SIMMONS FIRST NATIONAL CORP
Form 10-Q
May 08, 2018

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, 2018 Commission File Number 000-06253

(Exact name of registrant as specified in its charter)

Arkansas	71-0407808
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas	71601
(Address of principal executive offices)	(Zip Code)

(870) 541-1000

(Registrant's telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant’s Common Stock as of April 25, 2018, was 92,243,103.

Simmons First National Corporation

Quarterly Report on Form 10-Q

March 31, 2018

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Part I: Financial Information
Item 1. Financial Statements (Unaudited)

Simmons First National Corporation

Consolidated Balance Sheets

March 31, 2018 and December 31, 2017

(In thousands, except share data)	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and non-interest bearing balances due from banks	$170,811	$205,025
Interest bearing balances due from banks and federal funds sold	688,853	393,017
Cash and cash equivalents	859,664	598,042
Interest bearing balances due from banks - time	3,069	3,314
Investment securities:		
Held-to-maturity	352,756	368,058
Available-for-sale	1,830,113	1,589,517
Total investments	2,182,869	1,957,575
Mortgage loans held for sale	17,708	24,038
Other assets held for sale	24,784	165,780
Loans:		
Legacy loans	6,290,383	5,705,609
Allowance for loan losses	(47,207)	(41,668)
Loans acquired, net of discount and allowance	4,696,945	5,074,076
Net loans	10,940,121	10,738,017
Premises and equipment	289,355	287,249
Foreclosed assets and other real estate owned	29,140	32,118
Interest receivable	42,129	43,528
Bank owned life insurance	186,473	185,984
Goodwill	845,687	842,651
Other intangible assets	99,504	106,071
Other assets	76,806	71,439
Total assets	$15,597,309	$15,055,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$2,734,287	$2,665,249
Interest bearing transaction accounts and savings deposits	6,720,754	6,494,896
Time deposits	2,201,874	1,932,730
Total deposits	11,656,915	11,092,875
Federal funds purchased and securities sold under agreements to repurchase	120,909	122,444
Other borrowings	1,140,986	1,380,024

Subordinated notes and debentures	468,465	140,565
Other liabilities held for sale	2,781	157,366
Accrued interest and other liabilities	98,202	77,968
Total liabilities	13,488,258	12,971,242
Stockholders’ equity:		
Common stock, Class A, $0.01 par value; 120,000,000 shares authorized [(1)]; 92,242,389 and 92,029,118 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	922	920
Surplus	1,590,086	1,586,034
Undivided profits	552,105	514,874
Accumulated other comprehensive loss	(34,062)	(17,264)
Total stockholders’ equity	2,109,051	2,084,564
Total liabilities and stockholders’ equity	$15,597,309	$15,055,806

(1) On April 19, 2018, shareholders of the Company approved an increase in the number of authorized shares from 120,000,000 to 175,000,000.

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Income

Three Months Ended March 31, 2018 and 2017

(In thousands, except per share data [1])	Three Months Ended March 31, 2018	2017
	(Unaudited)	
INTEREST INCOME		
Loans	$143,350	$68,728
Interest bearing balances due from banks and federal funds sold	1,009	122
Investment securities	12,622	9,451
Mortgage loans held for sale	158	126
TOTAL INTEREST INCOME	157,139	78,427
INTEREST EXPENSE		
Deposits	15,597	4,204
Federal funds purchased and securities sold under agreements to repurchase	110	75
Other borrowings	5,139	1,194
Subordinated notes and debentures	1,327	574
TOTAL INTEREST EXPENSE	22,173	6,047
NET INTEREST INCOME	134,966	72,380
Provision for loan losses	9,150	4,307
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	125,816	68,073
NON-INTEREST INCOME		
Trust income	5,249	4,212
Service charges on deposit accounts	10,345	8,102
Other service charges and fees	2,750	2,197
Mortgage and SBA lending income	4,445	2,423
Investment banking income	834	690
Debit and credit card fees	8,796	7,934
Bank owned life insurance income	1,103	818
Gain on sale of securities, net	6	63
Other income	4,007	3,621
TOTAL NON-INTEREST INCOME	37,535	30,060
NON-INTEREST EXPENSE		
Salaries and employee benefits	56,357	35,536
Occupancy expense, net	6,960	4,663
Furniture and equipment expense	4,403	4,443
Other real estate and foreclosure expense	1,020	589

Deposit insurance	2,128	680
Merger related costs	1,711	524
Other operating expenses	25,494	19,887
TOTAL NON-INTEREST EXPENSE	98,073	66,322
INCOME BEFORE INCOME TAXES	65,278	31,811
Provision for income taxes	13,966	9,691
NET INCOME	$51,312	$22,120
BASIC EARNINGS PER SHARE	$0.56	$0.35
DILUTED EARNINGS PER SHARE	$0.55	$0.35

(1) All per share amounts have been restated to reflect the effect of the two-for-one stock split on February 8, 2018.

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Comprehensive Income

Three Months Ended March 31, 2018 and 2017

(In thousands)	Three Months Ended March 31, 2018	2017
	(Unaudited)	
NET INCOME	$51,312	$22,120
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(22,735)	1,567
Less: Reclassification adjustment for realized gains included in net income	6	63
Other comprehensive (loss) gain, before tax effect	(22,741)	1,504
Less: Tax effect of other comprehensive (loss) income	(5,943)	590
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(16,798)	914
COMPREHENSIVE INCOME	$34,514	$23,034

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(In thousands)	March 31, 2018 (Unaudited)	March 31, 2017
OPERATING ACTIVITIES		
Net income	$51,312	$22,120
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,677	4,953
Provision for loan losses	9,150	4,307
Gain on sale of investments	(6)	(63)
Net accretion of investment securities and assets	(14,368)	(6,766)
Net (accretion) amortization on borrowings	(211)	106
Stock-based compensation expense	2,585	2,329
Loss on sale of premises and equipment, net of impairment	--	43
Loss (gain) on sale of foreclosed assets held for sale	41	(326)
Gain on sale of mortgage loans held for sale	(2,610)	(2,360)
Deferred income taxes	3,921	3,090
Increase in cash surrender value of bank owned life insurance	(1,103)	(818)
Originations of mortgage loans held for sale	(113,012)	(88,870)
Proceeds from sale of mortgage loans held for sale	121,952	109,264
Changes in assets and liabilities:		
Interest receivable	1,582	1,699
Assets held in trading accounts	--	(14)
Other assets	(5,648)	3,901
Accrued interest and other liabilities	33,983	(16,913)
Income taxes payable	(13,955)	6,123
Net cash provided by operating activities	80,290	41,805
INVESTING ACTIVITIES		
Net originations of loans	(140,804)	(144,651)
Decrease in due from banks - time	245	--
Purchases of premises and equipment, net	(6,052)	(25,924)
Proceeds from sale of premises and equipment	--	1,394
Proceeds from sale of foreclosed assets held for sale	4,359	2,844
Proceeds from sale of available-for-sale securities	7,726	--
Proceeds from maturities of available-for-sale securities	58,548	26,373
Purchases of available-for-sale securities	(320,798)	(123,787)
Proceeds from maturities of held-to-maturity securities	15,512	32,051
Purchases of held-to-maturity securities	--	(860)
Proceeds from bank owned life insurance death benefits	616	--
Disposition of assets and liabilities held for sale	(75,586)	--
Net cash used in investing activities	(456,234)	(232,560)

FINANCING ACTIVITIES		
Net change in deposits	564,040	53,069
Proceeds from issuance of subordinated notes	326,711	--
Dividends paid on common stock	(14,081)	(7,845)
Net change in other borrowed funds	(239,038)	167,915
Net change in federal funds purchased and securities sold under agreements to repurchase	(1,535)	(5,022)
Net shares issued under stock compensation plans	1,469	2,260
Net cash provided by financing activities	637,566	210,377
INCREASE IN CASH AND CASH EQUIVALENTS	261,622	19,622
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	598,042	285,659
CASH AND CASH EQUIVALENTS, END OF PERIOD	$859,664	$305,281

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Three Months Ended March 31, 2018 and 2017

(In thousands, except share data [1])	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2016	$ 626	$711,663	$ (15,212)	$454,034	$1,151,111
Comprehensive income	--	--	914	22,120	23,034
Stock issued for employee stock purchase plan – 26,002 shares	--	618	--	--	618
Stock-based compensation plans, net – 195,266	2	3,969	--	--	3,971
Dividends on common stock – $0.125 per share	--	--	--	(7,845)	(7,845)
Balance, March 31, 2017 (Unaudited)	628	716,250	(14,298)	468,309	1,170,889
Comprehensive income	--	--	50	70,820	70,870
Reclassify stranded tax effects due to 2017 tax law changes	--	--	(3,016)	3,016	--
Stock-based compensation plans, net – 164,020	1	8,969	--	--	8,970
Stock issued for Hardeman acquisition – 1,599,940 common shares	16	42,622	--	--	42,638
Stock issued for OKSB acquisition – 14,488,604 common shares	145	431,253	--	--	431,398
Stock issued for First Texas acquisition – 12,999,840 common shares	130	386,940	--	--	387,070
Cash dividends – $0.375 per share	--	--	--	(27,271)	(27,271)
Balance, December 31, 2017	920	1,586,034	(17,264)	514,874	2,084,564
Comprehensive income	--	--	(16,798)	51,312	34,514
Stock issued for employee stock purchase plan – 39,782 shares	--	1,026	--	--	1,026
Stock-based compensation plans, net – 173,489	2	3,026	--	--	3,028
Dividends on common stock – $0.15 per share	--	--	--	(14,081)	(14,081)
Balance, March 31, 2018 (Unaudited)	$ 922	$1,590,086	$ (34,062)	$552,105	$2,109,051

(1) All share and per share amounts have been restated to reflect the effect of the two-for-one stock split on February 8, 2018.

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: PREPARATION OF INTERIM FINANCIAL STATEMENTS

Organizational Structure

Simmons First National Corporation (the “Company”) is a publicly traded financial holding company that trades on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “SFNC” and the parent of Simmons Bank, an Arkansas state-chartered bank that began as a community bank in 1903, and Bank SNB, an Oklahoma state-chartered bank that was acquired in October 2017 through the Company’s merger with Southwest Bancorp, Inc. Simmons Bank is also the parent of Simmons First Investment Group, Inc. (a dually registered broker-dealer and investment adviser), Simmons First Insurance Services, Inc. (an insurance company), and Simmons First Insurance Services of TN, LLC (an insurance agency).

Description of Business

The Company is headquartered in Pine Bluff, Arkansas and conducts banking operations in communities throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas. The Company offers consumer, real estate and commercial loans, checking, savings and time deposits from 200 financial centers conveniently located throughout its market areas. Additionally, the Company offers specialized products and services such as credit cards, trust and fiduciary services, investments, agricultural finance lending, equipment lending, insurance and small business administration (“SBA”) lending.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (“SEC”) rules that permit reduced disclosures for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2017, was derived from audited financial statements. In the opinion of management, these financial statements reflect all adjustments that are necessary for a fair presentation of interim results of operations, including normal recurring accruals. Significant intercompany accounts and transactions have been eliminated in consolidation. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 28, 2018.

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States ("US GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income items and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements and actual results may differ from these estimates. Such estimates include, but are not limited to, the Company's allowance for loan losses.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact previously reported net income or comprehensive income.

Recently Adopted Accounting Standards

Reporting Comprehensive Income – In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)* ("ASU 2018-02"), that allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the tax reform legislation signed into law in December 2017 ("2017 Act"). Current US GAAP requires the remeasurement of deferred tax assets and liabilities as a result of a change in tax laws or rates to be presented in net income from continuing operations. Consequently, the original deferred tax amount recorded through AOCI at the old rate will remain in AOCI despite the fact that its related deferred tax asset/liability will be reduced through continuing operations to reflect the new rate, resulting in "stranded" tax effects in AOCI. ASU 2018-02 requires a reclassification from AOCI to retained earnings for those stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of reclassification would be the difference between 1) the amount initially charged or credited directly to other comprehensive income at the previous enacted federal corporate income tax rate that remains in AOCI and 2) the amount that would have been charged or credited using the newly enacted federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As permitted, the Company elected to early adopt the provisions of ASU 2018-02 during the fourth quarter 2017, which resulted in a reclassification from AOCI to retained earnings in the amount of $3.0 million related to the change in federal corporate tax rate.

Stock Compensation: Scope of Modification Accounting – In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), that provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. The guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting and the guidance should be applied prospectively to an award modified on or after the adoption date. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. Currently, the Company has not modified any existing awards nor has any plans to do so, therefore the adoption of ASU 2017-09 has not had a material effect on the Company's results of operations, financial position or disclosures.

Premium Amortization on Purchased Callable Debt Securities – In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08"), that amends the amortization period for certain purchased callable debt securities held at a premium. Specifically, the amendments shorten the amortization period by requiring that the premium be amortized to the earliest call date. Under previous US GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As permitted, the Company elected to early adopt the provisions of ASU 2017-08 during the first quarter 2017. The adoption of this standard did not have a material effect on the Company's results of operations, financial position or disclosures.

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The amendments also provide guidance on when an entity should separate or aggregate cash flows based on the predominance principle. The effective date is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard is required to be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. The adoption of 2016-15 did not have a material impact on the Company's results of operations, financial position or disclosures since the amendment applies to the classification of cash flows. The adoption did not have a material impact on the consolidated statement of cash flows.

Financial Assets and Financial Liabilities – In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), that makes changes primarily affecting the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. In February 2018, the FASB issued 2018-03 that clarified certain guidance and contained narrow scope amendments. The effective date is for fiscal periods beginning after

December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 did not have a material impact on the Company's results of operations or financial position. However, this new guidance requires the disclosed estimated fair value of the Company's loan portfolio to be based on an exit price calculation, which considers liquidity, credit and nonperformance risk of its loans. The adoption of 2016-01 did not have a material impact on the Company's fair value disclosures.

Revenue Recognition – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), that outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers. The core principle of this revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. In July 2015, the FASB issued ASU No. 2015-14, deferring the effective date to annual and interim periods beginning after December 15, 2017. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other US GAAP, which comprises a significant portion of the Company's revenue stream. However, the updated guidance affects the revenue recognition pattern for certain revenue streams, including service charges on deposit accounts, gains/losses on sale of other real estate owned ("OREO"), and trust income. The adoption of this standard did not have a material effect on the Company's results of operations, financial position or disclosures. See below "Revenue from Contracts with Customers" for additional information.

Recently Issued Accounting Standards

Derivatives and Hedging: Targeted Improvements – In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging* Activities ("ASU 2017-12"), that changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in order to better align a company's risk management activities and financial reporting for hedging relationships. In summary, this amendment 1) expands the types of transactions eligible for hedge accounting; 2) eliminates the separate measurement and presentation of hedge ineffectiveness; 3) simplifies the requirements around the assessment of hedge effectiveness; 4) provides companies more time to finalize hedge documentation; and 5) enhances presentation and disclosure requirements. The effective date is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. All transition requirements and elections should be applied to existing hedging relationships on the date of adoption and the effects should be reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact this standard will have on its results of operations, financial position or disclosures, but it is not expected to have a material impact.

Goodwill Impairment – In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), that eliminates Step 2 from the goodwill impairment test which required entities to compare the implied fair value of goodwill to its carrying amount. Under the amendments, the goodwill impairment will be measured as the excess of the reporting unit's carrying amount over its fair value. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The effective date is for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual impairment tests beginning in 2017. ASU 2017-04 is not expected to have a material effect on the Company's results of operations, financial position or disclosures.

Credit Losses on Financial Instruments – In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires earlier measurement of credit losses, expands the range of information considered in determining expected credit losses and enhances disclosures. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective date for these amendments is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has formed a cross functional team that is assessing its data and system needs and evaluating the potential impact of adopting the new guidance. The Company anticipates a significant change in the processes and procedures to calculate the loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact on its results of operations, financial position or disclosures. However, the Company has begun developing processes and procedures to ensure it is fully compliant at the required adoption date. Among other things, the Company has initiated data gathering and assessment to support forecasting of asset quality, loan balances, and portfolio net charge-offs and developing asset quality forecast models in preparation for the implementation of this standard.

Leases – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), that establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new guidance results in a more consistent representation of the rights and obligations arising from leases by requiring lessees to recognize the lease asset and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Based upon leases that were outstanding as of March 31, 2018, the Company does not expect the new standard to have a material impact on its results of operations, but anticipates increases in its assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact the level of materiality.

There have been no other significant changes to the Company’s accounting policies from the 2017 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on its present or future financial position or results of operations.

Revenue from Contracts with Customers

Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, applies to all contracts with customers to provide goods or services in the ordinary course of business. However, Topic 606 specifically does not apply to revenue related to financial instruments, guarantees, insurance contracts, leases, or nonmonetary exchanges. Given these scope exceptions, interest income recognition and measurement related to loans and investments securities, the Company’s two largest sources of revenue, are not accounted for under Topic 606. Also, the Company does not use Topic 606 to account for gains or losses on its investments in securities, loans, and derivatives due to the scope exceptions.

Certain revenue streams, such as service charges on deposit accounts, gains or losses on the sale of OREO, and trust income, fall under the scope of Topic 606 and the Company must recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 is applied using five steps: 1) identify the contract with the customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company has evaluated the nature of all contracts with customers that fall under the scope of Topic 606 and determined that further disaggregation of revenue from contracts with customers into categories was not necessary. There has not been significant revenue recognized in the current reporting period resulting from performance obligations satisfied in previous periods. In addition, there has not been a significant change in timing of revenues received from customers.

A description of performance obligations for each type of contract with customers is as follows:

<u>Service charges on deposit accounts</u> – The Company’s primary source of funding comes from deposit accounts with its customers. Customers pay certain fees to access their cash on deposit including, but not limited to, non-transactional fees such as account maintenance, dormancy or statement rendering fees, and certain transaction-based fees such as ATM, wire transfer, overdraft or returned check fees. The Company generally satisfies its performance obligations as services are rendered. The transaction prices are fixed, and are charged either on a periodic basis or based on activity.

Sale of OREO – In the normal course of business, the Company will enter into contracts with customers to sell OREO, which has generally been foreclosed upon by the Company. The Company generally satisfies its performance obligation upon conveyance of property from the Company to the customer, generally by way of an executed agreement. The transaction price is fixed, and on occasion the Company will finance a portion of the proceeds the customers uses to purchase the property. These properties are generally sold without recourse or warranty.

Trust Income – The Company enters into contracts with its customers to manage assets for investment, and/or transact on their accounts. The Company generally satisfies its performance obligations as services are rendered. The management fee is a fixed percentage-based fee calculated upon the average balance of assets under management and is charged to customers on a monthly basis.

Acquisition Accounting, Loans Acquired

The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the loans acquired 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, *Fair Value Measurement*. 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.

The Company evaluates non-impaired loans acquired in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. The Company evaluates purchased impaired loans in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, the Company continues to estimate cash flows expected to be collected on purchased credit impaired loans. The Company evaluates, at each balance sheet date, whether the present value of the purchased credit impaired loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in the consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the remaining life of the purchased credit impaired loan.

For further discussion of acquisition and loan accounting, see Note 2, Acquisitions, and Note 6, Loans Acquired.

NOTE 2: ACQUISITIONS

Southwest Bancorp, Inc.

On October 19, 2017, the Company completed the acquisition of Southwest Bancorp, Inc. (“OKSB”) headquartered in Stillwater, Oklahoma, including its wholly-owned bank subsidiary, Bank SNB. The Company issued 14,488,604 shares of its common stock valued at approximately $431.4 million as of October 19, 2017, plus $94.9 million in cash in exchange for all outstanding shares of OKSB common stock.

Prior to the acquisition, OKSB conducted banking business from 29 branches located in Texas, Oklahoma, Kansas and Colorado. In addition, OKSB owned a loan production office in Denver, Colorado. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $2.7 billion in assets, including approximately $2.0 billion in loans (inclusive of loan discounts) and approximately $2.0 billion in deposits. The systems conversion is planned to occur late May 2018, at which time the subsidiary bank will be merged into Simmons Bank.

Goodwill of $229.1 million was recorded as a result of the transaction. The acquisition allowed the Company to enter the Texas, Oklahoma, and Colorado banking markets and it also strengthened the Company’s Kansas franchise and its product offerings in the healthcare and real estate industries, all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the OKSB transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from OKSB	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$79,517	$ --	$79,517
Investment securities	485,468	(1,295)	484,173
Loans acquired	2,039,524	(43,071)	1,996,453
Allowance for loan losses	(26,957)	26,957	--
Foreclosed assets	6,284	(1,127)	5,157
Premises and equipment	21,210	5,457	26,667
Bank owned life insurance	28,704	--	28,704
Goodwill	13,545	(13,545)	--
Core deposit intangible	1,933	40,191	42,124
Other intangibles	3,806	--	3,806
Other assets	33,455	(9,141)	24,314
Total assets acquired	$2,686,489	$ 4,426	$2,690,915

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Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$485,971	$--	$485,971
Interest bearing transaction accounts and savings deposits	869,252	--	869,252
Time deposits	613,345	(2,213)	611,132
Total deposits	1,968,568	(2,213)	1,966,355
Securities sold under agreement to repurchase	11,256	--	11,256
Other borrowings	347,000	--	347,000
Subordinated debentures	46,393	--	46,393
Accrued interest and other liabilities	17,440	5,364	22,804
Total liabilities assumed	2,390,657	3,151	2,393,808
Equity	295,832	(295,832)	--
Total equity assumed	295,832	(295,832)	--
Total liabilities and equity assumed	$2,686,489	$(292,681)	$2,393,808
Net assets acquired			297,107
Purchase price			526,251
Goodwill			$229,144

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. Management will continue to review the estimated fair values and evaluate the assumed tax positions. The Company expects to finalize its analysis of the acquired assets and assumed liabilities in this transaction over the next few months, within one year of the acquisition. Therefore, adjustments to the estimated amounts and carrying values may occur.

The Company’s operating results for all periods presented include the operating results of the acquired assets and assumed liabilities of OKSB subsequent to the acquisition date.

First Texas BHC, Inc.

On October 19, 2017, the Company completed the acquisition of First Texas BHC, Inc. (“First Texas”) headquartered in Fort Worth, Texas, including its wholly-owned bank subsidiary, Southwest Bank. The Company issued 12,999,840 shares of its common stock valued at approximately $387.1 million as of October 19, 2017, plus $70.0 million in cash in exchange for all outstanding shares of First Texas common stock.

Prior to the acquisition, First Texas operated 15 banking centers, a trust office and a limited service branch in north Texas and a loan production office in Austin, Texas. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $2.4 billion in assets, including approximately $2.2 billion in loans (inclusive of loan discounts) and approximately $1.9 billion in deposits. The Company completed the systems conversion and merged First Texas into Simmons Bank in February 2018.

Goodwill of $240.8 million was recorded as a result of the transaction. The acquisition allowed the Company to enter the Texas banking markets and it also strengthened the Company's specialty product offerings in the area of SBA lending and trust services, all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the First Texas transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from First Texas	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$59,277	$ --	$59,277
Investment securities	81,114	(596)	80,518
Loans acquired	2,246,212	(37,834)	2,208,378
Allowance for loan losses	(20,864)	20,664	(200)
Premises and equipment	24,864	10,123	34,987
Bank owned life insurance	7,190	--	7,190
Goodwill	37,227	(37,227)	--
Core deposit intangible	--	7,328	7,328
Other assets	18,263	11,485	29,748
Total assets acquired	$2,453,283	$ (26,057)	$2,427,226
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$74,410	$ --	$74,410
Interest bearing transaction accounts and savings deposits	1,683,298	--	1,683,298
Time deposits	124,233	(283)	123,950
Total deposits	1,881,941	(283)	1,881,658
Securities sold under agreement to repurchase	50,000	--	50,000
Other borrowings	235,000	--	235,000
Subordinated debentures	30,323	589	30,912
Accrued interest and other liabilities	11,727	1,669	13,396
Total liabilities assumed	2,208,991	1,975	2,210,966
Equity	244,292	(244,292)	--
Total equity assumed			