

SIMMONS FIRST NATIONAL CORP
Form 10-Q
May 10, 2013

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 March 31, 2013

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. 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). 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 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 No

The number of shares outstanding of the Registrant's Common Stock as of April 22, 2013, was 16,509,666.

Simmons First National Corporation
 Quarterly Report on Form 10-Q
 March 31, 2013

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
March 31, 2013 and December 31, 2012

(In thousands, except share data)	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and non-interest bearing balances due from banks	\$ 40,006	\$ 47,470
Interest bearing balances due from banks	602,992	467,984
Federal funds sold	--	22,343
Cash and cash equivalents	642,998	537,797
Investment securities	680,678	687,483
Mortgage loans held for sale	19,100	25,367
Assets held in trading accounts	8,368	6,224
Loans:		
Loans	1,589,077	1,628,513
Allowance for loan losses	(27,735)	(27,882)
Loans acquired, covered by FDIC loss share (net of discount)	181,537	210,842
Loans acquired, not covered by FDIC loss share (net of discount)	78,745	82,764
Net loans	1,821,624	1,894,237
FDIC indemnification asset	71,002	75,286
Premises and equipment	87,934	87,557
Foreclosed assets	30,714	33,352
Foreclosed assets covered by FDIC loss share	28,003	27,620
Interest receivable	13,027	14,530
Bank owned life insurance	59,344	52,066
Goodwill	60,605	60,605
Core deposit premiums	3,624	3,760
Other assets	16,540	21,605
Total assets	\$ 3,543,561	\$ 3,527,489
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	\$ 592,442	\$ 576,655
Interest bearing transaction accounts and savings deposits	1,456,005	1,421,137
Time deposits	844,217	876,371
Total deposits	2,892,664	2,874,163
Federal funds purchased and securities sold under agreements to repurchase	108,227	104,078
Other borrowings	81,646	89,441
Subordinated debentures	20,620	20,620
Accrued interest and other liabilities	33,950	33,125
Total liabilities	3,137,107	3,121,427
Stockholders' equity:		
Preferred stock, \$0.01 par value; 40,040,000 shares authorized and unissued at March 31, 2013 and December 31, 2012	--	--

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Common stock, Class A, \$0.01 par value; 60,000,000 shares authorized; 16,509,666 and 16,542,778 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	165	165
Surplus	94,723	96,587
Undivided profits	311,521	309,053
Accumulated other comprehensive income	45	257
Total stockholders' equity	406,454	406,062
Total liabilities and stockholders' equity	\$ 3,543,561	\$ 3,527,489

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three Months Ended March 31, 2013 and 2012

(In thousands, except per share data)	Three Months Ended March 31, 2013 2012 (Unaudited)	
INTEREST INCOME		
Loans not covered by FDIC loss share	\$ 23,696	\$ 22,272
Loans covered by FDIC loss share	6,175	5,973
Federal funds sold	3	--
Investment securities	2,902	3,275
Mortgage loans held for sale	155	153
Assets held in trading accounts	11	12
Interest bearing balances due from banks	290	303
TOTAL INTEREST INCOME	33,232	31,988
INTEREST EXPENSE		
Deposits	2,199	2,965
Federal funds purchased and securities sold under agreements to repurchase	65	99
Other borrowings	734	815
Subordinated debentures	159	391
TOTAL INTEREST EXPENSE	3,157	4,270
NET INTEREST INCOME	30,075	27,718
Provision for loan losses	919	771
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	29,156	26,947
NON-INTEREST INCOME		
Trust income	1,444	1,309
Service charges on deposit accounts	4,241	3,865
Other service charges and fees	775	792
Mortgage lending income	1,216	1,294
Investment banking income	454	699
Credit card fees	4,039	4,079
Bank owned life insurance income	278	355
Net gain (loss) on assets covered by FDIC loss share agreements	(2,142)	(2,665)
Other income	1,008	995
TOTAL NON-INTEREST INCOME	11,313	10,723
NON-INTEREST EXPENSE		
Salaries and employee benefits	18,507	16,824
Occupancy expense, net	2,555	2,081
Furniture and equipment expense	1,723	1,604
Other real estate and foreclosure expense	331	207
Deposit insurance	775	571
Merger related costs	240	--
Other operating expenses	7,781	7,350

TOTAL NON-INTEREST EXPENSE	31,912	28,637
INCOME BEFORE INCOME TAXES	8,557	9,033
Provision for income taxes	2,620	2,678
NET INCOME	\$ 5,937	\$ 6,355
BASIC EARNINGS PER SHARE	\$ 0.36	\$ 0.37
DILUTED EARNINGS PER SHARE	\$ 0.36	\$ 0.37

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
 Consolidated Statements of Comprehensive Income
 Three Months Ended March 31, 2013 and 2012

(In thousands)	Three Months Ended March 31, 2013 2012 (Unaudited)	
NET INCOME	\$ 5,937	\$ 6,355
OTHER COMPREHENSIVE INCOME		
Unrealized holding losses arising during the period on available-for-sale securities	(349)	(84)
Less: Reclassification adjustment for realized gains included in net income	--	--
Other comprehensive loss, before tax effect	(349)	(84)
Tax effect of other comprehensive loss	(137)	(33)
TOTAL OTHER COMPREHENSIVE LOSS	(212)	(51)
COMPREHENSIVE INCOME	\$ 5,725	\$ 6,304

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2013 and 2012

(In thousands)	March 31, 2013	March 31, 2012 (Unaudited)
OPERATING ACTIVITIES		
Net income	\$ 5,937	\$ 6,355
Items not requiring (providing) cash:		
Depreciation and amortization	1,460	1,372
Provision for loan losses	919	771
Net amortization (accretion) of investment securities and assets not covered by FDIC loss share	69	(5)
Stock-based compensation expense	336	402
Net accretion on assets covered by FDIC loss share	(1,196)	(901)
Deferred income taxes	(1,276)	1,149
Bank owned life insurance income	(278)	(355)
Changes in:		
Interest receivable	1,503	1,807
Mortgage loans held for sale	6,267	(1,375)
Assets held in trading accounts	(2,144)	(167)
Other assets	1,149	(139)
Accrued interest and other liabilities	(1,818)	(213)
Income taxes payable	3,517	1,527
Net cash provided by operating activities	14,445	10,228
INVESTING ACTIVITIES		
Net collections (originations) of loans	37,103	30,379
Net collections of loans covered by FDIC loss share	30,648	28,418
Purchases of premises and equipment, net	(1,701)	(596)
Proceeds from sale of foreclosed assets held for sale	8,128	1,528
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	2,853	3,508
Proceeds from sale of available-for-sale securities	480	3
Proceeds from maturities of available-for-sale securities	15,065	79,367
Purchases of available-for-sale securities	(16,892)	(83,677)
Proceeds from maturities of held-to-maturity securities	42,282	202,643
Purchases of held-to-maturity securities	(34,615)	(158,506)
Purchase of bank owned life insurance	(7,000)	--
Cash received on FDIC loss share	5,219	4,017
Net cash provided by investing activities	81,570	107,084
FINANCING ACTIVITIES		
Net change in deposits	18,501	4,180
Dividends paid	(3,469)	(3,443)
Net change in other borrowed funds	(7,795)	142
Net change in federal funds purchased and securities sold under agreements to repurchase	4,149	(8,542)
Net shares issued under stock compensation plans	202	190
Repurchase of common stock	(2,402)	(2,052)

Net cash provided by (used in) financing activities	9,186	(9,525)
INCREASE IN CASH AND CASH EQUIVALENTS	105,201	107,787
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	537,797	570,206
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 642,998	\$ 677,993

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2013 and 2012

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2011	\$ 172	\$ 112,436	\$ 439	\$ 294,864	\$ 407,911
Comprehensive income:					
Net income	-	-	-	6,355	6,355
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$33)	-	-	(51)	-	(51)
Comprehensive income					6,304
Stock issued as bonus shares – 43,945 shares	1	58	-	-	59
Vesting bonus shares	-	372	-	-	372
Stock issued for employee stock purchase plan – 5,103 shares	-	132	-	-	132
Stock granted under stock-based compensation plans	-	30	-	-	30
Repurchase of common stock – (78,839 shares)	(1)	(2,052)	-	-	(2,053)
Cash dividends – \$0.20 per share	-	-	-	(3,443)	(3,443)
Balance, March 31, 2012 (Unaudited)	172	110,976	388	297,776	409,312
Comprehensive income:					
Net income	-	-	-	21,329	21,329
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$84)	-	-	(131)	-	(131)
Comprehensive income					21,198
Stock issued as bonus shares – 7,300 shares	-	133	-	-	133
Vesting bonus shares	-	933	-	-	933
Stock granted under stock-based compensation plans	-	53	-	-	53
Repurchase of common stock – (647,048 shares)	(7)	(15,508)	-	-	(15,515)
Cash dividends – \$0.60 per share	-	-	-	(10,052)	(10,052)
Balance, December 31, 2012	165	96,587	257	309,053	406,062
Comprehensive income:					
Net income	-	-	-	5,937	5,937
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$137)	-	-	(212)	-	(212)
Comprehensive income					5,725
Stock issued as bonus shares – 53,376 shares	1	21	-	-	22
Vesting bonus shares	-	320	-	-	320
Stock issued for employee stock purchase plan – 5,244 shares	-	126	-	-	126

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Exercise of stock options – (2,283 shares)	-	54	-	-	54
Stock granted under stock-based compensation plans	-	16	-	-	16
Repurchase of common stock – (94,015 shares)	(1)	(2,401)	-	-	(2,402)
Cash dividends – \$0.21 per share	-	-	-	(3,469)	(3,469)
Balance, March 31, 2013 (Unaudited)	\$ 165	\$ 94,723	\$ 45	\$ 311,521	\$ 406,454

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, 2012, 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 2012 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Recently Issued Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance related to testing indefinite-lived intangible assets, other than goodwill, for impairment. The provisions of ASU 2012-02 allow for a qualitative assessment in testing an indefinite-lived intangible asset for impairment before calculating the fair value of the asset. If the qualitative assessment determines that it is more likely than not that the asset is impaired, then a quantitative assessment of the fair value of the asset is required; otherwise, the quantitative calculation is not necessary. The provisions of ASU 2012-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company’s ongoing 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 became effective for the Company on January 1, 2013. 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.

In February, 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be

classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 became effective prospectively for the Company on January 1, 2013, and 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 2012 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material 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 accretible 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. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. 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 5, Loans Acquired.

NOTE 2: EARNINGS PER SHARE

Basic earnings per share (“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 computation of per share earnings for the three months ended March 31, 2013 and 2012:

(In thousands, except per share data)	2013	2012
Net Income	\$ 5,937	\$ 6,355
Average common shares outstanding	16,516	17,215
Average potential dilutive common shares	4	8
Average diluted common shares	16,520	17,223
Basic earnings per share	\$ 0.36	\$ 0.37
Diluted earnings per share	\$ 0.36	\$ 0.37

Stock options to purchase 140,228 and 95,770 shares for the three months ended March 31, 2013 and 2012, respectively, were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price.

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:

(In thousands)	March 31, 2013				December 31, 2012			
	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. Government agencies	\$ 288,480	\$ 72	\$ (1,067)	\$ 287,485	\$ 288,098	\$ 135	\$ (679)	\$ 287,554
Mortgage-backed securities	45	2	--	47	49	1	--	