

SIMMONS FIRST NATIONAL CORP
Form 10-K
March 11, 2014

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2013

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value
(Title of each class)

The NASDAQ Global Select Market®
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
 Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or in information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company []

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

The aggregate market value of the Registrant's Common Stock, par value \$0.01 per share, held by non-affiliates on June 30, 2013, was \$384,422,087 based upon the last trade price as reported on the NASDAQ Global Select Market® of \$26.09.

The number of shares outstanding of the Registrant's Common Stock as of January 31, 2014, was 16,257,603.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 15, 2014.

Introduction

The Company has chosen to combine our Annual Report to Shareholders with our Form 10-K, which is a document that U.S. public companies file with the Securities and Exchange Commission every year. Many readers are familiar with “Part II” of the Form 10-K, as it contains the business information and financial statements that were included in the financial sections of our past Annual Reports. These portions include information about our business that we believe will be of interest to investors. We hope investors will find it useful to have all of this information available in a single document.

The Securities and Exchange Commission allows us to report information in the Form 10-K by “incorporated by reference” from another part of the Form 10-K, or from the proxy statement. You will see that information is “incorporated by reference” in various parts of our Form 10-K.

A more detailed table of contents for the entire Form 10-K follows:

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Signatures

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “estimate,” “expect,” “foresee,” “believe,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company’s future growth, revenue, assets, asset quality, profitability and customer service, critical accounting policies, net interest margin, non-interest revenue, market conditions related to the Company’s stock repurchase program, allowance for loan losses, the effect of certain new accounting standards on the Company’s financial statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

These forward-looking statements involve risks and uncertainties, and may not be realized due to a variety of factors, including, without limitation: the effects of future economic conditions, governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and their effects on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities; the costs of evaluating possible acquisitions and the risks inherent in integrating acquisitions; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet; the failure of assumptions underlying the establishment of reserves for possible loan losses, fair value for covered loans, covered other real estate owned and FDIC indemnification asset; and those factors set forth under Item 1A. Risk-Factors of this report and other cautionary statements set forth elsewhere in this report. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied upon as an indication of future performance.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date hereof. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and all written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this section.

PART I

ITEM 1.

BUSINESS

Company Overview

Simmons First National Corporation (the “Company”) is a multi-bank financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Arkansas with total assets of \$4.4 billion, loans of \$2.4 billion, deposits of \$3.7 billion and equity capital of \$404 million as of December 31, 2013. We own seven community banks that are strategically located throughout Arkansas and conduct our operations through 131 branches, or “financial centers,” located in 63 communities in Arkansas, Missouri and Kansas.

We seek to build shareholder value by (i) focusing on strong asset quality, (ii) maintaining strong capital (iii) managing our liquidity position, (iv) improving our efficiency through specific initiatives and (v) opportunistically growing our business, both organically and through acquisitions of traditional private community banks and potential Federal Deposit Insurance Corporation (“FDIC”)-assisted transactions. We believe the depth and experience of our corporate executive management team and the management teams and directors of each of our community banks has allowed us to achieve excellent asset quality, a strong capital position and increased liquidity, even in the current challenging economic climate.

Subsidiary Banks

Our lead bank, Simmons First National Bank (“SFNB”, or the “lead bank”), is a national bank which has been in operation since 1903. As of December 31, 2013, SFNB had total assets of \$3.2 billion, total loans of \$1.7 billion and total deposits of \$2.7 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of SFNB, performs the trust and fiduciary business operations for SFNB and for our other subsidiary banks. Simmons First Investment Group, Inc., a wholly owned subsidiary of SFNB, is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority and performs the broker-dealer operations for SFNB. Simmons First Capital Management, Inc., a wholly-owned subsidiary of SFNC, is a Registered Investment Advisor.

The following table shows our community subsidiary banks other than the lead bank:

Subsidiary	Year Acquired	Primary Market	As of December 31, 2013		
			Assets	Loans (In thousands)	Deposits
Simmons First Bank of Northeast Arkansas	1984	Northeast Arkansas	\$ 347,943	\$ 290,354	\$ 292,617
Simmons First Bank of South Arkansas	1984	Southeast Arkansas	198,946	104,350	177,382
Simmons First Bank of Russellville	1997	Russellville, Arkansas	187,093	95,654	148,962
Simmons First Bank of Searcy	1997	Searcy, Arkansas	151,871	98,095	115,866
Simmons First Bank of El Dorado	1999	South central Arkansas	214,661	80,881	184,125
Simmons First Bank of Hot Springs	2004	Hot Springs, Arkansas	167,909	76,414	131,567

Our subsidiary banks provide complete banking services to individuals and businesses throughout the market areas they serve. These banks offer consumer (credit card and other consumer), real estate (construction, single family residential and other commercial) and commercial (commercial, agriculture and financial institutions) loans, checking, savings and time deposits, securities and investment services and trust and investment management services (through Simmons First Trust Company N.A.).

Community Bank Strategy

Historically, we have utilized separately chartered community banks, supported by our main bank subsidiary, Simmons First National Bank (“SFNB” or “lead bank”), to provide full service banking products and services across our footprint. Our community banks have featured locally based management and boards of directors, community-focused growth strategies, and flexibility in their pricing of loans and deposits. Through the support of our lead bank we have provided products and services, such as a bank-issued credit card, that are usually offered only by larger banks.

Our separate charter model involved some additional administrative costs as a result of maintaining multiple bank charters, but allowed us to maintain strong management at the local level to meet the needs of local customers while ensuring good asset quality. In addition, we, along with our lead bank, provide efficiencies through consolidated back office support for information systems, loan review, compliance, human resources, accounting and internal audit. Likewise, through a standardizing initiative, our banks have shared a common name, signage and products that enabled us to maximize our branding and overall marketing strategy.

On March 5, 2014, we announced the planned consolidation of our six smaller subsidiary banks into the lead bank, Simmons First National Bank. Three banks, Jonesboro, Searcy and Hot Springs, will merge into SFNB in May, 2014. The remaining three banks, Lake Village, Russellville and El Dorado, will merge into SFNB in August, 2014. We made the decision to consolidate in order to effectively meet the increased regulatory burden facing banks, to reduce certain operating costs and more efficiently perform operational duties. Even though we will be under a single charter after consolidation, SFNB will operate as five separate regions. We will maintain the community banking spirit through local leaders making local decisions guided by local advisory boards. Below is a listing of our proposed regions:

Region	Headquarters
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South Arkansas Region	Pine Bluff, Arkansas
Central/Northeast Arkansas Region	Little Rock, Arkansas
Northwest Arkansas Region	Rogers, Arkansas
Kansas Region	Leawood, Kansas
Missouri Region	Clayton, Missouri

Growth Strategy

Over the past 25 years, as we have expanded our markets and services, our growth strategy has evolved and diversified. From 1989 through 1991, in addition to our internal branching expansion, we acquired nine branches from the Resolution Trust Corporation, the federal agency that oversaw the sale or liquidation of assets of closed savings and loans institutions.

From 1995 to 2005, our strategic focus was on creating geographic diversification throughout Arkansas, driven primarily by acquisitions of other banking institutions. During this period we completed acquisitions of nine financial institutions and a total of 20 branches from five other banking institutions, some of which allowed us to enter key growth markets such as Conway, Hot Springs, Russellville, Searcy and Northwest Arkansas. In 2005, we initiated a de novo branching strategy to enter selected new Arkansas markets and to complement our presence in existing markets. From 2005 to 2008, we opened 12 new financial centers, a regional headquarters in Northwest Arkansas and a corporate office in Little Rock. We substantially completed our de novo branching strategy in 2008.

In late 2007, as we anticipated deteriorating economic conditions, we concentrated on maintaining our strong asset quality, building capital and improving our liquidity position. We intensified our focus on loan underwriting and on monitoring our loan portfolio in order to maintain asset quality, which is well above our peer group and the industry average. From late 2007 to December 31, 2009, our liquidity position (net overnight funds sold) improved by approximately \$150 million as a result of a strategic initiative to introduce deposit products that grew our core deposits in transaction and savings accounts and improved our deposit mix. Transaction and savings deposits increased from 48% of total deposits as of December 31, 2007, to 62% of total deposits as of December 31, 2009, to 63% of total deposits as of December 31, 2010, to 67% of total deposits as of December 31, 2011 and to 70% of total deposits as of December 31, 2012.

In December 2009, we completed a secondary stock offering by issuing a total of 3,047,500 shares of common stock, including the over-allotment, at a price of \$24.50 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately \$70.5 million. The additional capital positioned us to take advantage of unprecedented acquisition opportunities through FDIC-assisted transactions of failed banks.

In 2010, we expanded outside the borders of Arkansas by acquiring two failed institutions through FDIC-assisted transactions. The first was a \$100 million failed bank located in Springfield, Missouri and the second was a \$400 million failed thrift located in Olathe, Kansas. On both transactions, we entered into a loss share agreement with the FDIC, which provides significant protection of 80% of covered assets. As part of the acquisitions, we recognized a pre-tax bargain purchase gain of \$3.0 million and \$18.3 million, respectively, on the Missouri and Kansas transactions.

In 2012, we acquired two additional failed institutions through FDIC-assisted transactions. The first was a \$300 million failed bank located in St. Louis, Missouri and the second was a \$200 million failed bank located in Sedalia, Missouri. On both transactions, we again entered into a loss share agreement with the FDIC to provide 80% protection of a significant portion of the assets. As part of the acquisitions, we recognized a pre-tax bargain purchase gain of \$1.1 million and \$2.3 million, respectively, on the Missouri transactions.

In 2013, we completed the acquisition of Metropolitan National Bank (“Metropolitan” or “MNB”) from Rogers Bancshares, Inc. (“RBI”). The purchase was completed through an auction of the MNB stock by the U. S. Bankruptcy Court as a part of the Chapter 11 proceeding of RBI. MNB, which was headquartered in Little Rock, Arkansas, served central and northwest Arkansas and had total assets of \$950 million. Upon completion of the acquisition, MNB and our Rogers, Arkansas chartered bank, Simmons First Bank of Northwest Arkansas were merged into our lead bank. As an in market acquisition, MNB had significant branch overlap with our existing branch footprint. We will complete the systems conversion for MNB on March 21, 2014 and will simultaneously close 27 branch locations that have overlapping footprints with other remaining locations. We continue to actively pursue additional acquisition opportunities that meet our strategic guidelines regarding mergers and acquisitions.

In September 2011, we reinstated our stock repurchase program as we continued to have one of the strongest capital positions within our peer group. A portion of our capital was allocated for our acquisition program, and we planned to leave this portion available for that purpose. However, we planned to utilize a portion of our annual earnings to repurchase shares from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. In August of 2013, we suspended the stock repurchase program in anticipation of the MNB acquisition.

On March 4, 2014 the Company filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). When declared effective, the shelf registration statement, will allow the Company to raise capital from time to time, up to an aggregate of \$200 million, through the sale of common stock, preferred stock, stock warrants, stock rights or a combination thereof, subject to market conditions. Specific terms and prices will be determined at the time

of any offering under a separate prospectus supplement that the Company is required to file with the SEC at the time of the specific offering.

Acquisition Strategy

The opportunities we saw in FDIC acquisitions are diminishing. There are fewer opportunities today and we expect even fewer in the future. We intend to focus our near term acquisition strategy on traditional acquisitions. We believe that the challenging economic environment combined with more restrictive bank regulatory reforms will cause many financial institutions to seek merger partners in the near to intermediate future. We also believe our community banking philosophy, access to capital and successful acquisition history position us as a purchaser of choice for community banks seeking a strong partner.

We expect that our primary geographic target area for acquisitions will continue to be Arkansas and its contiguous states. Our priority will be to focus on acquisitions that would complement our current footprint in the Arkansas, Kansas and Missouri markets. The senior management teams of both our parent company and lead bank have had extensive experience during the past twenty-five years in acquiring banks, branches and deposits and post-acquisition integration of operations. We believe this experience positions us to successfully acquire and integrate banks.

With respect to negotiated community bank acquisitions:

- We have historically retained the target institution's senior management and have provided them with an appealing level of autonomy post-integration. We intend to continue to pursue negotiated community bank acquisitions and we believe that our history with respect to such acquisitions has positioned us as an acquirer of choice for community banks.
- We encourage acquired community banks, their boards and associates to maintain their community involvement, while empowering the banks to offer a broader array of financial products and services. We believe this approach leads to enhanced profitability after the acquisition.

Loan Risk Assessment

As part of our ongoing risk assessment, the Company has an Asset Quality Review Committee of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for all of its subsidiary banks. The allowance for loan losses is determined based upon the aforementioned performance factors, and adjustments are made accordingly.

The Boards of Directors of each of our subsidiary banks review the adequacy of its allowance for loan losses on a monthly basis giving consideration to past due loans, non-performing loans, other impaired loans, and current economic conditions. Our loan review department monitors each of its subsidiary bank's loan information monthly. In addition, the loan review department prepares an analysis of the allowance for loan losses for each subsidiary bank twice a year, and reports the results to our Audit and Security Committee. In order to verify the accuracy of the monthly analysis of the allowance for loan losses, the loan review department performs a detailed review of each subsidiary bank's loan files on a semi-annual basis. Additionally, we have instituted a Special Asset Committee for the purpose of reviewing criticized loans in regard to collateral adequacy, workout strategies and proper reserve allocations.

The SFNB Board of Directors has delegated oversight of all acquired assets (covered and not covered by FDIC loss share agreements) to the Acquired Asset Loan Committee, comprised of the Corporate CEO, President and an Executive Vice President, along with several SFNB executives. The Board authorizes the Committee to transact loan origination, renewal and workout procedures relative to FDIC-assisted and traditional acquisitions.

Competition

There is significant competition among commercial banks in our various market areas. In addition, we also compete with other providers of financial services, such as savings and loan associations, credit unions, finance companies, securities firms, insurance companies, full service brokerage firms and discount brokerage firms. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, the rates of interest charged on loans, the rates of interest paid for funds, and the availability and pricing of trust and brokerage services.

Principal Offices and Available Information

Our principal executive offices are located at 501 Main Street, Pine Bluff, Arkansas 71601, and our telephone number is (870) 541-1000. We also have corporate offices in Little Rock, Arkansas. We maintain a website at <http://www.simmonsfirst.com>. On this website under the section "Investor Relations", we make our filings with the Securities and Exchange Commission available free of charge, along with other Company news and announcements.

Employees

As of January 31, 2014, the Company and its subsidiaries had approximately 1,306 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good.

Executive Officers of the Company

The following is a list of all executive officers of the Company. The Board of Directors elects executive officers annually.

NAME	AGE	POSITION	YEARS SERVED
George A. Makris, Jr. (1)	57	Chairman and Chief Executive Officer	1
David L. Bartlett	62	President and Chief Banking Officer	17
Robert A. Fehlman	49	Senior Executive Vice President, Chief Financial Officer and Treasurer	25
Marty D. Casteel	62	Executive Vice President and Secretary	25
David W. Garner	44	Executive Vice President, Controller and Chief Accounting Officer	16
Susan F. Smith	52	Executive Vice President/Corporate Strategy and Performance	16
Kevin J. Archer	50	Senior Vice President/Credit Policy and Risk Assessment	18
Sharon K. Burdine	48	Senior Vice President and Human Resources Director	16
Tina M. Groves	44	Senior Vice President/Manager, Audit/Compliance	8

(1)Mr. Makris was elected as CEO - Elect on August 13, 2012, effective January 1, 2013. He succeeded J. Thomas May as Chairman and Chief Executive Officer upon Mr. May's retirement on December 31, 2013.

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2013, along with their principal occupation.

NAME	PRINCIPAL OCCUPATION
George A. Makris, Jr. (1)	Chairman and Chief Executive Officer Simmons First National Corporation
David L. Bartlett	President and Chief Banking Officer Simmons First National Corporation