SouthBanc Shares, Inc., a Delaware corporation ("Issuer"), and Heritage Bancorp, Inc., a Delaware corporation ("Grantee").

W I T N E S S E T H:

WHEREAS, Grantee and Issuer have entered into an Agreement and Plan of Merger of even date herewith (the "Merger Agreement"), which agreement has been executed by the parties hereto immediately prior to this Stock Option Agreement (this "Agreement");

WHEREAS, as a condition to Grantee's entering into the Merger Agreement and in consideration therefor, Issuer has agreed to grant Grantee the Option (as hereinafter defined); and

WHEREAS, as a condition and inducement to Issuer's willingness to enter into the Merger Agreement and this Agreement, Issuer has requested that Grantee agree and Grantee has agreed, to grant Issuer an option to purchase shares of Grantee's Common Stock on substantially the same terms as the Option (as hereinafter defined).

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. (a) Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to 614,733 fully paid and nonassessable shares of Issuer's Common Stock, par value $0.01 per share ("Common Stock"), at a price of $17.50 per share (the "Option Price"); provided, however, that in no event shall the number of shares of Common Stock for which this Option is exercisable exceed 19.9% of the Issuer's issued and outstanding shares of Common Stock without giving effect to any shares subject to or issued pursuant to the Option. The number of shares of Common Stock that may be received upon the exercise of the Option and the Option Price are subject to adjustment as herein set forth.

(b) In the event that any additional shares of Common Stock are either (i) issued or otherwise become outstanding after the date of this

Agreement (other than pursuant to this Agreement) or (ii) redeemed, repurchased, retired or otherwise cease to be outstanding after the date of this Agreement, the number of shares of Common Stock subject to the Option shall be increased or decreased, as appropriate, so that, after such issuance, such number equals

19.9% of the number of shares of Common Stock then issued and outstanding without giving effect to any shares subject or issued pursuant to the Option. Nothing contained in this Section 1(b) or elsewhere in this Agreement shall be deemed to authorize Issuer or Grantee to breach any provision of the Merger Agreement.

2. (a) The Holder (as hereinafter defined) may exercise the Option, in whole or part, and from time to time, if, but only if, both an Initial Triggering Event (as hereinafter defined) and a Subsequent Triggering Event (as hereinafter defined) shall have occurred prior to the occurrence of an Exercise Termination Event (as hereinafter defined) and the Holder is not in material beach of the agreements or covenants contained in this Agreement or the Merger Agreement, provided that the Holder shall have sent the written notice of
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such exercise (as provided in subsection (e) of this Section 2) within 90 days following such Subsequent Triggering Event (or such longer period as provided in Section 10), provided further, however, that if the Option cannot be exercised
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on any day because of any injunction, order or similar restraint issued by a court of competent jurisdiction, the period during which the Option may be exercised shall be extended so that the Option shall expire no earlier than on the tenth business day after such injunction, order or restraint shall have been dissolved or when such injunction, order or restraint shall have become permanent and no longer subject to appeal, as the case may be. Each of the following shall be an "Exercise Termination Event": (i) the Effective Time (as defined in the Merger Agreement) of the Merger; (ii) termination of the Merger Agreement in accordance with the provisions thereof if such termination occurs prior to the occurrence of an Initial Triggering Event except a termination by Grantee pursuant to Section 6.1(e) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is non-volitional); or (iii) the passage of 12 months after termination of the Merger Agreement if such termination follows the occurrence of an Initial Triggering Event or is a termination by Grantee pursuant to Section 6.1(e) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is non-volitional). Notwithstanding any other provision of this Agreement, in no event shall any of Issuer's obligations under this Agreement continue six months beyond an Exercise Termination Event. The term "Holder" shall mean the holder or holders of the Option.

(b) The term "Initial Triggering Event" shall mean any of the following events or transactions occurring after the date hereof:

(i) Issuer or any of its Subsidiaries (each an "Issuer Subsidiary"), without having received Grantee's prior written consent, shall have entered into an agreement to engage in an

Acquisition Transaction (as hereinafter defined) with any person (the term "person" for purposes of this Agreement having the meaning assigned thereto in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and the rules and regulations thereunder) other than Grantee or any of its Subsidiaries (each a "Grantee Subsidiary") or the Board of Directors of Issuer shall have recommended that the stockholders of Issuer approve or accept any Acquisition Transaction with any person other than Grantee or a Subsidiary of Grantee. For purposes of this Agreement, "Acquisition Transaction" shall mean (A) a merger or consolidation, or any similar transaction, involving Issuer or any Significant Subsidiary (as defined in Rule 1-02 of Regulation S-X promulgated by the Securities and Exchange

Commission (the "SEC")) of Issuer, (B) a purchase, lease or other acquisition or assumption of all or a substantial portion of the assets or deposits of Issuer or any Significant Subsidiary of Issuer, (C) a purchase or other acquisition (including by way of merger, consolidation, share exchange or otherwise) of securities representing 10% or more of the voting power of Issuer, or (D) any substantially similar transaction; provided, however, that in no event shall any merger, consolidation, purchase or similar transaction involving only the Issuer and one or more of its Subsidiaries or involving only two or more of such Subsidiaries, be deemed to be an Acquisition Transaction, provided that any such transaction is not entered into in violation of the terms of the Merger Agreement;

(ii) Issuer or any Issuer Subsidiary, without having received Grantee's prior written consent, shall have authorized, recommended, proposed or publicly announced its intention to authorize, recommend or propose, an Acquisition Transaction with any person other than Grantee or a Grantee Subsidiary, or the Board of Directors of Issuer shall have publicly withdrawn or modified, or publicly announced its intent to withdraw or modify, in any manner adverse to Grantee, its recommendation that the stockholders of Issuer approve the transactions contemplated by the Merger Agreement in anticipation of engaging in an Acquisition Transaction;

(iii) Any person, other than Grantee, any Grantee Subsidiary or any Issuer Subsidiary acting in a fiduciary capacity in the ordinary course of its business, shall have acquired beneficial ownership or the right to acquire beneficial ownership of 10% or more of the outstanding shares of Common Stock (the term "beneficial ownership" for purposes of this Agreement having the meaning assigned thereto in Section 13(d) of the 1934 Act, and the rules and regulations thereunder);

(iv) Any person other than Grantee or any Grantee Subsidiary shall have made a bona fide proposal to Issuer or its stockholders by public announcement or written communication that is or becomes the subject of public disclosure to engage in an Acquisition Transaction;

(v) After a proposal is made by a third party to Issuer or its stockholders to engage in an Acquisition Transaction, Issuer shall have breached any covenant or obligation contained in the Merger Agreement and such breach (x) would entitle Grantee to terminate the Merger Agreement and (y) shall not have been cured prior to the Notice Date (as defined below); or

(vi) Any person other than Grantee or any Grantee Subsidiary, other than in connection with a transaction to which Grantee has given its prior written consent, shall have filed an application or notice with the Federal Reserve Board, the Office of Thrift Supervision ("OTS") or any other federal or state bank regulatory authority for approval to engage in an Acquisition Transaction.

(c) The term "Subsequent Triggering Event" shall mean either of the following events or transactions occurring after the date hereof:

(i) The acquisition by any person of beneficial ownership of 25% or more of the then outstanding shares of Common Stock; or

(ii) The occurrence of the Initial Triggering Event described in paragraph (i) of subsection (b) of this Section 2, except that the percentage referred to in clause (c) shall be 25%.

(d) Issuer shall notify Grantee promptly in writing of the occurrence of any Initial Triggering Event or Subsequent Triggering Event of which it has notice (together, a "Triggering Event"), it being understood that the giving of such notice by Issuer shall not be a condition to the right of the Holder to exercise the Option.

(e) In the event the Holder is entitled to and wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") specifying (i) the total number of shares it will purchase pursuant to such exercise and (ii) a place and date not earlier than three business days nor later than 60 business days from the Notice Date for the closing of such purchase (the "Closing Date"); provided that
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if prior notification to or approval of the Federal Reserve Board, the OTS or any other regulatory agency is required in connection with such purchase, the Holder shall promptly file the required notice or application for approval and

shall expeditiously process the same and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which any required notification periods have expired or been terminated or such approvals have been obtained and any requisite waiting period or periods shall have passed. Any exercise of the Option shall be deemed to occur on the Notice Date relating thereto.

(f) At the closing referred to in subsection (e) of this Section 2, the Holder shall pay to Issuer the aggregate purchase price for the shares of Common Stock purchased pursuant to the exercise of the Option in immediately available funds by wire transfer to a bank account designated by Issuer, provided that failure or refusal of Issuer to designate such a bank
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account shall not preclude the Holder from exercising the Option.

(g) At such closing, simultaneously with the delivery of immediately available funds as provided in subsection (f) of this Section 2, Issuer shall deliver to the Holder a certificate or certificates representing the number of shares of Common Stock purchased by the Holder and, if the Option should be exercised in part only, a new Option evidencing the rights of the Holder thereof to purchase the balance of the shares purchasable hereunder, and the Holder shall deliver to Issuer this Agreement and a letter agreeing that the Holder will not offer to sell or otherwise dispose of such shares in violation of applicable law or the provisions of this Agreement.

(h) Certificates for Common Stock delivered at a closing hereunder may be endorsed with a restrictive legend that shall read substantially as follows:

> "The transfer of the shares represented by this certificate is subject to certain provisions of an agreement between the registered holder hereof and Issuer and to resale restrictions arising under the Securities Act of 1933, as amended. A copy of such agreement is on file at the principal office of Issuer and will be provided to the holder hereof without charge upon receipt by Issuer of a written request therefor."

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act of 1933, as amended (the "1933 Act"), in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the Holder shall have delivered to Issuer a copy of a letter from the staff of the SEC, or an opinion of counsel, in form and substance reasonably satisfactory to Issuer, to the effect that such legend is not required for purposes of the 1933 Act; (ii) the reference to the provisions to this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed

in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition, such certificates shall bear any other legend as may be required by law.

(i) Upon the giving by the Holder to Issuer of the written notice of exercise of the Option provided for under subsection (e) of this Section 2 and the tender of the applicable purchase price in immediately available funds, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of Issuer shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder. Issuer shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 2 in the name of the Holder or its assignee, transferee or designee.

3. Issuer agrees: (i) that it shall at all times maintain, free from preemptive rights, sufficient authorized but unissued or treasury shares of Common Stock so that the Option may be exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities and other rights to purchase Common Stock; (ii) that it will not, by charter amendment or through reorganization, consolidation, merger, dissolution or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the covenants, stipulations or conditions to be observed or performed hereunder by Issuer; (iii) promptly to take all action as may from time to time be required (including (x) complying with all premerger notification, reporting and waiting period requirements specified in 15 U.S.C. ss. 18a and regulations promulgated thereunder and (y) in the event, under the Bank Holding Company Act of 1956, as amended, the Change in Bank Control Act of 1978, as amended, or any other federal or state banking law, prior approval of or notice to the Federal Reserve Board, the OTS or to any state regulatory authority is necessary before the Option may be exercised, cooperating fully with the Holder in preparing such applications or notices and providing such information to the Federal Reserve Board, the OTS or such state regulatory authority as they may require) in order to permit the Holder to exercise the Option and

Issuer duly and effectively to issue shares of Common Stock pursuant hereto; and (iv) promptly to take all action provided herein to protect the rights of the Holder against dilution.

4. This Agreement (and the Option granted hereby) are exchangeable, without expense, at the option of the Holder, upon presentation and surrender of this Agreement at the principal office of Issuer, for other Agreements providing for Options of different denominations entitling the holder thereof to purchase, on the same terms and subject to the same conditions as are set forth herein, in the aggregate the same number of shares of Common Stock

purchasable hereunder. The terms "Agreement" and "Option" as used herein include any Stock Option Agreements and related Options for which this Agreement (and the Option granted hereby) may be exchanged. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed or mutilated shall at any time be enforceable by anyone.

5. In addition to the adjustment in the number of shares of Common Stock that are purchasable upon exercise of the Option pursuant to Section 1 of this Agreement, the number of shares of Common Stock purchasable upon the exercise of the Option and the Option Price shall be subject to adjustment from time to time as provided in this Section 5. In the event of any change in, or distributions in respect of, the Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares, distributions on or in respect of the Common Stock that would be prohibited under the terms of the Merger Agreement, or the like, the type and number of shares of Common Stock purchasable upon exercise hereof and the Option Price shall be appropriately adjusted in such manner as shall fully preserve the economic benefits provided hereunder and proper provision shall be made in any agreement governing any such transaction to provide for such proper adjustment and the full satisfaction of the Issuer's obligations hereunder.

6. Upon the occurrence of a Subsequent Triggering Event that occurs prior to an Exercise Termination Event, Issuer shall, at the request of Grantee (whether on its own behalf or on behalf of any subsequent holder of this Option (or part thereof) or any of the shares of Common Stock issued pursuant hereto) delivered within 90 days of such Subsequent Triggering Event (or such longer period as provided in Section 10), promptly prepare, file and keep current a shelf registration statement under the 1933 Act covering this Option and any shares issued and issuable pursuant to this Option and shall use its reasonable best efforts to cause such registration statement to become effective and remain current in order to permit the sale or other disposition of this Option and any shares of Common Stock issued upon total or partial exercise of this Option ("Option Shares") in accordance with any plan of disposition requested by Grantee. Issuer will use its reasonable best efforts to cause such registration statement first to become effective and then to remain effective for such period not in excess of 180 days from the day such registration statement first becomes effective or such shorter time as may be reasonably necessary to effect such sales or other dispositions. Grantee shall have the right to demand two

such registrations. The foregoing notwithstanding, if, at the time of any

request by Grantee for registration of the Option or Option Shares as provided above, Issuer is in registration with respect to an underwritten public offering of shares of Common Stock, and if in the good faith judgment of the managing underwriter or managing underwriters, or, if none, the sole underwriter or underwriters, of such offering the inclusion of the Holder's Option or Option Shares would interfere with the successful marketing of the shares of Common Stock offered by Issuer, the number of Option Shares otherwise to be covered in the registration statement contemplated hereby may be reduced; provided, however, that after any such required reduction the number of Option Shares to be included in such offering for the account of the Holder shall constitute at least 25% of the total number of shares to be sold by the Holder and Issuer in the aggregate; and provided further, however, that if such reduction occurs, then the Issuer shall file a registration statement for the balance as promptly as practicable and no reduction shall thereafter occur. Each such Holder shall provide all information reasonably requested by Issuer for inclusion in any registration statement to be filed hereunder. If requested by any such Holder in connection with such registration, Issuer shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating itself in respect of representations, warranties, indemnities and other agreements customarily included in secondary offering underwriting agreements for the Issuer. Upon receiving any request under this Section 6 from any Holder, Issuer agrees to send a copy thereof to any other person known to Issuer to be entitled to registration rights under this Section 6, in each case by promptly mailing the same, postage prepaid, to the address of record of the persons entitled to receive such copies. Notwithstanding anything to the contrary contained herein, in no event shall Issuer be obligated to effect more than two registrations pursuant to this Section 6 by reason of the fact that there shall be more than one Grantee as a result of any assignment or division of this Agreement.

7. (a) Immediately prior to the occurrence of a Repurchase Event (as defined below) and prior to twelve months thereafter, (i) following a request of the Holder, delivered prior to an Exercise Termination Event, Issuer (or any successor thereto) shall repurchase the Option from the Holder at a price (the "Option Repurchase Price") equal to the amount by which (A) the Market/Offer Price (as defined below) exceeds (B) the Option Price, multiplied by the number of shares for which this Option may then be exercised and (ii) at the request of the owner of Option Shares from time to time (the "Owner"), delivered within 90 days of such occurrence (or such longer period as provided in Section 10), Issuer shall repurchase such number of the Option Shares from the Owner as the Owner shall designate at a price (the "Option Share Repurchase Price") equal to the Market/Offer Price multiplied by the number of Option Shares so designated. The term "Market/Offer Price" shall mean the highest of (i) the price per share of Common Stock at which a tender offer or exchange offer therefor has been made, (ii) the price per share of Common Stock to be paid by any third party pursuant to an agreement with Issuer, (iii) the highest closing price for shares of Common Stock within the six-month period immediately preceding the date the Holder gives notice of the required repurchase of this

Option or the Owner gives notice of the required repurchase of Option Shares, as the case may be, or (iv) in the event of a sale of all or a substantial portion of Issuer's assets, the sum of the price paid in such sale for such assets and the current market value of the remaining assets of Issuer as determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to Issuer, divided by the number of shares of Common

Stock of Issuer outstanding at the time of such sale. In determining the Market/Offer Price, the value of consideration other than cash shall be determined by a nationally recognized investment banking firm selected by the Holder or Owner, as the case may be, and reasonably acceptable to Issuer.

(b) The Holder and the Owner, as the case may be, may exercise its right to require Issuer to repurchase the Option and any Option Shares pursuant to this Section 7 by surrendering for such purpose to Issuer, at its principal office, this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that the Holder or the Owner, as the case may be, elects to require Issuer to repurchase this Option and/or the Option Shares in accordance with the provisions of this Section 7. Within the latter to occur of (i) five business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of such notice or notices relating thereto and (ii) the time that is immediately prior to the occurrence of a Repurchase Event, Issuer shall deliver or cause to be delivered to the Holder the Option Repurchase Price and/or to the Owner the Option Share Repurchase Price therefor or the portion thereof that Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that Issuer is prohibited under applicable law or regulation from repurchasing the Option and/or the Option Shares in full, Issuer shall immediately so notify the Holder and/or the Owner and thereafter deliver or cause to be delivered, from time to time, to the Holder and/or the Owner, as appropriate, the portion of the Option Repurchase Price and the Option Share Repurchase Price, respectively, that it is no longer prohibited from delivering, within five business days after the date on which Issuer is no longer so prohibited; provided, however, that if Issuer at any time

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after delivery of a notice of repurchase pursuant to paragraph (b) of this Section 7 is prohibited under applicable law or regulation from delivering to the Holder and/or the Owner, as appropriate, the Option Repurchase Price and the Option Share Repurchase Price, respectively, in full (and Issuer hereby undertakes to use its best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to accomplish such repurchase), the Holder or Owner may revoke its notice of repurchase of the Option or the Option Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, Issuer shall promptly (i) deliver to the Holder and/or the Owner, as appropriate, that portion of the

Option Repurchase Price or the Option Share Repurchase Price that Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Holder, a new Stock Option Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock obtained by multiplying the number of shares of Common Stock for which the surrendered Stock Option Agreement was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Option Repurchase Price less the portion thereof theretofore delivered to the Holder and the denominator of which is the Option Repurchase Price, or (B) to the Owner, a certificate for the Option Shares it is then so prohibited from repurchasing.

(d) For purposes of this Section 7, a Repurchase Event shall be deemed to have occurred (i) upon the consummation of any merger, consolidation or similar transaction involving Issuer or any purchase, lease or other acquisition of all or a substantial

portion of the assets of Issuer, other than any such transaction which would not constitute an Acquisition Transaction pursuant to the provisos to Section 2(b)(i) hereof or (ii) upon the acquisition by any person of beneficial ownership of 50% or more of the then outstanding shares of Common Stock, provided that no such event shall constitute a Repurchase Event unless a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event. The parties hereto agree that Issuer's obligations to repurchase the Option or Option Shares under this Section 7 shall not terminate upon the occurrence of an Exercise Termination Event unless no Subsequent Triggering Event shall have occurred prior to the occurrence of an Exercise Termination Event.

8. (a) In the event that prior to an Exercise Termination Event, Issuer shall enter into an agreement (i) to consolidate with or merge into any person, other than Grantee or one of its Subsidiaries, and shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any person, other than Grantee or one of its Subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but, in connection with such merger, the then outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or any other property or the then outstanding shares of Common Stock shall after such merger represent less than 50% of the outstanding voting shares and voting share equivalents of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than Grantee or one of its Subsidiaries, then, and in each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option (the "Substitute Option"), at the election of the Holder, of either (x) the Acquiring Corporation (as hereinafter defined) or (y) any person that controls the Acquiring Corporation.

(b) The following terms have the meanings indicated:

(1) "Acquiring Corporation" shall mean (i) the continuing or surviving corporation of a consolidation or merger with Issuer (if other than Issuer), (ii) Issuer in a merger in which Issuer is the continuing or surviving person, and (iii) the transferee of all or substantially all of Issuer's assets.

(2) "Substitute Common Stock" shall mean the common stock issued by the issuer of the Substitute Option upon exercise of the Substitute Option.

(3) "Assigned Value" shall mean the Market/Offer Price, as defined in Section 7.

(4) "Average Price" shall mean the average closing price of a share of the Substitute Common Stock for the one year immediately preceding the consolidation, merger or sale in question, but in no event higher than the closing price of the shares of Substitute Common Stock on the day preceding such consolidation, merger or sale; provided that if Issuer is the issuer of the Substitute Option, the Average Price shall be computed with respect to a share of common stock issued by the person merging

into Issuer or by any company which controls or is controlled by such person, as the Holder may elect.

(c) The Substitute Option shall have the same terms as the Option, provided, that if the terms of the Substitute Option cannot, for legal reasons, be the same as the Option, such terms shall be as similar as possible and in no event less advantageous to the Holder. The issuer of the Substitute Option shall also enter into an agreement with the then Holder or Holders of the Substitute Option in substantially the same form as this Agreement, which shall be applicable to the Substitute Option.

(d) The Substitute Option shall be exercisable for such number of shares of Substitute Common Stock as is equal to the Assigned Value multiplied by the number of shares of Common Stock for which the Option is then exercisable, divided by the Average Price. The exercise price of the Substitute Option per share of Substitute Common Stock shall then be equal to the Option Price multiplied by a fraction, the numerator of which shall be the number of shares of Common Stock for which the Option is then exercisable and the denominator of which shall be the number of shares of Substitute Common Stock for which the Substitute Option is exercisable.

(e) In no event, pursuant to any of the foregoing paragraphs, shall the Substitute Option be exercisable for more than 19.9% of

the shares of Substitute Common Stock outstanding prior to exercise of the Substitute Option. In the event that the Substitute Option would be exercisable for more than 19.9% of the shares of Substitute Common Stock outstanding prior to exercise but for this clause (e), the issuer of the Substitute Option (the "Substitute Option Issuer") shall make a cash payment to Holder equal to the excess of (i) the value of the Substitute Option without giving effect to the limitation in this clause (e) over (ii) the value of the Substitute Option after giving effect to the limitation in this clause (e). This difference in value shall be determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to the Acquiring Corporation.

(f) Issuer shall not enter into any transaction described in subsection (a) of this Section 8 unless the Acquiring Corporation and any person that controls the Acquiring Corporation assume in writing all the obligations of Issuer hereunder.

9. (a) At the request of the holder of the Substitute Option (the "Substitute Option Holder"), the Substitute Option Issuer shall repurchase the Substitute Option from the Substitute Option Holder at a price (the "Substitute Option Repurchase Price") equal to the amount by which (i) the Highest Closing Price (as hereinafter defined) exceeds (ii) the exercise price of the Substitute Option, multiplied by the number of shares of Substitute Common Stock for which the Substitute Option may then be exercised, and at the request of the owner (the "Substitute Share Owner") of shares of Substitute Common Stock (the "Substitute Shares"), the Substitute Option Issuer shall repurchase the Substitute Shares at a price (the "Substitute Share Repurchase Price") equal to the Highest Closing Price multiplied by the number of Substitute Shares so designated. The term "Highest Closing Price" shall mean the highest closing price for shares of Substitute Common Stock within the six-month period immediately preceding the date

the Substitute Option Holder gives notice of the required repurchase of the Substitute Option or the Substitute Share Owner gives notice of the required repurchase of the Substitute Shares, as applicable.

(b) The Substitute Option Holder and the Substitute Share Owner, as the case may be, may exercise its respective right to require the Substitute Option Issuer to repurchase the Substitute Option and the Substitute Shares pursuant to this Section 9 by surrendering for such purpose to the Substitute Option Issuer, at its principal office, the agreement for such Substitute Option (or, in the absence of such an agreement, a copy of this Agreement) and certificates for Substitute Shares accompanied by a written notice or notices stating that the Substitute Option Holder or the Substitute Share Owner, as the case may be, elects to require the Substitute Option Issuer to repurchase the Substitute Option and/or the Substitute Shares in accordance with the provisions of this Section 9. As promptly as practicable, and in any event within five business days after the surrender of the Substitute Option

and/or certificates representing Substitute Shares and the receipt of such notice or notices relating thereto, the Substitute Option Issuer shall deliver or cause to be delivered to the Substitute Option Holder the Substitute Option Repurchase Price and/or to the Substitute Share Owner the Substitute Share Repurchase Price therefor or, in either case, the portion thereof which the Substitute Option Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that the Substitute Option Issuer is prohibited under applicable law or regulation from repurchasing the Substitute Option and/or the Substitute Shares in part or in full, the Substitute Option Issuer following a request for repurchase pursuant to this Section 9 shall immediately so notify the Substitute Option Holder and/or the Substitute Share Owner and thereafter deliver or cause to be delivered, from time to time, to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the portion of the Substitute Share Repurchase Price, respectively, which it is no longer prohibited from delivering, within five business days after the date on which the Substitute Option Issuer is no longer so prohibited; provided, --------

however, that if the Substitute Option Issuer is at any time after delivery of a -------

notice of repurchase pursuant to subsection (b) of this Section 9 prohibited under applicable law or regulation from delivering to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the Substitute Option Repurchase Price and the Substitute Share Repurchase Price, respectively, in full (and the Substitute Option Issuer shall use its best efforts to receive all required regulatory and legal approvals as promptly as practicable in order to accomplish such repurchase), the Substitute Option Holder or Substitute Share Owner may revoke its notice of repurchase of the Substitute Option or the Substitute Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, the Substitute Option Issuer shall promptly (i) deliver to the Substitute Option Holder or Substitute Share Owner, as appropriate, that portion of the Substitute Option Repurchase Price or the Substitute Share Repurchase Price that the Substitute Option Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Substitute Option Holder, a new Substitute Option evidencing the right of the Substitute Option Holder to purchase that number of shares of the Substitute Common Stock obtained by multiplying the number of shares of the Substitute Common Stock for which the surrendered Substitute Option was exercisable at the time of delivery of the notice of repurchase by a fraction, the

numerator of which is the Substitute Option Repurchase Price less the portion thereof theretofore delivered to the Substitute Option Holder and the denominator of which is the Substitute Option Repurchase Price, or (B) to the Substitute Share Owner, a certificate for the Substitute Common Shares it is then so prohibited from repurchasing.

10. The 90-day period for exercise of certain rights under

Sections 2, 6, 7 and 14 shall be extended: (i) to the extent necessary to obtain all regulatory approvals for the exercise of such rights, and for the expiration of all statutory waiting periods; and (ii) to the extent necessary to avoid liability under Section 16(b) of the 1934 Act by reason of such exercise.

11. Issuer hereby represents and warrants to Grantee as follows:

(a) Issuer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of Issuer and no other corporate proceedings on the part of Issuer are necessary to authorize this Agreement or to consummate the transactions so contemplated. This Agreement has been duly and validly executed and delivered by Issuer.

(b) Issuer has taken all necessary corporate action to authorize and reserve and to permit it to issue, and at all times from the date hereof through the termination of this Agreement in accordance with its terms will have reserved for issuance upon the exercise of the Option, that number of shares of Common Stock equal to the maximum number of shares of Common Stock at any time and from time to time issuable hereunder, and all such shares, upon issuance pursuant hereto, will be duly authorized, validly issued, fully paid, nonassessable, and will be delivered free and clear of all claims, liens, encumbrance and security interests and not subject to any preemptive rights.

12. Grantee hereby represents and warrants to Issuer that:

(a) Grantee has all requisite corporate power and authority to enter into this Agreement and, subject to any approvals or consents referred to herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee.

(b) The Option is not being, and any shares of Common Stock or other securities acquired by Grantee upon exercise of the Option will not be, acquired with a view to the public distribution thereof and will not be transferred or otherwise disposed of except in a transaction registered or exempt from registration under the 1933 Act.

13. (a) Grantee may, at any time following a Repurchase Event and prior to the occurrence of an Exercise Termination Event (or such later period as provided in Section 10), relinquish the Option (together with any Option Shares issued to and then owned by Grantee) to Issuer in exchange for a cash fee equal to the Surrender Price (as defined below); provided, however,

that Grantee may not exercise its rights pursuant to this Section 13 if Issuer has repurchased the Option (or any portion thereof) or any Option Shares pursuant to Section 7. The "Surrender Price" shall be equal to $1,600,000 (i) plus, if applicable, Grantee's purchase price with respect to any Option Shares and (ii) minus, if applicable, the sum of (A) the excess of (1) the net cash amounts, if any, received by Grantee pursuant to the arms' length sale of Option Shares (or any other securities into which such Option Shares were converted or exchanged) to any unaffiliated party, over (2) Grantee's purchase price of such Option Shares and (B) the net cash amounts, if any, received by Grantee pursuant to an arms' length sale of a portion of the Option to any unaffiliated party.

(b) Grantee may exercise its right to relinquish the Option and any Option Shares pursuant to this Section 13 by surrendering to Issuer, at its principal office, this Agreement together with certificates for Option Shares, if any, accompanied by a written notice stating (i) that Grantee elects to relinquish the Option and Option Shares, if any, in accordance with the provisions of this Section 13 and (ii) the Surrender Price. The Surrender Price shall be payable in immediately available funds on or before the second business day following receipt of such notice by Issuer.

(c) To the extent that Issuer is prohibited under applicable law or regulation, or as a consequence of administrative policy, from paying the Surrender Price to Grantee in full, Issuer shall immediately so notify Grantee and thereafter deliver or cause to be delivered, from time to time, to Grantee, the portion of the Surrender Price that it is no longer prohibited from paying, within five business days after the date on which Issuer is no longer so prohibited, provided, however, that if Issuer at any time after delivery of a notice of surrender pursuant to paragraph (b) of this Section 13 is prohibited under applicable law or regulation, or as a consequence of administrative policy, from paying to Grantee the Surrender Price in full, (i) Issuer shall (A) use its reasonable best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to make such payments, (B) within five days of the submission or receipt of any documents relating to any such regulatory and legal approvals, provide Grantee with copies of the same, and (C) keep Grantee advised of both the status of any such request for regulatory and legal approvals, as well as any discussions with any relevant regulatory or other third party reasonably related to the same and (ii) Grantee may revoke such notice of surrender by delivery of a notice of revocation to Issuer and, upon delivery of such notice of revocation, the Exercise Termination Date shall be extended to a date six months from the date on which the Exercise Termination Date would have occurred if not for the provisions of this Section 13(c) (during which period Grantee may exercise any of its rights hereunder, including any and all rights pursuant to this Section 13).

14. Neither of the parties hereto may assign any of its rights or obligations under this Agreement or the Option created hereunder to any other person, without the express written consent of the other party, except that in the event a Subsequent Triggering Event shall

have occurred prior to an Exercise Termination Event, Grantee, subject to the express provisions hereof, may assign in whole or in part its rights and obligations hereunder within 90 days following such Subsequent Triggering Event (or such longer period as provided in Section 10); provided, however, that until the date 15 days following the date on which the Federal Reserve Board or the OTS, as applicable, approves an application by Grantee to acquire the shares of Common Stock subject to the Option, Grantee may not assign its rights under the Option except in (i) a widely dispersed public distribution, (ii) a private placement in which no one party acquires the right to purchase in excess of 2% of the voting shares of Issuer, (iii) an assignment to a single party (e.g., a broker or investment banker) for the purpose of conducting a widely dispersed public distribution on Grantee's behalf, or (iv) any other manner approved by the Federal Reserve Board or the OTS, as applicable.

15. Each of Grantee and Issuer will use its best efforts to make all filings with, and to obtain consents of, all third parties and governmental authorities necessary to the consummation of the transactions contemplated by this Agreement, including without limitation making application to list the shares of Common Stock issuable hereunder on the Nasdaq National Market upon official notice of issuance and applying to the Federal Reserve Board and/or the OTS, as applicable, for approval to acquire the shares issuable hereunder, but Grantee shall not be obligated to apply to state banking authorities for approval to acquire the shares of Common Stock issuable hereunder until such time, if ever, as it deems appropriate to do so.

16. (a) Notwithstanding any other provision of this Agreement, in no event shall the Grantee's Total Profit (as hereinafter defined) exceed $2,000,000 and, if it otherwise would exceed such amount, the Grantee, at its sole election, shall either (i) reduce the number of shares of Common Stock subject to this Option, (ii) deliver to the Issuer for cancellation Option Shares previously purchased by Grantee, (iii) pay cash to the Issuer, or (iv) any combination thereof, so that Grantee's actually realized Total Profit shall not exceed $2,000,000 after taking into account the foregoing actions.

(b) Notwithstanding any other provision of this Agreement, this Option may not be exercised for a number of shares as would, as of the date of exercise, result in a Notional Total Profit (as defined below) of more than $2,000,000; provided, that nothing in this sentence shall restrict any exercise of the Option permitted hereby on any subsequent date.

(c) As used herein, the term "Total Profit" shall mean the aggregate amount (before taxes) of the following: (i) the amount received by Grantee pursuant to Issuer's repurchase of the Option (or any portion thereof) pursuant to Section 7 of this Agreement, (ii)(x) the amount received by Grantee

pursuant to Issuer's repurchase of Option Shares pursuant to Section 7, less (y) the Grantee's purchase price for such Option Shares, (iii)(x) the net cash amounts received by Grantee pursuant to the sale of Option Shares (or any other securities into which such Option Shares are converted or exchanged) to any unaffiliated party, less (y) the Grantee's purchase price of such Option Shares, (iv) any amounts received by Grantee on the transfer of the Option (or any portion thereof) to any unaffiliated party, and (v) any equivalent amount with respect to the Substitute Option.

(d) As used herein, the term "Notional Total Profit" with respect to any number of shares as to which Grantee may propose to exercise this Option shall be the Total Profit determined as of the date of such proposed exercise assuming that this Option were exercised on such date for such number of shares and assuming that such shares, together with all other Option Shares held by Grantee and its affiliates as of such date, were sold for cash at the closing market price for the Common Stock as of the close of business on the preceding trading day (less customary brokerage commissions).

17. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the parties hereto shall be enforceable by either party hereto through injunctive or other equitable relief.

18. If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that the Holder is not permitted to acquire, or Issuer is not permitted to repurchase pursuant to Section 7, the full number of shares of Common Stock provided in Section 1(a) hereof (as adjusted pursuant to Section 1(b) or 5 hereof), it is the express intention of Issuer to allow the Holder to acquire or to require Issuer to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof.

19. All notices, requests, claims, demands and other communications hereunder shall be deemed to have been duly given when delivered in person, by cable, telegram, telecopy or telex, or by registered or certified mail (postage prepaid, return receipt requested) at the respective addresses of the parties set forth in the Merger Agreement.

20. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

21. This Agreement may be executed in two counterparts, each of which shall be deemed to be an original, but all of which shall constitute

one and the same agreement.

22. Except as otherwise expressly provided herein, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

23. Except as otherwise expressly provided herein or in the Merger Agreement, this Agreement contains the entire agreement between the parties with respect to the transactions contemplated hereunder and supersedes all prior arrangements or understandings with respect thereof, written or oral. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and

permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

24. Capitalized terms used in this Agreement and not defined herein shall have the meanings assigned thereto in the Merger Agreement.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the date first above written.

HERITAGE BANCORP, INC.

By: /s/ J. Edward Wells

J. Edward Wells
President and Chief Executive Officer

SOUTHBANC SHARES, INC.

By: /s/ Robert W. Orr

Robert W. Orr
President and Chief Executive Officer

Exhibit 10.1

THE TRANSFER OF THIS AGREEMENT IS SUBJECT TO
CERTAIN PROVISIONS CONTAINED HEREIN AND TO
RESALE RESTRICTIONS UNDER THE
SECURITIES ACT OF 1933, AS AMENDED

STOCK OPTION AGREEMENT, dated February 14, 2000, between Heritage Bancorp, Inc., a Delaware corporation ("Issuer"), and SouthBanc Shares, Inc., a Delaware corporation ("Grantee").

W I T N E S S E T H:
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WHEREAS, Grantee and Issuer have entered into an Agreement and Plan of Merger of even date herewith (the "Merger Agreement"), which agreement has been executed by the parties hereto immediately prior to this Stock Option Agreement (this "Agreement");

WHEREAS, as a condition to Grantee's entering into the Merger Agreement and in consideration therefor, Issuer has agreed to grant Grantee the Option (as hereinafter defined); and

WHEREAS, as a condition and inducement to Issuer's willingness to enter into the Merger Agreement and this Agreement, Issuer has requested that Grantee agree and Grantee has agreed, to grant Issuer an option to purchase shares of Grantee's Common Stock on substantially the same terms as the Option (as hereinafter defined).

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. (a) Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to 855,916 fully paid and non assessable shares of Issuer's Common Stock, par value $0.01 per share ("Common Stock"), at a price of $13.25 per share (the "Option Price"); provided, however, that in no event shall the number of shares
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of Common Stock for which this Option is exercisable exceed 19.9% of the Issuer's issued and outstanding shares of Common Stock without giving effect to any shares subject to or issued pursuant to the Option. The number of shares of Common Stock that may be received upon the exercise of the Option and the Option Price are subject to adjustment as herein set forth.

(b) In the event that any additional shares of Common Stock are

either (i) issued or otherwise become outstanding after the date of this Agreement (other than pursuant to this Agreement) or (ii) redeemed, repurchased, retired or otherwise cease to be outstanding after the date of this Agreement, the number of shares of Common Stock subject to the Option shall be increased or decreased, as appropriate, so that, after such issuance, such number equals

19.9% of the number of shares of Common Stock then issued and outstanding without giving ef fect to any shares subject or issued pursuant to the Option. Nothing contained in this Section 1(b) or elsewhere in this Agreement shall be deemed to authorize Issuer or Grantee to breach any provision of the Merger Agreement.

2. (a) The Holder (as hereinafter defined) may exercise the Option, in whole or part, and from time to time, if, but only if, both an Initial Triggering Event (as here inafter defined) and a Subsequent Triggering Event (as hereinafter defined) shall have occurred prior to the occurrence of an Exercise Termination Event (as hereinafter defined) and the Holder is not in material beach of the agreements or covenants contained in this Agreement or the Merger Agreement, provided that the Holder shall have sent the written notice of
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such exercise (as provided in subsection (e) of this Section 2) within 90 days following such Subsequent Triggering Event (or such longer period as provided in Section 10), provided further, however, that if the Option cannot be exercised
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on any day because of any injunction, order or similar restraint issued by a court of competent jurisdiction, the period during which the Option may be exercised shall be extended so that the Option shall expire no earlier than on the tenth business day after such injunction, order or restraint shall have been dissolved or when such injunction, order or restraint shall have become permanent and no longer subject to appeal, as the case may be. Each of the following shall be an "Exercise Termination Event": (i) the Effective Time (as defined in the Merger Agreement) of the Merger; (ii) termination of the Merger Agreement in ac cordance with the provisions thereof if such termination occurs prior to the occurrence of an Initial Triggering Event except a termination by Grantee pursuant to Section 6.1(e) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is non-volitional); or (iii) the passage of 12 months after termination of the Merger Agreement if such termination follows the occurrence of an Initial Triggering Event or is a termination by Grantee pursuant to Section 6.1(e) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is non-volitional). Notwithstanding any other provision of this Agreement, in no event shall any of Issuer's obligations under this Agreement continue six months beyond an Exercise Termination Event. The term "Holder" shall mean the holder or holders of the Option.

(b) The term "Initial Triggering Event" shall mean any of the following events or transactions occurring after the date hereof:

(i) Issuer or any of its Subsidiaries (each an "Issuer Subsidiary"), without having received Grantee's prior written consent,

shall have entered into an agreement to engage in an Acquisition Transaction (as hereinafter defined) with any person (the term "person" for purposes of this Agreement having the meaning as signed thereto in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and the rules and regulations thereunder) other than Grantee or any of its Subsidiaries (each a "Grantee Subsidiary") or the Board of Directors of Issuer shall have recommended that the stockholders of Issuer approve or accept any Acquisition Transaction with any person other than Grantee or a Subsidiary of Grantee. For purposes of this Agreement, "Acquisition Transaction" shall mean (A) a merger or consolidation, or any similar transaction, involving Issuer or any Significant Subsidiary (as defined in Rule 1-02 of Regulation S-X promulgated by the Securities and Exchange

Commission (the "SEC")) of Issuer, (B) a purchase, lease or other acquisition or as sumption of all or a substantial portion of the assets or deposits of Issuer or any Significant Subsidiary of Issuer, (C) a purchase or other acquisition (including by way of merger, consolidation, share exchange or otherwise) of securities representing 10% or more of the voting power of Issuer, or (D) any substantially similar transaction; provided, --------
however, that in no event shall any merger, consolidation, purchase or -------
similar transaction involving only the Issuer and one or more of its Subsidiaries or involving only two or more of such Subsidiaries, be deemed to be an Acquisition Transaction, provided that any such transaction is not entered into in violation of the terms of the Merger Agreement;

(ii) Issuer or any Issuer Subsidiary, without having received Grantee's prior written consent, shall have authorized, recommended, proposed or publicly announced its intention to authorize, recommend or propose, an Acquisition Transaction with any person other than Grantee or a Grantee Subsidiary, or the Board of Directors of Issuer shall have publicly withdrawn or modified, or publicly announced its intent to withdraw or modify, in any manner adverse to Grantee, its recommendation that the stockholders of Issuer approve the transactions contemplated by the Merger Agreement in anticipation of engaging in an Acquisition Transaction;

(iii) Any person, other than Grantee, any Grantee Subsidiary or any Issuer Subsidiary acting in a fiduciary capacity in the ordinary course of its business, shall have acquired beneficial ownership or the right to acquire beneficial ownership of 10% or more of the outstanding shares of Common Stock (the term "beneficial ownership" for purposes of this Agreement having the meaning assigned thereto in Section 13(d) of the 1934 Act, and the rules and regulations thereunder);

(iv) Any person other than Grantee or any Grantee

Subsidiary shall have made a bona fide proposal to Issuer or its stockholders by public announcement or written communication that is or becomes the subject of public disclo sure to engage in an Acquisition Transaction;

(v) After a proposal is made by a third party to Issuer or its stockholders to engage in an Acquisition Transaction, Issuer shall have breached any cov enant or obligation contained in the Merger Agreement and such breach (x) would entitle Grantee to terminate the Merger Agreement and (y) shall not have been cured prior to the Notice Date (as defined below); or

(vi) Any person other than Grantee or any Grantee Subsidiary, other than in connection with a transaction to which Grantee has given its prior written consent, shall have filed an application or notice with the Federal Reserve Board, the Office of Thrift Supervision ("OTS") or any other federal or state bank regulatory authority for approval to engage in an Acquisition Transaction.

(c) The term "Subsequent Triggering Event" shall mean either of the following events or transactions occurring after the date hereof:

(i) The acquisition by any person of beneficial ownership of 25% or more of the then outstanding shares of Common Stock; or

(ii) The occurrence of the Initial Triggering Event described in paragraph (i) of subsection (b) of this Section 2, except that the percentage referred to in clause (c) shall be 25%.

(d) Issuer shall notify Grantee promptly in writing of the occurrence of any Initial Triggering Event or Subsequent Triggering Event of which it has notice (together, a "Triggering Event"), it being understood that the giving of such notice by Issuer shall not be a condition to the right of the Holder to exercise the Option.

(e) In the event the Holder is entitled to and wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") specifying (i) the total number of shares it will purchase pursuant to such exercise and (ii) a place and date not earlier than three business days nor later than 60 business days from the Notice Date for the closing of such purchase (the "Closing Date"); provided that
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if prior notification to or approval of the Federal Reserve Board, the OTS or any other regulatory agency is required in connection with such purchase, the Holder shall promptly file the required notice or application for approval and shall expeditiously process the same and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which any required notification periods have expired or been terminated or such approvals

have been obtained and any requisite waiting period or periods shall have passed. Any exercise of the Option shall be deemed to occur on the Notice Date relating thereto.

(f) At the closing referred to in subsection (e) of this Section 2, the Holder shall pay to Issuer the aggregate purchase price for the shares of Common Stock purchased pursuant to the exercise of the Option in immediately available funds by wire transfer to a bank account designated by Issuer, provided that failure or refusal of Issuer to designate such a bank account
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shall not preclude the Holder from exercising the Option.

(g) At such closing, simultaneously with the delivery of immediately available funds as provided in subsection (f) of this Section 2, Issuer shall deliver to the Holder a certificate or certificates representing the number of shares of Common Stock purchased by the Holder and, if the Option should be exercised in part only, a new Option evidencing the rights of the Holder thereof to purchase the balance of the shares purchasable hereunder, and the Holder shall deliver to Issuer this Agreement and a letter agreeing that the Holder will not offer to sell or otherwise dispose of such shares in violation of applicable law or the provisions of this Agreement.

(h) Certificates for Common Stock delivered at a closing hereunder may be endorsed with a restrictive legend that shall read substantially as follows:

> "The transfer of the shares represented by this certificate is subject to certain provisions of an agreement between the registered holder hereof and Issuer and to

> resale restrictions arising under the Securities Act of 1933, as amended. A copy of such agreement is on file at the principal office of Issuer and will be provided to the holder hereof without charge upon receipt by Issuer of a written request therefor."

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act of 1933, as amended (the "1933 Act"), in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the Holder shall have delivered to Issuer a copy of a letter from the staff of the SEC, or an opinion of counsel, in form and substance reasonably satisfactory to Issuer, to the effect that such legend is not required for purposes of the 1933 Act; (ii) the reference to the provisions to this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or trans ferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition, such certificates shall bear any other legend

as may be required by law.

(i) Upon the giving by the Holder to Issuer of the written notice of exercise of the Option provided for under subsection (e) of this Section 2 and the tender of the applicable purchase price in immediately available funds, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of Issuer shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder. Issuer shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 2 in the name of the Holder or its assignee, transferee or designee.

3. Issuer agrees: (i) that it shall at all times maintain, free from preemptive rights, sufficient authorized but unissued or treasury shares of Common Stock so that the Option may be exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities and other rights to purchase Common Stock; (ii) that it will not, by charter amendment or through reorganization, consolidation, merger, dissolution or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the covenants, stipulations or conditions to be observed or performed hereunder by Issuer; (iii) promptly to take all action as may from time to time be required (including (x) complying with all premerger notification, reporting and waiting period re quirements specified in 15 U.S.C. (S) 18a and regulations promulgated thereunder and (y) in the event, under the Bank Holding Company Act of 1956, as amended, the Change in Bank Control Act of 1978, as amended, or any other federal or state banking law, prior approval of or notice to the Federal Reserve Board, the OTS or to any state regulatory authority is necessary before the Option may be exercised, cooperating fully with the Holder in preparing such applications or notices and providing such information to the Federal Reserve Board, the OTS or such state regulatory authority as they may require) in order to permit the Holder to exercise the Option and Issuer duly and effectively to issue shares of Common Stock pursuant hereto; and (iv) promptly to take all action provided herein to protect the rights of the Holder against dilution.

4. This Agreement (and the Option granted hereby) are exchangeable, without expense, at the option of the Holder, upon presentation and surrender of this Agreement at the principal office of Issuer, for other Agreements providing for Options of different denominations entitling the holder thereof to purchase, on the same terms and subject to the same conditions as are set forth herein, in the aggregate the same number of shares of Common Stock purchasable hereunder. The terms "Agreement" and "Option" as used herein include any Stock Option Agreements and related Options for which this Agreement (and the Option granted hereby) may be exchanged. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this

Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed or mutilated shall at any time be enforceable by anyone.

5. In addition to the adjustment in the number of shares of Common Stock that are purchasable upon exercise of the Option pursuant to Section 1 of this Agreement, the number of shares of Common Stock purchasable upon the exercise of the Option and the Option Price shall be subject to adjustment from time to time as provided in this Section 5. In the event of any change in, or distributions in respect of, the Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares, distributions on or in respect of the Common Stock that would be prohibited under the terms of the Merger Agreement, or the like, the type and number of shares of Common Stock purchasable upon exercise hereof and the Option Price shall be appropriately adjusted in such manner as shall fully preserve the economic benefits provided hereunder and proper provision shall be made in any agreement governing any such transaction to provide for such proper ad justment and the full satisfaction of the Issuer's obligations hereunder.

6. Upon the occurrence of a Subsequent Triggering Event that occurs prior to an Exercise Termination Event, Issuer shall, at the request of Grantee (whether on its own behalf or on behalf of any subsequent holder of this Option (or part thereof) or any of the shares of Common Stock issued pursuant hereto) delivered within 90 days of such Subsequent Triggering Event (or such longer period as provided in Section 10), promptly prepare, file and keep current a shelf registration statement under the 1933 Act covering this Option and any shares issued and issuable pursuant to this Option and shall use its reasonable best efforts to cause such registration statement to become effective and remain current in order to permit the sale or other disposition of this Option and any shares of Common Stock issued upon total or partial exercise of this Option ("Option Shares") in accordance with any plan of disposition requested by Grantee. Issuer will use its reasonable best efforts to cause such registration statement first to become effective and then to remain effective for such period not in excess of 180 days from the day such registration statement first becomes effective or such shorter time as may be reasonably necessary to effect such sales or other dispositions. Grantee shall have the right to demand two such registrations. The foregoing notwithstanding, if, at the time of any request by Grantee for registration of the Option or Option Shares as provided above, Issuer is in registration with respect to an underwritten public offering of shares of Common Stock, and if in the good faith

judgment of the managing underwriter or managing underwriters, or, if none, the sole underwriter or under writers, of such offering the inclusion of the Holder's Option or Option Shares would interfere with the successful marketing

of the shares of Common Stock offered by Issuer, the number of Option Shares otherwise to be covered in the registration statement contemplated hereby may be reduced; provided, however, that after any such required reduction the number of
Option Shares to be included in such offering for the account of the Holder shall constitute at least 25% of the total number of shares to be sold by the Holder and Issuer in the aggregate; and provided further, however, that if such reduction occurs, then the Issuer shall file a registration statement for the balance as promptly as practicable and no reduction shall thereafter occur. Each such Holder shall provide all information reasonably requested by Issuer for inclusion in any registration statement to be filed hereunder. If requested by any such Holder in connection with such registration, Issuer shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating itself in respect of representations, warranties, indemnities and other agreements customarily included in secondary offering underwriting agree ments for the Issuer. Upon receiving any request under this Section 6 from any Holder, Issuer agrees to send a copy thereof to any other person known to Issuer to be entitled to registration rights under this Section 6, in each case by promptly mailing the same, postage prepaid, to the address of record of the persons entitled to receive such copies. Notwithstanding anything to the contrary contained herein, in no event shall Issuer be obligated to effect more than two registrations pursuant to this Section 6 by reason of the fact that there shall be more than one Grantee as a result of any assignment or division of this Agreement.

7. (a) Immediately prior to the occurrence of a Repurchase Event (as defined below) and prior to twelve months thereafter, (i) following a request of the Holder, delivered prior to an Exercise Termination Event, Issuer (or any successor thereto) shall repur chase the Option from the Holder at a price (the "Option Repurchase Price") equal to the amount by which (A) the Market/Offer Price (as defined below) exceeds (B) the Option Price, multiplied by the number of shares for which this Option may then be exercised and (ii) at the request of the owner of Option Shares from time to time (the "Owner"), delivered within 90 days of such oc currence (or such longer period as provided in Section 10), Issuer shall repurchase such number of the Option Shares from the Owner as the Owner shall designate at a price (the "Option Share Repurchase Price") equal to the Market/Offer Price multiplied by the number of Option Shares so designated. The term "Market/Offer Price" shall mean the highest of (i) the price per share of Common Stock at which a tender offer or exchange offer therefor has been made, (ii) the price per share of Common Stock to be paid by any third party pursuant to an agreement with Issuer, (iii) the highest closing price for shares of Common Stock within the six-month period immedi ately preceding the date the Holder gives notice of the required repurchase of this Option or the Owner gives notice of the required repurchase of Option Shares, as the case may be, or (iv) in the event of a sale of all or a substantial portion of Issuer's assets, the sum of the price paid in such sale for such assets and the current market value of the remaining assets of Issuer as determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to Issuer, divided by the number of shares of Common Stock of Issuer outstanding at the

time of such sale. In determining the Market/Offer Price, the value of consideration other than cash shall be determined by a nationally recognized investment

banking firm selected by the Holder or Owner, as the case may be, and reasonably acceptable to Issuer.

(b) The Holder and the Owner, as the case may be, may exercise its right to require Issuer to repurchase the Option and any Option Shares pursuant to this Section 7 by surrendering for such purpose to Issuer, at its principal office, this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that the Holder or the Owner, as the case may be, elects to require Issuer to repurchase this Option and/or the Option Shares in accordance with the provisions of this Section 7. Within the latter to occur of (i) five business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of such notice or notices relating thereto and (ii) the time that is immediately prior to the occurrence of a Repurchase Event, Issuer shall deliver or cause to be delivered to the Holder the Option Repurchase Price and/or to the Owner the Option Share Re purchase Price therefor or the portion thereof that Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that Issuer is prohibited under applicable law or regulation from repurchasing the Option and/or the Option Shares in full, Issuer shall immediately so notify the Holder and/or the Owner and thereafter deliver or cause to be delivered, from time to time, to the Holder and/or the Owner, as appropriate, the portion of the Option Repurchase Price and the Option Share Repurchase Price, respectively, that it is no longer prohibited from delivering, within five business days after the date on which Issuer is no longer so prohibited; provided, however, that if Issuer at any time after
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delivery of a notice of repurchase pursuant to paragraph (b) of this Section 7 is prohibited under applicable law or regulation from delivering to the Holder and/or the Owner, as appropriate, the Option Repurchase Price and the Option Share Repurchase Price, respectively, in full (and Issuer hereby undertakes to use its best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to accomplish such repurchase), the Holder or Owner may revoke its notice of repurchase of the Option or the Option Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, Issuer shall promptly (i) deliver to the Holder and/or the Owner, as appropriate, that portion of the Option Repurchase Price or the Option Share Repurchase Price that Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Holder, a new Stock Option Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock obtained by multiplying the number of shares of Common Stock for which the surrendered Stock Option Agreement was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is

the Op tion Repurchase Price less the portion thereof theretofore delivered to the Holder and the denominator of which is the Option Repurchase Price, or (B) to the Owner, a certificate for the Option Shares it is then so prohibited from repurchasing.

(d) For purposes of this Section 7, a Repurchase Event shall be deemed to have occurred (i) upon the consummation of any merger, consolidation or similar transaction involving Issuer or any purchase, lease or other acquisition of all or a substantial portion of the assets of Issuer, other than any such transaction which would not constitute an Acquisition Transaction pursuant to the provisos to Section 2(b)(i) hereof or (ii) upon the

acquisition by any person of beneficial ownership of 50% or more of the then outstanding shares of Common Stock, provided that no such event shall constitute a Repurchase Event unless a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event. The parties hereto agree that Issuer's obligations to repurchase the Option or Option Shares under this Section 7 shall not terminate upon the occurrence of an Exercise Termination Event unless no Subsequent Triggering Event shall have occurred prior to the occurrence of an Exercise Termination Event.

8. (a) In the event that prior to an Exercise Termination Event, Issuer shall enter into an agreement (i) to consolidate with or merge into any person, other than Grantee or one of its Subsidiaries, and shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any person, other than Grantee or one of its Subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but, in connection with such merger, the then outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or any other property or the then outstanding shares of Common Stock shall after such merger represent less than 50% of the outstanding voting shares and voting share equivalents of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than Grantee or one of its Subsidiaries, then, and in each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option (the "Substitute Option"), at the election of the Holder, of either (x) the Acquiring Corporation (as hereinafter defined) or (y) any person that controls the Acquiring Corporation.

(b) The following terms have the meanings indicated:

(1) "Acquiring Corporation" shall mean (i) the continuing or surviving corporation of a consolidation or merger with Issuer (if other than Issuer), (ii) Issuer in a merger in which Issuer is the continuing or surviving person, and (iii) the transferee of all or substantially all of Issuer's assets.

(2) "Substitute Common Stock" shall mean the common stock issued by the issuer of the Substitute Option upon exercise of the Substitute Option.

(3) "Assigned Value" shall mean the Market/Offer Price, as defined in Section 7.

(4) "Average Price" shall mean the average closing price of a share of the Substitute Common Stock for the one year immediately preceding the consolidation, merger or sale in question, but in no event higher than the closing price of the shares of Substitute Common Stock on the day preceding such consolidation, merger or sale; provided that if Issuer is the issuer of the Substitute Option, the Average Price shall be computed with respect to a share of common stock issued by the person merging into Issuer or by any company which controls or is controlled by such person, as the Holder may elect.

(c) The Substitute Option shall have the same terms as the Option, provided, that if the terms of the Substitute Option cannot, for legal reasons, be the same as the Option, such terms shall be as similar as possible and in no event less advantageous to the Holder. The issuer of the Substitute Option shall also enter into an agreement with the then Holder or Holders of the Substitute Option in substantially the same form as this Agreement, which shall be applicable to the Substitute Option.

(d) The Substitute Option shall be exercisable for such number of shares of Substitute Common Stock as is equal to the Assigned Value multiplied by the number of shares of Common Stock for which the Option is then exercisable, divided by the Average Price. The exercise price of the Substitute Option per share of Substitute Common Stock shall then be equal to the Option Price multiplied by a fraction, the numerator of which shall be the number of shares of Common Stock for which the Option is then exercisable and the denom inator of which shall be the number of shares of Substitute Common Stock for which the Substitute Option is exercisable.

(e) In no event, pursuant to any of the foregoing paragraphs, shall the Substitute Option be exercisable for more than 19.9% of the shares of Substitute Common Stock outstanding prior to exercise of the Substitute Option. In the event that the Substitute Option would be exercisable for more than 19.9% of the shares of Substitute Common Stock outstanding prior to exercise but for this clause (e), the issuer of the Substitute Option (the "Substitute Option Issuer") shall make a cash payment to Holder equal to the excess of (i) the value of the Substitute Option without giving effect to the limitation in this clause (e) over (ii) the value of the Substi tute Option after giving effect to the limitation in this clause (e). This difference in value shall be determined

by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to the Acquiring Corporation.

(f) Issuer shall not enter into any transaction described in subsection (a) of this Section 8 unless the Acquiring Corporation and any person that controls the Acquiring Corporation assume in writing all the obligations of Issuer hereunder.

9. (a) At the request of the holder of the Substitute Option (the "Substitute Option Holder"), the Substitute Option Issuer shall repurchase the Substitute Option from the Substitute Option Holder at a price (the "Substitute Option Repurchase Price") equal to the amount by which (i) the Highest Closing Price (as hereinafter defined) exceeds (ii) the exer cise price of the Substitute Option, multiplied by the number of shares of Substitute Common Stock for which the Substitute Option may then be exercised, and at the request of the owner (the "Substitute Share Owner") of shares of Substitute Common Stock (the "Substitute Shares"), the Substitute Option Issuer shall repurchase the Substitute Shares at a price (the "Substitute Share Repurchase Price") equal to the Highest Closing Price multiplied by the number of Substitute Shares so designated. The term "Highest Closing Price" shall mean the highest closing price for shares of Substitute Common Stock within the six-month period immediately preceding the date the Substitute Option Holder gives notice of the required repurchase of the Substitute Option or the Substitute Share Owner gives notice of the required repurchase of the Substitute Shares, as applicable.

(b) The Substitute Option Holder and the Substitute Share Owner, as the case may be, may exercise its respective right to require the Substitute Option Issuer to re purchase the Substitute Option and the Substitute Shares pursuant to this Section 9 by surrendering for such purpose to the Substitute Option Issuer, at its principal office, the agreement for such Substitute Option (or, in the absence of such an agreement, a copy of this Agreement) and certificates for Substitute Shares accompanied by a written notice or notices stating that the Substitute Option Holder or the Substitute Share Owner, as the case may be, elects to require the Substitute Option Issuer to repurchase the Substitute Option and/or the Substitute Shares in accordance with the provisions of this Section 9. As promptly as practicable, and in any event within five business days after the surrender of the Substitute Option and/or certificates representing Substitute Shares and the receipt of such notice or notices relating thereto, the Substitute Option Issuer shall deliver or cause to be delivered to the Substitute Option Holder the Substitute Option Repurchase Price and/or to the Substitute Share Owner the Substitute Share Repurchase Price therefor or, in either case, the portion thereof which the Substitute Option Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that the Substitute Option Issuer is prohibited under applicable law or regulation from repurchasing the Substitute

Option and/or the Substitute Shares in part or in full, the Substitute Option Issuer following a request for repurchase pursuant to this Section 9 shall immediately so notify the Substitute Option Holder and/or the Substitute Share Owner and thereafter deliver or cause to be delivered, from time to time, to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the portion of the Substitute Share Repurchase Price, respectively, which it is no longer prohibited from delivering, within five business days after the date on which the Substitute Option Issuer is no longer so prohibited; provided, however, that if the Substitute Option Issuer is at any time after delivery of a notice of repurchase pursuant to subsection (b) of this Section 9 prohibited under applicable law or regulation from delivering to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the Substitute Option Repurchase Price and the Substitute Share Repurchase Price, respectively, in full (and the Substitute Option Issuer shall use its best efforts to receive all required regulatory and legal approvals as promptly as practicable in order to accomplish such repurchase), the Substitute Option Holder or Substitute Share Owner may revoke its notice of repurchase of the Substitute Option or the Substitute Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, the Substitute Option Issuer shall promptly (i) deliver to the Substitute Option Holder or Substitute Share Owner, as appropriate, that portion of the Substitute Option Repurchase Price or the Substitute Share Repurchase Price that the Substitute Option Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Substitute Option Holder, a new Substitute Option evidencing the right of the Substitute Option Holder to purchase that number of shares of the Substitute Common Stock obtained by multiply ing the number of shares of the Substitute Common Stock for which the surrendered Substitute Option was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Substitute Option Repurchase Price less the portion thereof theretofore delivered to the Substitute Option Holder and the denominator of which is the Substitute Option Repurchase Price, or (B) to the Substitute Share Owner, a certificate for the Substitute Common Shares it is then so prohibited from repurchasing.

10. The 90-day period for exercise of certain rights under Sections 2, 6, 7 and 14 shall be extended: (i) to the extent necessary to obtain all regulatory approvals for the exercise of such rights, and for the expiration of all statutory waiting periods; and (ii) to the extent necessary to avoid liability under Section 16(b) of the 1934 Act by reason of such exercise.

11. Issuer hereby represents and warrants to Grantee as follows:

(a) Issuer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the

Board of Directors of Issuer and no other corporate pro ceedings on the part of Issuer are necessary to authorize this Agreement or to consummate the transactions so contemplated. This Agreement has been duly and validly executed and delivered by Issuer.

(b) Issuer has taken all necessary corporate action to authorize and reserve and to permit it to issue, and at all times from the date hereof through the termination of this Agreement in accordance with its terms will have reserved for issuance upon the exercise of the Option, that number of shares of Common Stock equal to the maximum number of shares of Common Stock at any time and from time to time issuable hereunder, and all such shares, upon issuance pursuant hereto, will be duly authorized, validly issued, fully paid, nonassessable, and will be delivered free and clear of all claims, liens, encumbrance and security interests and not subject to any preemptive rights.

12. Grantee hereby represents and warrants to Issuer that:

(a) Grantee has all requisite corporate power and authority to enter into this Agreement and, subject to any approvals or consents referred to herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all neces sary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee.

(b) The Option is not being, and any shares of Common Stock or other securities acquired by Grantee upon exercise of the Option will not be, acquired with a view to the public distribution thereof and will not be transferred or otherwise disposed of except in a transaction registered or exempt from registration under the 1933 Act.

13. (a) Grantee may, at any time following a Repurchase Event and prior to the occurrence of an Exercise Termination Event (or such later period as provided in Section 10), relinquish the Option (together with any Option Shares issued to and then owned by Grantee) to Issuer in exchange for a cash fee equal to the Surrender Price (as defined below); provided, however, that Grantee
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may not exercise its rights pursuant to this Section 13 if Issuer has repurchased the Option (or any portion thereof) or any Option Shares pursuant to Section 7.

The "Surrender Price" shall be equal to $1,600,000 (i) plus, if applicable, Grantee's purchase price with respect to any Option Shares and (ii) minus, if applicable, the sum of (A) the excess of (1) the net cash amounts, if any, received by Grantee pursuant to the arms' length sale of Option Shares (or any other securities into which such Option Shares were converted or exchanged) to any unaffiliated party, over (2) Grantee's purchase price of such Option Shares and (B) the net cash amounts, if any, received by Grantee pursuant to an arms' length sale of a portion of the Op tion to any unaffiliated party.

(b) Grantee may exercise its right to relinquish the Option and any Option Shares pursuant to this Section 13 by surrendering to Issuer, at its principal office, this Agreement together with certificates for Option Shares, if any, accompanied by a written notice stating (i) that Grantee elects to relinquish the Option and Option Shares, if any, in accordance with the provisions of this Section 13 and (ii) the Surrender Price. The Surrender Price shall be payable in immediately available funds on or before the second business day following receipt of such notice by Issuer.

(c) To the extent that Issuer is prohibited under applicable law or regulation, or as a consequence of administrative policy, from paying the Surrender Price to Grantee in full, Issuer shall immediately so notify Grantee and thereafter deliver or cause to be delivered, from time to time, to Grantee, the portion of the Surrender Price that it is no longer prohibited from paying, within five business days after the date on which Issuer is no longer so prohibited, provided, however, that if Issuer at any time after delivery of a
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notice of surrender pursuant to paragraph (b) of this Section 13 is prohibited under applicable law or regulation, or as a consequence of administrative policy, from paying to Grantee the Surrender Price in full, (i) Issuer shall (A) use its reasonable best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to make such payments, (B) within five days of the submission or receipt of any documents relating to any such regulatory and legal approvals, provide Grantee with copies of the same, and (C) keep Grantee advised of both the status of any such request for regulatory and legal approvals, as well as any discussions with any relevant regulatory or other third party reasonably related to the same and (ii) Grantee may revoke such notice of surrender by delivery of a notice of revocation to Issuer and, upon delivery of such notice of revocation, the Exercise Termination Date shall be extended to a date six months from the date on which the Exercise Termination Date would have occurred if not for the provisions of this Section 13(c) (during which period Grantee may exercise any of its rights hereunder, including any and all rights pursuant to this Section 13).

14. Neither of the parties hereto may assign any of its rights or obligations under this Agreement or the Option created hereunder to any other person, without the express written consent of the other party, except that in the event a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event, Grantee, subject to the express provisions hereof, may assign in whole or in part its rights and obligations hereunder within 90 days following such Subsequent Triggering Event (or such longer period as provided in Section 10); provided, however, that until the date 15 days following the date
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on which the Federal Reserve Board or the OTS, as applicable, approves an application by Grantee to acquire the shares of Common Stock subject to the Option, Grantee may not assign its rights under the Option except

in (i) a widely dispersed public distribution, (ii) a private placement in which no one party acquires the right to purchase in excess of 2% of the voting shares of Issuer, (iii) an assignment to a single party (e.g., a broker or investment banker) for the purpose of conducting a widely dispersed public distribution on Grantee's behalf, or (iv) any other manner approved by the Federal Reserve Board or the OTS, as applicable.

15. Each of Grantee and Issuer will use its best efforts to make all filings with, and to obtain consents of, all third parties and governmental authorities necessary to the consummation of the transactions contemplated by this Agreement, including without limitation making application to list the shares of Common Stock issuable hereunder on the Nasdaq National Market upon official notice of issuance and applying to the Federal Reserve Board and/or the OTS, as applicable, for approval to acquire the shares issuable hereunder, but Grantee shall not be obligated to apply to state banking authorities for approval to acquire the shares of Common Stock issuable hereunder until such time, if ever, as it deems appropriate to do so.

16. (a) Notwithstanding any other provision of this Agreement, in no event shall the Grantee's Total Profit (as hereinafter defined) exceed $2,000,000 and, if it otherwise would exceed such amount, the Grantee, at its sole election, shall either (i) reduce the number of shares of Common Stock subject to this Option, (ii) deliver to the Issuer for cancellation Option Shares previously purchased by Grantee, (iii) pay cash to the Issuer, or (iv) any combination thereof, so that Grantee's actually realized Total Profit shall not exceed $2,000,000 after taking into account the foregoing actions.

(b) Notwithstanding any other provision of this Agreement, this Option may not be exercised for a number of shares as would, as of the date of exercise, result in a Notional Total Profit (as defined below) of more than $2,000,000; provided, that nothing in this sentence shall restrict any exercise of the Option permitted hereby on any subsequent date.

(c) As used herein, the term "Total Profit" shall mean the aggregate amount (before taxes) of the following: (i) the amount received by Grantee pursuant to Issuer's repurchase of the Option (or any portion thereof) pursuant to Section 7 of this Agreement, (ii)(x) the amount received by Grantee pursuant to Issuer's repurchase of Option Shares pursuant to Section 7, less (y) the Grantee's purchase price for such Option Shares, (iii)(x) the net cash amounts received by Grantee pursuant to the sale of Option Shares (or any other securities into which such Option Shares are converted or exchanged) to any unaffiliated party, less (y) the Grantee's purchase price of such Option Shares, (iv) any amounts received by Grantee on the transfer of the Option (or any portion thereof) to any unaffiliated party, and (v) any equivalent amount with respect to the Substitute Option.

(d) As used herein, the term "Notional Total Profit" with respect to any number of shares as to which Grantee may propose to exercise this

Option shall be the Total Profit determined as of the date of such proposed exercise assuming that this Option were exercised on such date for such number of shares and assuming that such shares, together with all other Option Shares held by Grantee and its affiliates as of such date, were sold for cash at the

closing market price for the Common Stock as of the close of business on the preceding trading day (less customary brokerage commissions).

17. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the par ties hereto shall be enforceable by either party hereto through injunctive or other equitable relief.

18. If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that the Holder is not permitted to acquire, or Issuer is not permitted to repurchase pursuant to Section 7, the full number of shares of Common Stock provided in Section 1(a) hereof (as adjusted pursuant to Section 1(b) or 5 hereof), it is the express intention of Issuer to allow the Holder to acquire or to require Issuer to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof.

19. All notices, requests, claims, demands and other communications hereunder shall be deemed to have been duly given when delivered in person, by cable, telegram, telecopy or telex, or by registered or certified mail (postage prepaid, return receipt requested) at the respective addresses of the parties set forth in the Merger Agreement.

20. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under ap plicable principles of conflicts of laws thereof.

21. This Agreement may be executed in two counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

22. Except as otherwise expressly provided herein, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

23. Except as otherwise expressly provided herein or in the Merger Agreement, this Agreement contains the entire agreement between the parties with

respect to the transactions contemplated hereunder and supersedes all prior arrangements or understandings with respect thereof, written or oral. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

24. Capitalized terms used in this Agreement and not defined herein shall have the meanings assigned thereto in the Merger Agreement.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the date first above written.

HERITAGE BANCORP, INC.

By: /s/ J. Edward Wells

J. Edward Wells
President and Chief Executive Officer

SOUTHBANC SHARES, INC.

By: /s/ Robert W. Orr

Robert W. Orr
President and Chief Executive Officer