

ServisFirst Bancshares, Inc.
Form 10-Q
May 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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
(State or Other Jurisdiction of
Incorporation or Organization)

26-0734029
(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 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 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, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "small reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

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 29, 2011 |
|--------------------------------|----------------------------------|
| Common stock, \$.001 par value | 5,527,482 |

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EX-31.01 SECTION 906 CERTIFICATION OF THE CFO

PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.
 CONSOLIDATED BALANCE SHEETS MARCH 31, 2011 AND DECEMBER 31, 2010
 (In thousands, except share and per share amounts)

| | March 31, 2011 (Unaudited) | December 31, 2010 (Audited) |
|---|-------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 20,871 | \$ 27,454 |
| Interest-bearing balances due from depository institutions | 16,309 | 204,178 |
| Federal funds sold and other investments | 80,774 | 346 |
| Cash and cash equivalents | 117,954 | 231,978 |
| Debt securities: | | |
| Available for sale | 237,602 | 276,959 |
| Held to maturity | 13,939 | 5,234 |
| Restricted equity securities | 4,053 | 3,510 |
| Mortgage loans held for sale | 2,588 | 7,875 |
| Loans | 1,470,472 | 1,394,818 |
| Less allowance for loan losses | (19,226) | (18,077) |
| Loans, net | 1,451,246 | 1,376,741 |
| Premises and equipment, net | 4,673 | 4,450 |
| Accrued interest and dividends receivable | 7,358 | 6,990 |
| Deferred tax assets | 7,306 | 6,366 |
| Other real estate owned | 7,223 | 6,966 |
| Other assets | 9,007 | 8,097 |
| Total assets | \$ 1,862,949 | \$ 1,935,166 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 261,634 | \$ 250,490 |
| Interest-bearing | 1,430,866 | 1,508,226 |
| Total deposits | 1,692,500 | 1,758,716 |
| Other borrowings | 14,941 | 24,937 |
| Trust preferred securities | 30,455 | 30,420 |
| Accrued interest payable | 864 | 898 |
| Other liabilities | 1,781 | 3,095 |
| Total liabilities | 1,740,541 | 1,818,066 |
| Stockholders' equity: | | |
| Common stock, par value \$.001 per share; 15,000,000 shares authorized; 5,527,482 shares issued and outstanding at March 31, 2011 and December 31, 2010 | 6 | 6 |
| Preferred stock, par value \$.001 per share; 1,000,000 shares authorized; no shares outstanding | - | - |
| Additional paid-in capital | 76,139 | 75,914 |

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| | | |
|--|--------------|--------------|
| Retained earnings | 43,214 | 38,343 |
| Accumulated other comprehensive income | 3,049 | 2,837 |
| Total stockholders' equity | 122,408 | 117,100 |
| Total liabilities and shareholders' equity | \$ 1,862,949 | \$ 1,935,166 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)

| | Three Months Ended March 31, | |
|---|------------------------------|-----------------|
| | 2011 | 2010 |
| Interest income: | | |
| Interest and fees on loans | \$ 18,621 | \$ 16,204 |
| Taxable securities | 1,542 | 1,752 |
| Nontaxable securities | 714 | 524 |
| Federal funds sold | 36 | 10 |
| Other interest and dividends | 48 | 12 |
| Total interest income | 20,961 | 18,502 |
| Interest expense: | | |
| Deposits | 3,134 | 2,853 |
| Borrowed funds | 851 | 743 |
| Total interest expense | 3,985 | 3,596 |
| Net interest income | 16,976 | 14,906 |
| Provision for loan losses | 2,231 | 2,712 |
| Net interest income after provision for loan losses | 14,745 | 12,194 |
| Noninterest income: | | |
| Service charges on deposit accounts | 567 | 572 |
| Securities gains | 143 | 38 |
| Other operating income | 561 | 522 |
| Total noninterest income | 1,271 | 1,132 |
| Noninterest expenses: | | |
| Salaries and employee benefits | 4,214 | 3,482 |
| Equipment and occupancy expense | 886 | 780 |
| Professional services | 240 | 200 |
| Other operating expenses | 3,257 | 2,796 |
| Total noninterest expenses | 8,597 | 7,258 |
| Income before income taxes | 7,419 | 6,068 |
| Provision for income taxes | 2,548 | 2,055 |
| Net income | \$ 4,871 | \$ 4,013 |
| Basic earnings per share | \$ 0.88 | \$ 0.73 |
| Diluted earnings per share | \$ 0.77 | \$ 0.68 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousands)

(Unaudited)

| | 2011 | 2010 |
|--|---------|---------|
| Net income | \$4,871 | \$4,013 |
| Other comprehensive income, net of tax: | | |
| Unrealized holding gains arising during period from securities available for sale, net of tax of \$164 and \$149 for 2011 and 2010, respectively | 305 | 289 |
| Reclassification adjustment for net gains on sale of securities in net income, net of tax of \$(50) and \$(13) for 2011 and 2010, respectively | (93) | (25) |
| Other comprehensive income, net of tax | 212 | 264 |
| Comprehensive income | \$5,083 | \$4,277 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 THREE MONTHS ENDED MARCH 31, 2011
 (In thousands, except share amounts)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|----------------------------------|-----------------|----------------------------------|----------------------|---|----------------------------------|
| Balance, December 31, 2010 | 6 | 75,914 | 38,343 | 2,837 | 117,100 |
| Other comprehensive income | - | - | - | 212 | 212 |
| Stock based compensation expense | - | 225 | - | - | 225 |
| Net income | - | - | 4,871 | - | 4,871 |
| Balance, March 31, 2011 | \$6 | \$76,139 | \$43,214 | \$ 3,049 | \$ 122,408 |

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In thousands)

| | 2011 | 2010 |
|---|------------|-----------|
| OPERATING ACTIVITIES | | |
| Net income | \$4,871 | \$4,013 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred tax (benefit) expense | (1,053) | 379 |
| Provision for loan losses | 2,231 | 2,712 |
| Depreciation and amortization | 266 | 270 |
| Net amortization (accretion) of investments | 128 | 150 |
| Market value adjustment of interest rate cap | 61 | - |
| Increase in accrued interest and dividends receivable | (368) | (463) |
| Stock compensation expense | 225 | 135 |
| Decrease in accrued interest payable | (34) | (89) |
| Proceeds from sale of mortgage loans held for sale | 35,845 | 29,235 |
| Originations of mortgage loans held for sale | (30,975) | (27,934) |
| Gain on sale of securities available for sale | (143) | (38) |
| Net (gain) loss on sale of other real estate owned | (32) | 52 |
| Write down of other real estate owned | 85 | 49 |
| Decrease in special prepaid FDIC insurance assessments | 611 | 564 |
| Net change in other assets, liabilities, and other operating activities | (1,436) | (2,037) |
| Net cash provided by operating activities | 10,282 | 6,998 |
| INVESTMENT ACTIVITIES | | |
| Purchase of securities available for sale | (17,011) | (17,274) |
| Proceeds from maturities, calls and paydowns of securities available for sale | 7,758 | 10,041 |
| Purchase of securities held to maturity | (8,709) | (500) |
| Proceeds from maturities, calls and paydowns of securities held to maturity | 4 | - |
| Increase in loans | (79,640) | (31,955) |
| Purchase of premises and equipment | (489) | (74) |
| Purchase of restricted equity securities | (543) | (269) |
| Purchase of interest rate cap | - | - |
| Proceeds from sale of securities available for sale | 48,950 | 29,999 |
| Proceeds from sale of interest rate floor | - | - |
| Proceeds from tenant reimbursement | - | - |
| Proceeds from sale of other real estate owned and repossessions | 1,590 | 2,172 |
| Additions to other real estate owned | - | (77) |
| Net cash used in investing activities | (48,090) | (7,937) |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in noninterest-bearing deposits | 11,144 | (37,239) |
| Net decrease in interest-bearing deposits | (77,360) | (44,556) |
| Net increase in federal funds purchased | - | 17,350 |
| Proceeds from issuance of trust preferred securities | - | 15,050 |
| Repayment of other borrowings | (10,000) | - |
| Net cash used in financing activities | (76,216) | (49,395) |
| Net decrease in cash and cash equivalents | (114,024) | (50,334) |

| | | |
|--|-----------|----------|
| Cash and cash equivalents at beginning of year | 231,978 | 76,206 |
| Cash and cash equivalents at end of year | \$117,954 | \$25,872 |

SUPPLEMENTAL DISCLOSURE

Cash paid for:

| | | |
|--------------|---------|---------|
| Interest | \$4,019 | \$3,685 |
| Income taxes | 3,600 | 1,560 |

NONCASH TRANSACTIONS

| | | |
|--|-------|-------|
| Transfers of loans from held for sale to held for investment | \$417 | \$380 |
| Other real estate acquired in settlement of loans | 1,900 | 2,068 |
| Internally financed sales of other real estate owned | - | 105 |

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(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, 2010.

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, as well as the potential common stock issuable upon possible conversion of the preferred securities described in Note 11 to the consolidated financial statements.

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| | Three Months Ended March 31, | |
|---|---|-----------|
| | 2011 | 2010 |
| | (In Thousands, Except Shares and Per Share Data) | |
| Earnings Per Share | | |
| Weighted average common shares outstanding | 5,527,482 | 5,513,482 |
| Net income | \$ 4,871 | \$ 4,013 |
| Basic earnings per share | \$ 0.88 | \$ 0.73 |
| Weighted Average Common Shares Outstanding | | |
| Weighted average common shares outstanding | 5,527,482 | 5,513,482 |
| Dilutive effects of assumed conversions and exercise of stock options and warrants | 986,621 | 388,296 |
| Weighted average common and dilutive potential common shares outstanding | 6,514,103 | 5,901,778 |
| Net income, adjusted for effect of debt conversion | \$ 5,017 | \$ 4,041 |
| Diluted earnings per share | \$ 0.77 | \$ 0.68 |

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2011 and December 31, 2010 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Market Value |
|---|------------------|-----------------------------|-----------------------------|-------------------|
| | (In Thousands) | | | |
| March 31, 2011: | | | | |
| Securities Available for Sale | | | | |
| U.S. Treasury and government sponsored agencies | \$49,218 | \$1,319 | \$(44) | \$ 50,493 |
| Mortgage-backed securities | 101,556 | 2,739 | (170) | \$ 104,125 |
| State and municipal securities | 81,118 | 1,510 | (755) | 81,873 |
| Corporate debt | 1,023 | 88 | - | 1,111 |
| Total | \$232,915 | \$5,656 | \$(969) | \$ 237,602 |
| Securities Held to Maturity | | | | |
| Mortgage-backed securities | \$8,411 | \$- | \$(81) | \$ 8,330 |
| State and municipal securities | 5,528 | 58 | (92) | 5,494 |
| Total | \$13,939 | \$58 | \$(173) | \$ 13,824 |
| December 31, 2010: | | | | |
| Securities Available for Sale | | | | |
| U.S. Treasury and government sponsored agencies | \$90,631 | \$1,887 | \$(224) | \$ 92,294 |
| Mortgage-backed securities | 101,709 | 2,783 | (268) | 104,224 |
| State and municipal securities | 78,241 | 1,076 | (1,051) | 78,266 |
| Corporate debt | 2,013 | 162 | - | 2,175 |
| Total | \$272,594 | \$5,908 | \$(1,543) | \$ 276,959 |
| Securities Held to Maturity | | | | |
| State and municipal securities | \$5,234 | \$- | \$(271) | \$ 4,963 |
| Total | \$5,234 | \$- | \$(271) | \$ 4,963 |

All mortgage-backed securities are with government-sponsored enterprises (GSEs) such as Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

The following table identifies, as of March 31, 2011 and December 31, 2010, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The Company has the ability and intent to hold its securities until such time as lost value is recovered, or the securities mature. Further, the Company believes any deterioration in value on its current investment securities is attributable to changes in market interest rates and not credit quality of the issuer.

| | Less Than Twelve Months | | Twelve Months or More | |
|---|-------------------------------|------------|-------------------------------|------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| | (In Thousands) | | | |
| March 31, 2011: | | | | |
| U.S. Treasury and government sponsored agencies | \$ (44) | \$ 946 | \$ - | \$ - |
| Mortgage-backed securities | (251) | 17,575 | - | - |
| State and municipal securities | (542) | 23,522 | (305) | 3,998 |
| Corporate debt | - | - | - | - |
| | \$ (837) | \$ 42,043 | \$ (305) | \$ 3,998 |
| December 31, 2010: | | | | |
| U.S. Treasury and government sponsored agencies | \$ (224) | \$ 24,217 | \$ - | \$ - |
| Mortgage-backed securities | (268) | 16,417 | - | - |
| State and municipal securities | (1,034) | 33,282 | (288) | 3,674 |
| Corporate debt | - | - | - | - |
| | \$ (1,526) | \$ 73,916 | \$ (288) | \$ 3,674 |

At March 31, 2011, 20 of the Company's 437 debt securities had been in an unrealized loss position for 12 or more months.

NOTE 5 – LOANS

The following table details the Company's loans at March 31, 2011 and December 31, 2010:

| | March 31, 2011 | December 31, 2010 | | |
|--|----------------|-------------------|--------|---|
| Commercial, financial and agricultural | \$ 585,283 | \$ 536,620 | | |
| Real estate - construction | 161,145 | 172,055 | | |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 294,889 | 270,767 | | |
| 1-4 family mortgage | 206,514 | 199,236 | | |
| Other mortgage | 186,254 | 178,793 | | |
| Subtotal: Real estate - mortgage | 687,657 | 648,796 | | |
| Consumer | 36,387 | 37,347 | | |
| Total Loans | 1,470,472 | 1,394,818 | | |
| Less: Allowance for loan losses | (19,226) | (18,077) | | |
| Net Loans | \$ 1,451,246 | \$ 1,376,741 | | |
| Commercial, financial and agricultural | 39.80 | % | 38.47 | % |
| Real estate - construction | 10.96 | % | 12.34 | % |
| Real estate - mortgage: | | | | |
| Owner-occupied commercial | 20.05 | % | 19.41 | % |
| 1-4 family mortgage | 14.04 | % | 14.28 | % |
| Other mortgage | 12.67 | % | 12.82 | % |
| Subtotal: Real estate - mortgage | 46.76 | % | 46.51 | % |
| Consumer | 2.48 | % | 2.68 | % |
| Total Loans | 100.00 | % | 100.00 | % |

Loans by credit quality indicator as of March 31, 2011 were as follows:

| | Pass | Special Mention | Substandard | Doubtful | Total |
|--|--------------|--------------------|-------------|----------|--------------|
| Commercial, financial and agricultural | \$ 557,225 | \$ 15,790 | \$ 12,183 | \$ 85 | \$ 585,283 |
| Real estate - construction | 121,480 | 12,144 | 27,521 | - | 161,145 |
| Real estate - mortgage: | | | | | |
| Owner occupied commercial | 282,081 | 6,239 | 6,569 | - | 294,889 |
| 1-4 family mortgage | 196,334 | 5,389 | 4,791 | - | 206,514 |
| other mortgage | 182,619 | 546 | 3,089 | - | 186,254 |
| Total real estate mortgage | 661,034 | 12,174 | 14,449 | - | 687,657 |
| Consumer | 35,411 | 1 | 976 | - | 36,387 |
| Total | \$ 1,375,149 | \$ 40,109 | \$ 55,129 | \$ 85 | \$ 1,470,472 |

Loans by performance status as of March 31, 2011 were as follows:

| | Performing | Nonperforming | Total |
|--|---------------------|------------------|---------------------|
| Commercial, financial and agricultural | \$ 584,258 | \$ 1,025 | \$ 585,283 |
| Real estate - construction | \$ 143,780 | 17,365 | 161,145 |
| Real estate - mortgage: | | | |
| Owner occupied commercial | \$ 294,259 | 630 | 294,889 |
| 1-4 family mortgage | \$ 203,915 | 2,599 | 206,514 |
| other mortgage | \$ 186,254 | - | 186,254 |
| Total real estate mortgage | 684,428 | 3,229 | 687,657 |
| Consumer | \$ 36,012 | 375 | 36,387 |
| Total | \$ 1,448,478 | \$ 21,994 | \$ 1,470,472 |

Loans by past-due status as of March 31, 2011 were as follows:

| | Days Past Due Status (Accruing Loans) | | | Total | Nonaccrual | Current | Total Loans |
|--|---------------------------------------|---------------|-----------------|-----------------|------------------|---------------------|---------------------|
| | 30-59 | 60-89 | 90+ | | | | |
| Commercial, financial and agricultural | \$ 550 | \$ - | \$ 14 | \$ 564 | \$ 1,011 | \$ 583,708 | \$ 585,283 |
| Real estate - construction | 1,207 | - | - | 1,207 | 17,365 | \$ 142,573 | \$ 161,145 |
| Real estate - mortgage: | | | | | | | |
| Owner-occupied commercial | 340 | - | - | 340 | 630 | \$ 293,919 | \$ 294,889 |
| 1-4 family mortgage | 311 | 124 | 1,838 | 2,273 | 761 | \$ 203,480 | \$ 206,514 |
| Other mortgage | 4,297 | - | - | 4,297 | - | \$ 181,957 | \$ 186,254 |
| Total real estate - mortgage | 4,948 | 124 | 1,838 | 6,910 | 1,391 | 679,356 | 687,657 |
| Consumer | 69 | - | - | 69 | 375 | 35,943 | \$ 36,387 |
| Total | \$ 6,774 | \$ 124 | \$ 1,852 | \$ 8,750 | \$ 20,142 | \$ 1,441,580 | \$ 1,470,472 |

NOTE 6 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At March 31, 2011, the Company had stock-based compensation plans, as described below. The compensation cost that has been charged to earnings for the plans was approximately \$225,000 and \$135,000 for three months ended March 31, 2011 and 2010, respectively.

The Company's 2005 Amended and Restated Stock Option Plan allows for the grant of stock options to purchase up to 1,025,000 shares of the Company's common stock. The Company's 2009 Stock Incentive Plan authorizes the grant of up to 425,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Non-stock Share Equivalents, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and 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 plans is ten years.

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 either 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 southeastern United States publicly traded 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.

| | | | | |
|--------------------------|---------|---|---------|---|
| | 2011 | | 2010 | |
| Expected volatility | 29.00 | % | 25.00 | % |
| Expected dividends | 0.50 | % | 0.50 | % |
| Expected term (in years) | 7 years | | 7 years | |
| Risk-free rate | 2.70 | % | 2.32 | % |

The weighted average grant-date fair value of options granted during the three months ended March 31, 2011 and 2010 was \$8.54 and \$7.43, respectively.

The following table summarizes stock option activity during the three months ended March 31, 2011 and 2010:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (In Thousands) |
|---|-----------|--|---|--|
| Three Months Ended March 31, 2011: | | | | |
| Outstanding at January 1, 2011 | 881,000 | \$ 15.65 | 6.9 | \$ 8,238 |
| Granted | 166,500 | 26.05 | 9.9 | - |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Outstanding at March 31, 2011 | 1,047,500 | 17.30 | 6.4 | \$ 13,301 |
| Exercisable at March 31, 2011 | 299,459 | \$ 12.75 | 5.0 | \$ 5,165 |
| Three Months Ended March 31, 2010: | | | | |
| Outstanding at January 1, 2010 | 833,500 | \$ 15.00 | 6.8 | \$ 8,333 |
| Granted | 11,000 | 25.00 | 9.9 | - |
| Exercised | - | - | - | - |
| Forfeited | (10,000) | 15.00 | 6.7 | - |
| Outstanding at March 31, 2010 | 834,500 | 15.25 | 6.6 | \$ 8,238 |
| Exercisable at March 31, 2010 | 146,196 | \$ 12.05 | 5.9 | \$ 1,894 |

Restricted Stock

During the first quarter of 2010, 2,000 shares of restricted stock were granted to five employees for a total of 10,000 shares. The value of restricted stock awards is determined to be the current value of the Company's stock, and this total value will be recognized as compensation expense over the vesting period, which is five years from the date of grant. As of March 31, 2011, there was \$546,000 of total unrecognized compensation cost related to non-vested restricted stock. The cost is expected to be recognized evenly over the remaining 3.69 years of the restricted stock's vesting period.

Stock Warrants

In recognition of the efforts and financial risks undertaken by the organizers of ServisFirst Bank (the "Bank") 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 became warrants to purchase a like number of shares of the Company's common stock upon the formation of the Company as a holding company for the Bank. 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, 2011 and 2010 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 10.

The Company issued warrants for 15,000 shares of common stock at a price of \$25 per share in the second quarter of 2009. These warrants were issued in connection with the issuance and sale of the Bank's 8.25% Subordinated Note discussed in detail in Note 12.

NOTE 7 - DERIVATIVES

During 2008, the Company entered into interest rate swaps ("swaps") to facilitate customer transactions and meet customer 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, 2011, the Company was party to two swaps with notional amounts totaling approximately \$11.8 million with customers, and two swaps with notional amounts totaling approximately \$11.8 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 \$661,000 in offsetting entries in other assets and other liabilities.

During 2010 the Company entered into an interest rate cap with a notional value of \$100 million. The cap has a strike rate of 2.00% and is indexed to the three month London Interbank Offered Rate ("LIBOR"). The cap does not qualify for hedge accounting treatment, and is marked to market, with changes in market value reflected in interest expense. For the first quarter of 2011, the Company recognized \$61,000 in interest expense related to marking the cap to market.

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 the Company's agreements with investors and rate lock commitments to customers as of March 31, 2011 and December 31, 2010 were not material.

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This guidance requires disclosures regarding loans and the allowance for loan losses that are disaggregated by portfolio segment and class of financing receivable. Required enhancements to current disclosures include a rollforward of the allowance for loans losses by portfolio segment, with the ending balance broken out by basis of impairment method, as well as the recorded investment in the respective loans. Nonaccrual and impaired loans by class must also be shown. Disclosure requirements also include: (1) credit quality indicators by class, (2) aging of past due loans by class, (3) troubled debt restructurings (“TDRs”) by class and their effect on the allowance for loan losses, (4) defaults on TDRs by class and their effect on the allowance for loan losses, and (5) significant purchases and sales of loans disaggregated by portfolio segment. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010, for end of period disclosures. Activity-related disclosures are required for interim and annual reporting periods beginning on or after December 15, 2010. Although this guidance required the Company to make additional disclosures in its financial statements, adoption of this guidance did not have any effect on the Company’s financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-02, which provides guidance on determining whether a restructuring of a receivable meets the criteria to be considered a TDR. The new guidance is required to be adopted for the first interim or annual reporting period beginning after June 15, 2011, and is to be applied retrospectively to the beginning of the annual reporting period of adoption. Early adoption is permitted. The Company intends to adopt the provisions of this ASU when required, and is evaluating its potential impact on the Company’s consolidated financial statements.

NOTE 9 - FAIR VALUE MEASUREMENT

Measurement of fair value under United States generally accepted accounting principles (“US GAAP”) establishes a 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.

1: 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.

2:

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

3: 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, and also 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 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 and Cap 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- Impaired loans are measured and reported at fair value 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. The amount recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis was \$1,628,000 and \$2,608,000 during the three months ended March 31, 2011 and 2010, respectively. 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. The amount charged to earnings was \$53,000 and \$101,000 during the three months ended March 31, 2011 and 2010, 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 Company's financial assets and financial liabilities carried at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

| | Fair Value Measurements at March 31, 2011 Using Quoted Prices in | | | Total |
|--|--|---|---|------------------|
| | Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) | |
| Assets Measured on a Recurring Basis: | | | | |
| Available-for-sale securities | \$- | \$ 237,602 | \$ - | \$237,602 |
| Interest rate swap agreements | - | 661 | - | 661 |
| Interest rate cap | - | 54 | - | 54 |
| Total assets at fair value | \$- | \$ 238,317 | \$ - | \$238,317 |

| | | | | |
|---|-----|--------|------|-------|
| Liabilities Measured on a Recurring Basis: | | | | |
| Interest rate swap agreements | \$- | \$ 661 | \$ - | \$661 |

| | Fair Value Measurements at December 31, 2010 Using Quoted Prices in | | | Total |
|--|---|---|---|------------------|
| | Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) | |
| Assets Measured on a Recurring Basis: | | | | |
| Available-for-sale securities | \$- | \$ 276,959 | \$ - | \$276,959 |
| Interest rate swap agreements | - | 803 | - | 803 |
| Interest rate cap | - | 115 | - | 115 |
| Total assets at fair value | \$- | \$ 277,762 | \$ - | \$277,762 |

| | | | | |
|---|-----|--------|------|-------|
| Liabilities Measured on a Recurring Basis: | | | | |
| Interest rate swap agreements | \$- | \$ 803 | \$ - | \$803 |

The following table presents the Company's financial assets and financial liabilities carried at fair value on a nonrecurring basis as of March 31, 2011:

| | Fair Value Measurements at March 31, 2011 Using Quoted Prices in | | | Total |
|---|--|---|---|-----------------|
| | Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) | |
| Assets Measured on a Nonrecurring Basis: | | | | |
| Impaired loans | \$- | \$ - | \$ 26,595 | \$26,595 |
| Other real estate owned | - | - | 7,223 | 7,223 |
| Total assets at fair value | \$- | \$ - | \$ 33,818 | \$33,818 |

Fair Value Measurements at December 31, 2010 Using Quoted Prices in Significant Other Significant Total

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Active Market for Identical Assets (Level 1) Observable Inputs (Level 2) Unobservable Inputs (Level 3)

(In Thousands)

| Assets Measured on a Nonrecurring Basis: | | | | |
|--|-----|------|-----------|----------|
| Impaired loans | \$- | \$ - | \$ 35,183 | \$35,183 |
| Other real estate owned | - | - | 6,966 | 6,966 |
| Total assets at fair value | \$- | \$ - | \$ 42,149 | \$42,149 |

The fair value of a financial instrument is the current amount that would be exchanged in a sale between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Current US GAAP excludes certain financial instruments and all nonfinancial instruments from its fair value disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The carrying amount and estimated fair value of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or non-recurring basis, at March 31, 2011 and December 31, 2010 were as follows:

| | March 31, 2011 | | December 31, 2010 | |
|---|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In Thousands) | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents | \$ 117,954 | \$ 117,954 | \$ 231,978 | \$ 231,978 |
| Investment securities available for sale | 237,602 | 237,602 | 276,959 | 276,959 |
| Investment securities held to maturity | 13,939 | 13,824 | 5,234 | 4,963 |
| Restricted equity securities | 4,053 | 4,053 | 3,510 | 3,510 |
| Mortgage loans held for sale | 2,588 | 2,588 | 7,875 | 7,875 |
| Loans, net | 1,451,246 | 1,454,627 | 1,376,741 | 1,388,154 |
| Accrued interest and dividends receivable | 7,358 | 7,358 | | |