ServisFirst Bancshares, Inc.
Form 10-Q
May 06, 2009

Table of Contents

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

FORM 10-Q

(Mark one)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 000-53149

SERVISFIRST BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0734029**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

(205) 949-0302

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Class	**Outstanding as of April 30, 2009**
Common stock, $.001 par value	5,513,482

TABLE OF CONTENTS

Table of Contents

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2009 AND DECEMBER 31, 2008
(In thousands)

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Cash and due from banks	$ 17,925	$ 22,844
Interest-bearing balances due from depository institutions	1,019	30,774
Federal funds sold	88,751	19,300
Cash and cash equivalents	$ 107,695	72,918
Securities available for sale	105,260	102,339
Restricted equity securities	3,241	2,659
Mortgage loans held for sale	5,785	3,320
Loans	1,023,893	968,233
Less allowance for loan losses	(12,412)	(10,602)
Loans, net	1,011,481	957,631
Premises and equipment, net	3,778	3,884
Accrued interest and dividends receivable	3,934	4,026
Deferred tax assets	4,528	3,585
Other real estate owned	8,088	10,473
Other assets	1,772	1,437
Total assets	$ 1,255,562	$ 1,162,272
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 122,643	$ 121,459
Interest-bearing	1,004,504	915,860
Total deposits	1,127,147	1,037,319
Other borrowings	20,000	20,000
Trust preferred securities	15,123	15,087
Accrued interest payable	1,150	1,280
Other liabilities	916	1,803
Total liabilities	1,164,336	1,075,489
Shareholders equity:		
	6	5

Common stock, par value $.001 per share; 15,000,000 shares authorized; 5,513,482 and 5,374,022 shares issued and outstanding				
Preferred stock, par value $.001 per share; 1,000,000 shares authorized; no shares outstanding				
Additional paid-in capital		74,402		70,729
Retained earnings		15,808		15,087
Accumulated other comprehensive income		1,010		962
Total stockholders equity		91,226		86,783
Total liabilities and stockholders equity	$	1,255,562	$	1,162,272

See Notes to Consolidated Financial Statements.

Table of Contents

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)
(In thousands, except per share amounts)

	2009	2008
Interest income:		
Interest and fees on loans	$ 12,509	$ 12,374
Taxable securities	1,108	906
Nontaxable securities	278	215
Federal funds sold	24	273
Other interest and dividends	18	67
Total interest income	13,937	13,835
Interest expense:		
Deposits	4,393	5,722
Borrowed funds	498	26
Total interest expense	4,891	5,748
Net interest income	9,046	8,087
Provision for loan losses	2,460	1,383
Net interest income after provision for loan losses	6,586	6,704
Noninterest income:		
Service charges on deposit accounts	356	256
Other operating income	563	288
Total noninterest income	919	544
Noninterest expenses:		
Salaries and employee benefits	3,367	2,826
Equipment and occupancy expense	588	530
Professional services	214	316
Other operating expenses	2,263	1,158
Total noninterest expenses	6,432	4,830
Income before income taxes	1,073	2,418
Provision for income taxes	352	848
Net income	$ 721	$ 1,570
Basic earnings per share	$ 0.13	$ 0.31

Diluted earnings per share	$ 0.13	$ 0.30

See Notes to Consolidated Financial Statements.

4

Table of Contents

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)
(In thousands)

	2009	**2008**
Net income	$ 721	$ 1,570
Other comprehensive income, net of tax:		
Unrealized holding gains arising during period from securities available for sale, net of tax of $71 and $352 for 2009 and 2008, respectively	138	687
Unrealized holding gains arising during period from derivative, net of tax of $35 for 2008		68
Reclassification adjustment for net gains realized on derivatives in net income, net of tax benefit of $46 for 2009 and 2008	(90)	(90)
Other comprehensive income	48	665
Comprehensive income	$ 769	$ 2,235

See Notes to Consolidated Financial Statements

Table of Contents

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
THREE MONTHS ENDED MARCH 31, 2009
(Unaudited)
(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2008	$ 5	$ 70,729	$ 15,087	$ 962	$ 86,783
Sale of 139,460 shares	1	3,478			3,479
Other comprehensive income				48	48
Stock based compensation expense		195			195
Net income			721		721
Balance, March 31, 2009	$ 6	$ 74,402	$ 15,808	$ 1,010	$ 91,226

See Notes to Consolidated Financial Statements

6

Table of Contents

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)
(In thousands)

	2009	2008
OPERATING ACTIVITIES		
Net income	$ 721	$ 1,570
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred tax benefit	(967)	(174)
Provision for loan losses	2,460	1,383
Depreciation and amortization	273	225
Net accretion of investments	(156)	(77)
Amortized gain on derivative	(136)	(136)
Decrease in accrued interest and dividends receivable	92	13
Stock compensation expense	195	161
(Decrease) increase in accrued interest payable	(130)	118
Proceeds from mortgage loans held for sale	51,562	16,873
Originations of mortgage loans held for sale	(54,320)	(19,178)
Loss on sale of other real estate	612	184
Net change in other assets, liabilities, and other operating activities	(1,178)	(1,161)
Net cash used in operating activities	(973)	(199)
INVESTMENT ACTIVITIES		
Purchase of securities available for sale	(6,972)	(2,825)
Proceeds from maturities, calls and paydowns of securities available for sale	4,417	2,201
Increase in loans	(57,179)	(82,620)
Purchase of premises and equipment	(167)	(119)
Purchase of restricted equity securities	(582)	(1,456)
Proceeds from sale of interest rate floor		1,000
Proceeds from sale of other real estate owned and repossessions	2,926	
Net cash used in investing activities	(57,557)	(83,819)
FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	88,644	3,595
Net increase in interest-bearing deposits	1,184	96,493
Proceeds from other borrowings		20,202
Proceeds from sale of stock, net	3,479	
Net cash provided by financing activities	93,307	120,290
Net increase in cash and cash equivalents	34,777	36,272

Cash and cash equivalents at beginning of year	72,918	66,422
Cash and cash equivalents at end of year	$ 107,695	$ 102,694
SUPPLEMENTAL DISCLOSURE		
Cash paid for:		
Interest	$ 5,021	$ 5,630
Income taxes	1,365	1,250
NONCASH TRANSACTIONS		
Transfers of loans from held for sale to held for investment	$ 293	$
Other real estate acquired in settlement of loans	1,436	2,085

See Notes to Consolidated Financial Statements.

7

Table of Contents

SERVISFIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009
(Unaudited)

NOTE 1 GENERAL

The accompanying condensed consolidated financial statements in this report have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including Regulation S-X and the instructions for Form 10-Q, and have not been audited. These consolidated financial statements do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position and the consolidated results of operations for the interim periods have been made. All such adjustments are of a normal nature. The consolidated results of operations are not necessarily indicative of the consolidated results of operations which ServisFirst Bancshares, Inc. (the Company) may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company s Form 10-K for the year ended December 31, 2008.

All reported amounts are in thousands except share and per share data.

NOTE 2 CASH AND CASH FLOWS

Cash on hand, cash items in process of collection, amounts due from banks, and Federal funds sold are included in cash and cash equivalents.

NOTE 3 EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options and warrants.

	Three Months Ended March 31,	
	2009	2008
	(In Thousands, Except Shares and Per Share Data)	
Earnings per share		
Weighted average common shares outstanding	5,401,914	5,113,482
Net income	$ 721	$ 1,570
Basic earnings per share	$ 0.13	$ 0.31
Weighted average common shares outstanding	5,401,914	5,113,482
Dilutive effects of assumed conversions and exercise of stock options and warrants	287,495	170,435
Weighted average common and dilutive potential common shares outstanding	5,689,409	5,283,917
Net income	$ 721	$ 1,570
Diluted earnings per share	$ 0.13	$ 0.30

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At March 31, 2009, the Company has stock-based compensation plans, which are described below. The compensation cost that has been charged against income for the plans was approximately $195,000 and $161,000 for the three months ended March 31, 2009 and 2008, respectively.

Under the Company s 2005 Amended and Restated Stock Option Plan (the Plan), there are 1,025,000 shares authorized for issuance. Option awards are generally granted with an exercise price equal to the estimated fair market value of the Company s common stock at the date of grant. The maximum term of the options granted under the plan is ten years.

The Company adopted the 2009 Stock Incentive Plan effective March 26, 2009. Up to 425,000 shares are reserved for issuance under the Plan pursuant to the exercise of options, SARs, restricted shares, or performance shares, all which are defined in the Plan.

The Company has granted non-plan options to certain persons representing key business relationships to purchase up to an aggregate amount of 55,000 shares of the Company s common stock at between $15.00 and $20.00 per share for 10 years. These options are non-qualified and not part of the Plan.

The Company estimates the fair value of each stock option award using a Black-Scholes-Merton valuation model that uses the assumptions noted in the following table.

Expected volatilities are based on an index of Alabama traded community banks. The expected term for options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U. S. Treasury yield curve in effect at the time of grant.

	March 31,	
	2009	2008
Expected volatility	20.00%	20.00%
Expected dividends	0.50%	0.50%
Expected term (in years)	7	7
Risk-free rate	1.65%	2.93%

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes stock option activity during the three months ended March 31, 2009 and 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Three Months Ended March 31, 2009:				
Outstanding at January 1, 2009	796,000	$ 14.50	7.7	$ 8,363
Granted	37,500	25.00		
Exercised				
Forfeited				
Outstanding at March 31, 2009	833,500	14.97	7.8	$ 8,363
Exercisable at March 31, 2009	75,264	$ 12.34	6.9	$ 953
Three Months Ended March 31, 2008:				
Outstanding at January 1, 2008	712,500	$ 13.12	8.4	$ 4,905
Granted	13,500	20.00		
Exercised				
Forfeited				
Outstanding at March 31, 2008	726,000	13.24	8.2	$ 4,905
Exercisable at March 31, 2008	20,000	$ 10.00	7.1	$ 200

Options for 37,500 shares of the Company s common stock were granted in the first quarter of 2009. There were no options exercised during the first quarter 2009.

Stock Warrants

In recognition of the efforts and financial risks undertaken by the Bank s organizers in 2005, the Bank granted warrants to organizers to purchase a total 60,000 shares of common stock at a price of $10, which was the fair market value of the Bank s common stock at the date of the grant. The warrants vest in equal annual increments over a three-year period commencing on the first anniversary date of the Bank s incorporation and will terminate on the tenth anniversary of the incorporation date. The total number of warrants outstanding at March 31, 2009 and 2008 was 60,000.

The company issued warrants for 75,000 shares of common stock at a price of $25 per share in the third quarter of 2008. These warrants were issued in connection with the trust preferred securities that are discussed in detail in Note 9.

NOTE 5 DERIVATIVES

Prior to 2008 the Company entered into an interest rate floor with a notional amount of $50 million in order to fix the minimum interest rate on a corresponding amount of our floating-rate loans. The interest rate floor was sold in

January 2008 and the related gain of $817,000 has been deferred and will be amortized to income over the remaining term of the original agreement which would have terminated on June 22, 2009. A gain of $136,000 was recognized in interest income for the three months ended March 31, 2009.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

During 2008 the Company entered into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these swaps, the Company entered into offsetting positions with a regional correspondent bank in order to minimize the risk to the Company. As of March 31, 2009, the Company was party to two swaps with notional amounts totaling approximately $12.3 million with customers, and two swaps with notional amounts totaling approximately $12.3 million with a regional correspondent bank. These swaps qualify as derivatives, but are not designated as hedging instruments. The Company has recorded the value of these swaps at $850,000 in offsetting entries in other assets and other liabilities.

The Company has entered into agreements with secondary market investors to deliver loans on a best efforts delivery basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of our agreements with investors and rate lock commitments to customers as of March 31, 2009 and December 31, 2008 were not material.

NOTE 6 ADOPTION OF NEW ACCOUNTING INTERPRETATIONS

In March, 2008, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB No. 133* (SFAS No. 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosure about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedging items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedging items affect an entity s financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted the provisions of SFAS No. 161 effective January 1, 2009. See Note 5 for the Company s disclosures about its derivative instruments and hedging activities.

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing earnings per share. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company s adoption of the provisions of this EITF effective January 1, 2009 did not have an impact on the consolidated financial statements.

NOTE 7 RECENT ACCOUNTING PRONOUNCEMENTS

In January 2009, the FASB released Proposed Staff Position SFAS 107-b and Accounting Principles Board (APB) Opinion No. 28-a, *Interim Disclosures about Fair Value of Financial Instruments* (SFAS 107-b and APB 28-a). This proposal amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt SFAS 107-b and APB 28-a and provide the additional disclosure requirements for the second quarter of 2009.

In March 2009, the FASB released Proposed Staff Position SFAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (SFAS 157-e). This proposal provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, Fair Value Measurements. SFAS 157-e is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of SFAS 157-e during the second quarter of 2009, but does not believe this guidance will have a significant impact on the Company s consolidated financial statements.

In March 2009, the FASB issued Proposed Staff Position SFAS 115-a, SFAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments.* This proposal provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This Proposed Staff Position is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of this Proposed Staff Position during second quarter 2009, but does not believe this guidance will have a significant impact on the Company s consolidated financial statements.

NOTE 8 FAIR VALUE MEASUREMENT

The Company adopted the methods of fair value measurement as described in SFAS No. 157, *Fair Value Measurement,* effective January 1, 2008. SFAS No.157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value, as of the measurement date, into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

Securities where quoted prices are available in an active market, securities are classified within level 1 of the hierarchy. Level 1 securities include highly liquid government securities such as U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the Company generally relies on prices obtained from independent vendors. Securities measured with these techniques are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

discounted cash flow calculations using inputs observable in the market where available. Examples include U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified in Level 3 of the hierarchy.

Interest Rate Swap Agreements The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the hierarchy. These fair value estimations include primarily market observable inputs such as yield curves and option volatilities, and include the value associated with counterparty credit risk.

Impaired Loans- Loans are considered impaired under SFAS No. 114, *Accounting by Creditors for Impairment of Loans,* as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosure,* when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan s existing rate or the fair value of the collateral if the loan is collateral-dependent. Impaired loans are subject to nonrecurring fair value adjustment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. During the three months ended March 31, 2009 and 2008, $1,877,000 and $455,000, respectively, was recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis. Impaired loans are classified within Level 3 of the hierarchy.

Other real estate owned Other real estate assets (OREO) acquired through, or in lieu of foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. $791,000 and $57,000 was charged to earnings for the three months ended March 31, 2009 and 2008, respectively. These charges were for write-downs in the value of OREO and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

The following table presents the fair value hierarchy of financial assets and financial liabilities measured at fair value as of March 31, 2009:

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)