SIMMONS FIRST NATIONAL CORP
Form 10-Q
May 10, 2011
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, 2011	Commission File Number 0-6253

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. x Yes o 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 o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

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

The number of shares outstanding of the Registrant’s Common Stock as of April 22, 2011, was 17,331,345.

Simmons First National Corporation
Quarterly Report on Form 10-Q
March 31, 2011

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
March 31, 2011 and December 31, 2010

(In thousands, except share data)	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and non-interest bearing balances due from banks	$35,923	$33,717
Interest bearing balances due from banks	473,247	418,343
Cash and cash equivalents	509,170	452,060
Investment securities	621,592	613,662
Mortgage loans held for sale	6,618	17,237
Assets held in trading accounts	7,468	7,577
Loans	1,619,374	1,683,464
Allowance for loan losses	(27,905)	(26,416)
Net loans	1,591,469	1,657,048
Covered Assets:		
Loan, net of discount	208,774	231,600
Other real estate owned, net of discount	12,933	8,717
FDIC indemnification asset	58,520	60,235
Premises and equipment	82,948	77,199
Foreclosed assets held for sale, net	23,686	23,204
Interest receivable	15,382	17,363
Bank owned life insurance	49,475	49,072
Goodwill	60,605	60,605
Core deposit premiums	2,239	2,463
Other assets	18,511	38,390
Total assets	$3,269,390	$3,316,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$459,628	$428,750
Interest bearing transaction accounts and savings deposits	1,217,718	1,220,133
Time deposits	924,070	959,886
Total deposits	2,601,416	2,608,769
Federal funds purchased and securities sold under agreements to repurchase	107,099	109,139
Short-term debt	718	1,033
Long-term debt	127,344	164,324
Accrued interest and other liabilities	33,266	35,796
Total liabilities	2,869,843	2,919,061
Stockholders' equity:		
Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at March 31, 2011 and December 31, 2010	--	--

Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 17,327,601 and 17,271,594 shares issued and outstanding at March 31, 2011, and December 31, 2010, respectively	173	173
Surplus	114,537	114,040
Undivided profits	284,420	282,646
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of $269 at March 31, 2011 and $331 at December 31, 2010	417	512
Total stockholders' equity	399,547	397,371
Total liabilities and stockholders' equity	$3,269,390	$3,316,432

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three Months Ended March 31, 2011 and 2010

(In thousands, except per share data)	Three Months Ended March 31, 2011 (Unaudited)	2010
INTEREST INCOME		
Loans	$24,094	$26,788
Covered loans	4,341	--
Federal funds sold	1	4
Investment securities	3,705	4,531
Mortgage loans held for sale	88	70
Assets held in trading accounts	9	2
Interest bearing balances due from banks	235	191
TOTAL INTEREST INCOME	32,473	31,586
INTEREST EXPENSE		
Deposits	4,176	5,437
Federal funds purchased and securities sold under agreements to repurchase	116	149
Short-term debt	12	15
Long-term debt	1,335	1,573
TOTAL INTEREST EXPENSE	5,639	7,174
NET INTEREST INCOME	26,834	24,412
Provision for loan losses	2,675	3,231
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,159	21,181
NON-INTEREST INCOME		
Trust income	1,346	1,250
Service charges on deposit accounts	3,857	4,301
Other service charges and fees	806	779
Income on sale of mortgage loans, net of commissions	626	603
Income on investment banking, net of commissions	600	605
Credit card fees	3,943	3,677
Bank owned life insurance income	403	290
Other income	1,051	695
TOTAL NON-INTEREST INCOME	12,632	12,200
NON-INTEREST EXPENSE		
Salaries and employee benefits	17,116	15,166
Occupancy expense, net	2,189	1,882
Furniture and equipment expense	1,589	1,495
Other real estate and foreclosure expense	94	58
Deposit insurance	1,039	955

Merger related costs	190	--
Other operating expenses	7,758	7,240
TOTAL NON-INTEREST EXPENSE	29,975	26,796
INCOME BEFORE INCOME TAXES	6,816	6,585
Provision for income taxes	1,750	1,629
NET INCOME	$5,066	$4,956
BASIC EARNINGS PER SHARE	$0.29	$0.29
DILUTED EARNINGS PER SHARE	$0.29	$0.29

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2011 and 2010

(In thousands)	March 31, 2011 (Unaudited)	March 31, 2010
OPERATING ACTIVITIES		
Net income	$5,066	$4,956
Items not requiring (providing) cash		
Depreciation and amortization	5,162	1,438
Provision for loan losses	2,675	3,231
Net amortization of investment securities	22	36
Stock-based compensation expense	273	218
Net accretion on covered loans	(706)	--
Net accretion on covered other real estate owned	(113)	--
Net accretion on FDIC indemnification asset	(287)	--
Deferred income taxes	(274)	239
Bank owned life insurance income	(403)	(290)
Changes in		
Interest receivable	1,981	1,460
Mortgage loans held for sale	10,619	1,467
Assets held in trading accounts	109	(635)
Other assets	2,606	(1,165)
Accrued interest and other liabilities	(3,455)	42
Income taxes payable	1,199	969
Net cash provided by operating activities	24,474	11,966
INVESTING ACTIVITIES		
Net collections of covered loans	18,181	--
Net collections of loans	49,678	11,579
Purchases of premises and equipment, net	(10,687)	(519)
Proceeds from sale of covered other real estate owned	1,248	--
Proceeds from sale of foreclosed assets held for sale	12,744	685
Proceeds from sale of available-for-sale securities	1,928	--
Proceeds from maturities of available-for-sale securities	67,661	524,964
Purchases of available-for-sale securities	(41,060)	(498,444)
Proceeds from maturities of held-to-maturity securities	4,794	629,080
Purchases of held-to-maturity securities	(41,370)	(597,061)
Purchases of bank owned life insurance	--	(6,457)
Cash received on FDIC loss share	19,275	--
Net cash provided by investing activities	82,392	63,827
FINANCING ACTIVITIES		
Net change in deposits	(7,353)	(3,903)
Net change in short-term debt	(315)	(377)
Dividends paid	(3,292)	(3,266)
Proceeds from issuance of long-term debt	2,320	1,157
Repayment of long-term debt	(39,300)	(21,797)

Net change in Federal funds purchased and securities sold under agreements to repurchase	(2,040)	25,840
Net shares issued under stock compensation plans	224	339
Net used in financing activities	(49,756)	(2,007)
INCREASE IN CASH AND CASH EQUIVALENTS	57,110	73,786
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	452,060	353,585
CASH AND CASH EQUIVALENTS, END OF PERIOD	$509,170	$427,371

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2011 and 2010

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2009	$171	$111,694	$ 762	$258,620	$371,247
Comprehensive income					
Net income	--	--	--	4,956	4,956
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($144)	--	--	(240)	--	(240)
Comprehensive income					4,716
Stock issued as bonus shares – 76,345 shares	1	98	--	--	99
Non-vested bonus shares	--	175	--	--	175
Stock issued for employee stock purchase plan – 4,947 shares	--	131	--	--	131
Exercise of stock options – 16,520 shares	--	257	--	--	257
Stock granted under stock-based compensation plans	--	43	--	--	43
Securities exchanged under stock option plan	--	(148)	--	--	(148)
Dividends paid – $0.19 per share	--	--	--	(3,266)	(3,266)
Balance, March 31, 2010 (Unaudited)	172	112,250	522	260,310	373,254
Comprehensive income					
Net income	--	--	--	32,161	32,161
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($17)	--	--	(10)	--	(10)
Comprehensive income					32,151
Stock issued as bonus shares –6,900 shares	--	105	--	--	105
Non-vested bonus shares	--	626	--	--	626
Exercise of stock options – 92,084 shares	1	1,203	--	--	1,204
Stock granted under stock-based compensation plans	--	130	--	--	130
Securities exchanged under stock option plan	--	(274)	--	--	(274)
Dividends paid – $0.57 per share	--	--	--	(9,825)	(9,825)
Balance, December 31, 2010	173	114,040	512	282,646	397,371
Comprehensive income					
Net income	--	--	--	5,066	5,066
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($61)	--	--	(95)	--	(95)

Comprehensive income					4,971
Stock issued as bonus shares – 44,170 shares	--	--	--	--	--
Non-vested bonus shares	--	230	--	--	230
Stock issued for employee stock purchase plan – 4,805 shares	--	127	--	--	127
Exercise of stock options – 7,032 shares	--	97	--	--	97
Stock granted under stock-based compensation plans	--	43	--	--	43
Dividends paid – $0.19 per share	--	--	--	(3,292)	(3,292)
Balance, March 31, 2011 (Unaudited)	$173	$114,537	$ 417	$284,420	$399,547

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 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, 2010, 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 2010 filed with the U.S. Securities and Exchange Commission (the "SEC").

Recently Issued Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. The Company adopted the disclosure provisions of the new authoritative guidance about activity that occurs during a reporting period on January 1, 2011. The adoption of these provisions did not have a significant impact on the Company's financial position or results of operations. The Company adopted the disclosure provisions of the new authoritative guidance about activity that occurs during a reporting period on January 1, 2011. The adoption of these provisions did not have a significant impact on the Company's financial position, results of operations or disclosures. The disclosures related to loans modified in a troubled debt restructuring ("TDR") will be effective for the reporting periods after June 15, 2011, and will have no impact on the Company's financial position or results of operations.

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 amended prior guidance to provide assistance in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring. The new authoritative guidance provides clarification for evaluating whether a concession has been granted and whether a debtor is experiencing financial difficulties. The new authoritative guidance will be effective for the reporting periods after June 15, 2011, and should be applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Adoption of the new guidance will have no 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 2010 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 Loss Share Receivable

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. 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 (FDIC loss share receivable) 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 2 and Note 5 to the consolidated financial statements.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using 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, 2011 and 2010:

(In thousands, except per share data)	2011	2010
Net Income	$5,066	$4,956
Average common shares outstanding	17,297	17,140
Average potential dilutive common shares	33	73
Average diluted common shares	17,330	17,213
Basic earnings per share	$0.29	$0.29
Diluted earnings per share	$0.29	$0.29

Stock options to purchase 95,270 and 100,290 shares for the three months ended March 31, 2011 and 2010, respectively, were not included in the earnings per share calculation because the exercise price exceeded the average market price.

NOTE 2: ACQUISITIONS

On May 14, 2010, the Company, through its wholly-owned subsidiary, Simmons First National Bank ("SFNB" or "lead bank"), entered into a purchase and assumption agreement with loss share arrangements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Southwest Community Bank ("SWCB") in Springfield, Missouri. As a result of this acquisition, the Company expanded its footprint outside the Arkansas borders for the first time. The Company recognized a pre-tax gain of $3.0 million on this transaction and incurred pre-tax merger related costs of $0.4 million.

On October 15, 2010, the Company, through the lead bank, entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB ("SSB") with nine offices in Kansas, including three in Salina, two each in Olathe and Wichita and one each in Overland Park and Leawood. This acquisition marked the Company's second expansion outside the State of Arkansas. The Company recognized a pre-tax gain of $18.3 million on this transaction and incurred pre-tax merger related costs of $2.0 million.

A summary, at fair value, of the assets acquired and liabilities assumed in the SWCB and SSB transactions, as of acquisition dates, is as follows:

(In thousands)	SWCB	SSB	Total
Assets Acquired			
Cash and due from banks	$ 7,414	$ 11,063	$ 18,477
Cash received from FDIC	10,000	71,200	81,200
Receivable from FDIC	653	1,856	2,509
Investment securities	24,850	75,621	100,471
Loans not covered by loss share agreements	--	991	991
Covered assets:			
Loans	40,177	219,158	259,335
Other real estate	4,646	6,363	11,009
FDIC indemnification asset	13,783	68,330	82,113
Core deposit premium	--	1,480	1,480
Other assets	467	1,577	2,044
Total assets acquired	101,990	457,639	559,629
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	5,063	82,614	87,677
Interest bearing transaction accounts and savings deposits	103	8,624	8,727
Time deposits	92,174	246,999	339,173
Total deposits	97,340	338,237	435,577
Repurchase agreements	--	2,215	2,215
FHLB borrowings	--	95,676	95,676
Accrued interest and other liabilities	1,613	3,234	4,847
Total liabilities assumed	98,953	439,362	538,315
Pre-tax gains on FDIC-assisted transactions	$ 3,037	$ 18,277	$ 21,314

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 receivable from FDIC – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $10.0 million cash received from the FDIC for SWCB and $71.2 million for SSB is the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend. The $0.7 million receivable from the FDIC for SWCB and $1.9 million for SSB is the remaining amount due 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.

Loans – 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 SWCB and SSB had with their 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. Based on the valuation methodologies use in the analysis, the estimated fair value of the core deposit premium at SWCB was immaterial.

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.

FHLB borrowings – The fair value of Federal Home Loan Bank ("FHLB") borrowings is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. Included in the SSB acquisition were FHLB borrowed funds with a fair value totaling $95.7 million. The Company did not need these advances to meet its present liquidity needs, and redeemed approximately $60.8 million of the advances during the fourth quarter of 2010. The FHLB borrowings are secured by mortgage loans. The remaining borrowings will be held to maturity to match loans with similar maturities.

FDIC True-Up Provision – The purchase and assumption agreements for SWCB and SSB 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. The value of the true-up provision was $3.3 million and $3.2 million at March 31, 2011 and December 31, 2010, respectively, and was included in accrued interest and other liabilities on the balance sheet.

In connection with the SWBC and SSB acquisitions, 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 March 31, 2011 and December 31, 2010, the covered loans and covered other real estate owned and the related FDIC indemnification asset (collectively, the "covered assets") and the FDIC true-up provision 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 SWCB and SSB acquisitions, 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 has finalized its analysis of the acquired loans along with the other acquired assets and assumed liabilities in these transactions. No significant adjustments to the estimated amounts and carrying values were required.

During 2010, SFNB acquired the real estate (building and land) for the Springfield, Missouri location (formerly SWCB) for a total of $1.1 million. During the three months ended March 31, 2011, SFNB acquired the real estate for four of the Kansas locations previously owned by SSB related entities for a total of $6.2 million. An option to purchase the remaining SSB owned Kansas locations has been executed with the FDIC, and will be completed with final settlement of SSB with the FDIC. Three locations are leased from third parties and SFNB will continue to lease these facilities.

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, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	December 31, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Treasury	$4,000	$ 29	$ --	$4,029	$4,000	$ 28	$ --	$4,028
U.S. Government agencies	289,844	1,262	(658)	290,448	249,844	1,764	(507)	251,101
Mortgage-backed securities	75	4	--	79	78	4	--	82
State and political subdivisions	206,896	3,309	(541)	209,664	210,331	2,280	(1,845)	210,766
Other securities	930	--	--	930	930			