SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 09, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 2012 Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas (State or other jurisdiction of incorporation or organization)	71-0407808 (I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas (Address of principal executive offices)	71601 (Zip Code)

870-541-1000
(Registrant's telephone number, including area code)

Not Applicable
Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). S Yes £ No

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

Large accelerated filer £ Accelerated filer S
Non-accelerated filer £ Smaller reporting company £

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

The number of shares outstanding of the Registrant’s Common Stock as of October 26, 2012, was 16,647,278.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2012

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2012 and December 31, 2011

(In thousands, except share data)	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and non-interest bearing balances due from banks	$ 40,356	$ 35,087
Interest bearing balances due from banks	440,524	535,119
Federal funds sold	7,571	--
Cash and cash equivalents	488,451	570,206
Investment securities	715,681	697,656
Mortgage loans held for sale	23,980	22,976
Assets held in trading accounts	7,002	7,541
Loans	1,623,401	1,579,769
Allowance for loan losses	(28,145)	(30,108)
Loans acquired, covered by FDIC loss share (net of discount)	163,657	158,075
Loans acquired, not covered by FDIC loss share (net of discount)	73,023	--
Net loans	1,831,936	1,707,736
FDIC indemnification asset	59,547	47,683
Premises and equipment	85,969	86,486
Foreclosed assets	29,665	22,887
Foreclosed assets covered by FDIC loss share	26,466	11,685
Interest receivable	15,253	15,126
Bank owned life insurance	51,681	50,579
Goodwill	60,605	60,605
Core deposit premiums	2,549	1,579
Other assets	16,195	17,384
Total assets	$ 3,414,980	$ 3,320,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$ 543,380	$ 532,259
Interest bearing transaction accounts and savings deposits	1,343,784	1,239,504
Time deposits	908,131	878,634
Total deposits	2,795,295	2,650,397
Federal funds purchased and securities sold under agreements to repurchase	64,829	114,766
Other borrowings	88,852	90,170
Subordinated debentures	20,620	30,930
Accrued interest and other liabilities	41,136	25,955
Total liabilities	3,010,732	2,912,218
Stockholders' equity:		
Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2012 and December 31, 2011	--	--
	167	172

Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 16,660,278 and 17,212,317 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively				
Surplus		99,156		112,436
Undivided profits		304,343		294,864
Accumulated other comprehensive income		582		439
Total stockholders' equity		404,248		407,911
Total liabilities and stockholders' equity	$	3,414,980	$	3,320,129

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Income
Three and Nine Months Ended September 30, 2012 and 2011

(In thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans not covered by FDIC loss share	$ 23,192	$ 24,366	$ 67,822	$ 72,343
Loans covered by FDIC loss share	5,041	3,917	16,009	12,605
Federal funds sold	2	3	4	5
Investment securities	3,027	3,539	9,615	11,015
Mortgage loans held for sale	171	130	487	305
Assets held in trading accounts	12	8	37	26
Interest bearing balances due from banks	267	243	919	776
TOTAL INTEREST INCOME	31,712	32,206	94,893	97,075
INTEREST EXPENSE				
Deposits	2,521	3,594	8,165	11,569
Federal funds purchased and securities sold under agreements to repurchase	69	113	248	332
Other borrowings	792	842	2,406	2,686
Subordinated debentures	389	378	1,166	1,125
TOTAL INTEREST EXPENSE	3,771	4,927	11,985	15,712
NET INTEREST INCOME	27,941	27,279	82,908	81,363
Provision for loan losses	1,299	2,842	2,846	8,845
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,642	24,437	80,062	72,518
NON-INTEREST INCOME				
Trust income	1,440	1,370	3,988	3,959
Service charges on deposit accounts	4,368	4,450	12,163	12,519
Other service charges and fees	684	695	2,211	2,281
Mortgage lending income	1,705	1,249	4,441	2,724
Investment banking income	560	203	1,700	1,184
Credit card fees	4,104	4,303	12,390	12,510
Bank owned life insurance income	355	261	1,078	1,078
Gain on FDIC assisted transactions	1,120	--	1,120	--
Net (loss) gain on assets covered by FDIC loss share agreements	(2,689)	287	(7,507)	980
Other income	165	871	2,037	3,387
TOTAL NON-INTEREST INCOME	11,812	13,689	33,621	40,622
NON-INTEREST EXPENSE				
Salaries and employee benefits	15,911	15,533	49,323	49,085
Occupancy expense, net	2,182	2,224	6,291	6,513
Furniture and equipment expense	1,835	1,763	5,047	4,912

Other real estate and foreclosure expense	280	215	681	532
Deposit insurance	444	211	1,472	2,092
Merger related costs	815	--	815	357
Other operating expenses	7,219	7,654	21,928	22,713
TOTAL NON-INTEREST EXPENSE	28,686	27,600	85,557	86,204
INCOME BEFORE INCOME TAXES	9,768	10,526	28,126	26,936
Provision for income taxes	3,008	3,269	8,475	7,867
NET INCOME	$ 6,760	$ 7,257	$ 19,651	$ 19,069
BASIC EARNINGS PER SHARE	$ 0.41	$ 0.42	$ 1.16	$ 1.10
DILUTED EARNINGS PER SHARE	$ 0.41	$ 0.42	$ 1.16	$ 1.10

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2012 and 2011

(In thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Unaudited)		(Unaudited)	
NET INCOME	$6,760	$7,257	$19,651	$19,069
OTHER COMPREHENSIVE INCOME				
Net unrealized gains (losses) on available-for-sale securities	133	(100)	235	194
Tax effect of net unrealized gains (losses) on available-for-sale securities	52	(39)	92	76
TOTAL OTHER COMPREHENSIVE INCOME	81	(61)	143	118
COMPREHENSIVE INCOME	$6,841	$7,196	$19,794	$19,187

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2012 and 2011

(In thousands)	September 30, 2012 (Unaudited)	September 30, 2011
OPERATING ACTIVITIES		
Net income	$19,651	$ 19,069
Items not requiring (providing) cash		
Depreciation and amortization	4,116	4,542
Provision for loan losses	2,846	8,845
Net accretion of investment securities	(112)	(9)
Stock-based compensation expense	1,065	921
Net accretion on assets covered by FDIC loss share	(1,912)	(3,575)
Gain on FDIC-assisted transactions	(1,120)	--
Deferred income taxes	86	(2,490)
Bank owned life insurance income	(1,078)	(1,078)
Changes in		
Interest receivable	(127)	1,168
Mortgage loans held for sale	(1,004)	(3,800)
Assets held in trading accounts	539	2,325
Other assets	(2,143)	1,922
Accrued interest and other liabilities	5,750	(2,428)
Income taxes payable	(2,575)	(1,271)
Net cash provided by operating activities	23,982	24,141
INVESTING ACTIVITIES		
Net (originations) collections of loans	(52,392)	27,386
Net collections of loans covered by FDIC loss share	51,922	51,625
Purchases of premises and equipment, net	(1,988)	(13,645)
Proceeds from sale of foreclosed assets held for sale	5,296	19,472
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	10,000	5,241
Proceeds from sale of available-for-sale securities	813	5,331
Proceeds from maturities of available-for-sale securities	236,921	255,255
Purchases of available-for-sale securities	(246,929)	(252,556)
Proceeds from maturities of held-to-maturity securities	512,920	132,733
Purchases of held-to-maturity securities	(497,955)	(171,855)
Purchase of bank owned life insurance	(25)	(25)
Net cash proceeds received in FDIC-assisted transactions	44,015	--
Cash received on FDIC loss share	12,553	25,531
Net cash provided by investing activities	75,151	84,493
FINANCING ACTIVITIES		
Net change in deposits	(83,655)	26,045
Dividends paid	(10,172)	(9,885)
Net change in other borrowed funds	(1,318)	(42,375)
Net change in federal funds purchased and securities sold under agreements to repurchase	(71,393)	(10,853)

Net shares issued under stock compensation plans	324	474
Repurchase of common stock	(14,674)	(409)
Net cash used in financing activities	(180,888)	(37,003)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(81,755)	71,631
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	570,206	452,060
CASH AND CASH EQUIVALENTS, END OF PERIOD	$488,451	$ 523,691

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2012 and 2011

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2010	$ 173	$114,040	$ 512	$ 282,646	$397,371
Comprehensive income					
Net income	--	--	--	19,069	19,069
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $76	--	--	118	--	118
Comprehensive income					19,187
Stock issued as bonus shares – 47,995 shares	--	98	--	--	98
Vesting bonus shares	--	813	--	--	813
Stock issued for employee stock purchase plan – 4,805 shares	--	127	--	--	127
Exercise of stock options – 28,566 shares	--	358	--	--	358
Stock granted under stock-based compensation plans	--	108	--	--	108
Securities exchanged under stock option plan – (4,185 shares)	--	(109)	--	--	(109)
Repurchase of common stock – (19,000 shares)	--	(409)	--	--	(409)
Cash dividends – $0.57 per share	--	--	--	(9,885)	(9,885)
Balance, September 30, 2011 (Unaudited)	173	115,026	630	291,830	407,659
Comprehensive income					
Net income	--	--	--	6,305	6,305
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($123)	--	--	(191)	--	(191)
Comprehensive income					6,114
Vesting bonus shares	--	253	--	--	253
Exercise of stock options – 1,753 shares	--	27	--	--	27
Stock granted under stock-based compensation plans	--	30	--	--	30
Securities exchanged under stock option plan – (1,067 shares)	--	(27)	--	--	(27)
Repurchase of common stock – (118,144 shares)	(1)	(2,873)	--	--	(2,874)
Cash dividends – $0.19 per share	--	--	--	(3,271)	(3,271)

Balance, December 31, 2011	172	112,436	439	294,864	407,911
Comprehensive income					
Net income	--	--	--	19,651	19,651
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $92	--	--	143	--	143
Comprehensive income					19,794
Stock issued as bonus shares – 51,245 shares	1	191	--	--	192
Vesting bonus shares	--	998	--	--	998
Stock issued for employee stock purchase plan – 5,103 shares	--	132	--	--	132
Stock granted under stock-based compensation plans	--	67	--	--	67
Repurchase of common stock – (608,387 shares)	(6)	(14,668)	--	--	(14,674)
Cash dividends – $0.60 per share	--	--	--	(10,172)	(10,172)
Balance, September 30, 2012 (Unaudited)	$ 167	$99,156	$ 582	$ 304,343	$404,248

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation (the "Company") and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2011, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K Annual Report for 2011 filed with the U.S. Securities and Exchange Commission (the "SEC").

Subsequent Events

On October 19, 2012, the Company's wholly-owned subsidiary, Simmons First National Bank ("SFNB", or "the Bank"), entered into a purchase and assumption agreement with loss share arrangements with the Federal Deposit Insurance Corporation ("FDIC") to purchase substantially all assets and to assume all of the deposits and substantially all other liabilities of Excel Bank of Sedalia, Missouri ("Excel").

Under the terms of the agreement, the Bank acquired approximately $184.1 million in assets, including approximately $147.2 million in loans and other real estate, approximately $18.7 million cash and cash equivalents and approximately $8.6 million in investment securities. The Bank also assumed approximately $177.4 million in liabilities, including approximately $168.6 million in deposits. In connection with the acquisition, the FDIC made a payment to the Bank in the amount of approximately $13.8 million. This amount is subject to customary post-closing adjustments based upon the final closing date balance sheet for Excel.

Pursuant to the terms of the purchase and assumption agreement's loss sharing arrangements, the FDIC will cover 80% of the Bank's losses on the disposition of approximately $126.6 million of loans and foreclosed real estate attributable to the acquisition. The deposits were acquired with no deposit premium, and assets were acquired at a discount to Excel's historic book value as of October 19, 2012, of $21.0 million, subject to customary adjustments. The Bank will reimburse the FDIC for 80% of its recoveries with respect to losses for which the FDIC paid the Bank 80% reimbursement under the loss sharing agreement.

The final carrying values and the final list of the assets acquired and liabilities assumed remains subject to finalization and revision by the FDIC and the Bank. Once such terms are finalized, the acquisition will be deemed to be effective as of October 19, 2012. See the purchase and assumption agreement, included as Exhibit 2.1 of the Current Report on Form 8-K/A, filed October 25, 2012, for more information.

Recently Issued Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-03, Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 was effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to converge the fair value of measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 was effective for the Company on January 1, 2012. The adoption of this guidance did not have a significant impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 was effective for the Company beginning January 1, 2012, and resulted in the addition of a statement of comprehensive income. The adoption of ASU 2011-05 did not have a significant impact on the Company's financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350) –Testing Goodwill for Impairment. ASU 2011-08 amends Topic 350 to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In December, 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 amends Topic 210 to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In December, 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial position or results of operations.

In October, 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805) – Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 amends guidance on the subsequent accounting for an indemnification asset recognized at the acquisition date as a result of a government assisted acquisition of a financial institution. ASU 2012-06 requires that a subsequent adjustment to the indemnification asset be measured on the same basis as the underlying indemnified assets. Any amortization of changes in value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. ASU 2012-06 is effective for annual and interim periods beginning on or after December 15, 2012, with early adoption permitted. Because the Company has historically accounted for its indemnification assets in accordance with ASU 2012-06, its early adoption did not have a significant impact on the Company's financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2011 Form 10-K. The Company is not aware of any other changes from the FASB that will have a significant impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared loss agreements with the FDIC, if any. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans, as prescribed by ASC Topic 805. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC. For further discussion of the Company's acquisition and loan accounting, see Note 2, Acquisitions and Note 5, Loans Acquired.

Earnings Per Share ("EPS")

Basic EPS is computed by dividing reported net income by weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing reported net income by the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the basic and diluted EPS computation for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2012	2011	2012	2011
Net income	$ 6,760	$ 7,257	$ 19,651	$ 19,069
Average common shares outstanding	16,757	17,348	17,005	17,329
Average potential dilutive common shares	3	10	3	10
Average diluted common shares	16,760	17,358	17,008	17,339
Basic earnings per share	$ 0.41	$ 0.42	$ 1.16	$ 1.10
Diluted earnings per share	$ 0.41	$ 0.42	$ 1.16	$ 1.10

Stock options to purchase 177,870 and 152,470 shares for the three and nine months ended September 30, 2012 and 2011, respectively, were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price.

NOTE 2: ACQUISITIONS

On September 14, 2012, the Company, through its lead bank, SFNB, entered into a purchase and assumption agreement with loss share arrangements and a separate loan sale agreement with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and other liabilities of Truman Bank of St. Louis, Missouri ("Truman"), with four branches in the St. Louis metro area. The Company recognized a pre-tax gain of $1.1 million on this transaction and incurred pre-tax merger related costs of $815,000.

A summary, at fair value, of the assets acquired and liabilities assumed in the Truman transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from the FDIC	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$ 22,467	$ --	$ 22,467
Cash received from FDIC	10,495	--	10,495
Federal funds sold	12,338	--	12,338
Investment securities	23,540	--	23,540
Loans acquired, covered by FDIC loss share	87,620	(30,479)	57,141
Loans acquired, not covered by FDIC loss share	89,360	(15,965)	73,395
Foreclosed assets covered by FDIC loss share	20,723	(5,607)	15,116
Foreclosed assets not covered by FDIC loss share	10,314	(2,563)	7,751
FDIC indemnification asset	--	26,723	26,723
Premises and equipment	1,390	--	1,390
Core deposit premium	--	1,191	1,191
Other assets	1,478	149	1,627
Total assets acquired	279,725	(26,551)	253,174
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	22,275	--	22,275
Interest bearing transaction accounts and savings deposits	70,705	--	70,705
Time deposits	135,573	--	135,573
Total deposits	228,553	--	228,553
Fed funds purchased and other borrowings	21,456	--	21,456
Payable to FDIC	1,285	--	1,285
Accrued interest and other liabilities	403	357	760
Total liabilities assumed	$ 251,697	$ 357	252,054
Pre-tax gain on FDIC-assisted transaction			$ 1,120

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above.

Cash and due from banks, cash received from FDIC and Federal funds sold – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $10.5 million cash received from the FDIC is the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend. The $1.3 million payable to the FDIC is the excess amount received from the settlement.

Investment securities – Investment securities were acquired from the FDIC at fair market value. The fair values provided by the FDIC were reviewed and considered reasonable based on SFNB's understanding of the market conditions, based on actual balances transferred compared to pro-forma balances.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

FDIC indemnification asset – This loss sharing asset is measured separately from the related covered assets as it is not contractually embedded in the covered assets and is not transferable with the covered assets should SFNB choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss-sharing reimbursement from the FDIC.

Core deposit premium – This intangible asset represents the value of the relationships that Truman had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. Even though deposit rates were above market, because SFNB reset deposit rates to current market rates, there was no fair value adjustment recorded for time deposits.

Federal funds purchased and other borrowings, and payable to the FDIC – The carrying amount of these liabilities is a reasonable estimate of fair value based on the short-term nature of these liabilities. The $1.3 million payable to the FDIC is the excess amount from the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend.

FDIC true-up provision – The purchase and assumption agreements allow for the FDIC to recover a portion of the funds previously paid out under the indemnification agreement in the event losses fail to reach the expected loss level under a claw back provision (“true-up provision”). A true-up is scheduled to occur in the calendar month in which the tenth anniversary of the respective closing occurs. If the threshold is not met, the assuming institution is required to pay the FDIC 50 percent of the excess, if any, within 45 days following the true-up.

The value of the true-up provision liability is calculated as the present value of the estimated payment to the FDIC in the tenth year using the formula provided in the agreements. The result of the calculation is based on the net present value of expected future cash payments to be made by SFNB to the FDIC at the conclusion of the loss share agreements. The discount rate used was based on current market rates. The expected cash flows were calculated in accordance with the loss share agreements and are based primarily on the expected losses on the covered assets. Calculations in accordance with the agreement resulted in no true-up provision to be recorded as of the acquisition date.

In connection with the Truman acquisition, SFNB and the FDIC will share in the losses on assets covered under the loss share agreements. The FDIC will reimburse SFNB for 80% of all losses on covered assets. The loss sharing agreements entered into by SFNB and the FDIC in conjunction with the purchase and assumption agreements require that SFNB follow certain servicing procedures as specified in the loss share agreements or risk losing FDIC reimbursement of covered asset losses. Additionally, to the extent that actual losses incurred by SFNB under the loss share agreements are less than expected, SFNB may be required to reimburse the FDIC under the clawback provisions of the loss share agreements. At September 30, 2012, the covered loans and covered other real estate owned and the related FDIC indemnification asset (collectively, the "covered assets") were reported at the net present value of expected future amounts to be paid or received.

Purchased loans acquired in a business combination, including loans purchased in the Truman acquisition (both covered and not covered), are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. Purchased loans are accounted for in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, accounting guidance for certain loans or debt securities acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges and an adjustment in accretable yield, recognized on a prospective basis over the loan's or pool's remaining life, which will have a positive impact on interest income.

The Company expects to finalize its analysis of the acquired loans along with the other acquired assets and assumed liabilities in this transaction over the next twelve months. Therefore, adjustments to the estimated amounts and carrying values may occur. See Note 5, Loans Acquired, for discussion regarding subsequent evaluation of future cash flows.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

	September 30, 2012				December 31, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Treasury	$--	$ --	$ --	$ --	$4,000	$ 14	$ --	$ 4,014
U.S. Government agencies	303,640	297	(32)	303,905	308,779	712	(154)	309,337
Mortgage-backed securities	51	2	--	53	62	1	--	63
State and political subdivisions	206,319	5,619	(97)	211,841	211,673	6,333	(144)	217,862
Other securities	620	--	--	620	930	--	--	930
	$510,630	$ 5,918	$ (129)	$ 516,419	$525,444	$ 7,060	$ (298)	$ 532,206
Available-for-Sale								
U.S. Government agencies	$164,300	$ 196	$ (29)	$ 164,467	$153,560	$ 295	$ (228)	$ 153,627
Mortgage-backed securities	23,998	354	(19)	24,333	2,280	277	--	2,557
Other securities	15,817	438	(4)	16,251	15,649	384	(5)	16,028
	$204,115	$ 988	$ (52)	$ 205,051	$171,489	$ 956	$ (233)	$ 172,212

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

As of September 30, 2012, securities with unrealized losses, segregated by length of impairment, were as follows:

(In thousands)	Less Than 12 Months Estimated Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or More Estimated Fair Value	12 Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$38,991	$ (32)	$--	$ --	$38,991	$ (32)
State and political subdivisions	3,698	(7)	657	(90)	4,355	(97)
Total	$42,689	$ (39)	$657	$ (90)	$43,346	$ (129)
Available-for-Sale						
U.S. Government agencies	$32,971	$ (29)	$--	$ --	$32,971	$ (29)
State and political subdivisions	1,330	(19)	--	--	1,330	(19)
Other securities	1	(4)	--	--	1	(4)
Total	$34,302	$ (52)	$--	$ --	$34,302	$ (52)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2012, management also had the ability and intent to hold the securities classifi