SIMMONS FIRST NATIONAL CORP
Form 10-Q
August 07, 2017

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 June 30, 2017 Commission File Number 000-06253

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. 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, a non-accelerated filer, a 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 July 27, 2017, was 32,213,638.

Simmons First National Corporation

Quarterly Report on Form 10-Q

June 30, 2017

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Part I: Financial Information

Item 1. Financial Statements (Unaudited)

Simmons First National Corporation

Consolidated Balance Sheets

June 30, 2017 and December 31, 2016

(In thousands, except share data)	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and non-interest bearing balances due from banks	$112,567	$117,007
Interest bearing balances due from banks	212,547	168,652
Federal funds sold	4,500	--
Cash and cash equivalents	329,614	285,659
Interest bearing balances due from banks - time	6,057	4,563
Investment securities		
Held-to-maturity	419,003	462,096
Available-for-sale	1,190,600	1,157,354
Total investments	1,609,603	1,619,450
Mortgage loans held for sale	16,266	27,788
Assets held in trading accounts	50	41
Loans:		
Legacy loans	5,000,572	4,327,207
Allowance for loan losses	(41,379)	(36,286)
Loans acquired, net of discount and allowance	1,224,739	1,305,683
Net loans	6,183,932	5,596,604
Premises and equipment	230,641	199,359
Premises held for sale	--	6,052
Foreclosed assets	26,012	26,895
Interest receivable	27,337	27,788
Bank owned life insurance	148,134	138,620
Goodwill	379,437	348,505
Other intangible assets	58,528	52,959
Other assets	52,697	65,773
Total assets	$9,068,308	$8,400,056

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Non-interest bearing transaction accounts	$1,650,986	$1,491,676
Interest bearing transaction accounts and savings deposits	4,141,426	3,956,483
Time deposits	1,311,123	1,287,060
Total deposits	7,103,535	6,735,219
Federal funds purchased and securities sold under agreements to repurchase	121,419	115,029
Other borrowings	474,962	273,159
Subordinated debentures	67,312	60,397
Accrued interest and other liabilities	67,004	65,141
Total liabilities	7,834,232	7,248,945
Stockholders' equity:		
Common stock, Class A, $0.01 par value; 120,000,000 shares authorized; 32,212,832 and 31,277,723 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	322	313
Surplus	761,754	711,976
Undivided profits	483,322	454,034
Accumulated other comprehensive loss	(11,322)	(15,212)
Total stockholders' equity	1,234,076	1,151,111
Total liabilities and stockholders' equity	$9,068,308	$8,400,056

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Income

Three and Six Months Ended June 30, 2017 and 2016

(In thousands, except per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$73,549	$63,009	$142,277	$129,688
Federal funds sold	13	17	14	27
Investment securities	9,990	8,499	19,441	17,005
Mortgage loans held for sale	145	295	271	572
Assets held in trading accounts	--	3	--	9
Interest bearing balances due from banks	201	77	322	220
TOTAL INTEREST INCOME	83,898	71,900	162,325	147,521
INTEREST EXPENSE				
Deposits	4,816	3,776	9,020	7,430
Federal funds purchased and securities sold under agreements to repurchase	92	59	167	125
Other borrowings	1,559	938	2,753	2,065
Subordinated debentures	619	544	1,193	1,087
TOTAL INTEREST EXPENSE	7,086	5,317	13,133	10,707
NET INTEREST INCOME	76,812	66,583	149,192	136,814
Provision for loan losses	7,023	4,616	11,330	7,439
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	69,789	61,967	137,862	129,375
NON-INTEREST INCOME				
Trust income	4,113	3,656	8,325	7,287
Service charges on deposit accounts	8,483	7,661	16,585	14,977
Other service charges and fees	2,515	2,718	4,712	5,585
Mortgage and SBA lending income	3,961	4,730	6,384	7,564
Investment banking income	637	1,181	1,327	1,865
Debit and credit card fees	8,659	7,688	16,593	14,888
Bank owned life insurance income	859	826	1,677	1,824
Gain on sale of securities	2,236	3,759	2,299	4,088
Other income	4,281	4,669	7,902	8,319
TOTAL NON-INTEREST INCOME	35,744	36,888	65,804	66,397
NON-INTEREST EXPENSE				

Salaries and employee benefits	34,205	33,103	69,741	67,877
Occupancy expense, net	4,868	4,990	9,531	9,461
Furniture and equipment expense	4,550	4,077	8,993	8,023
Other real estate and foreclosure expense	517	967	1,106	1,934
Deposit insurance	780	1,096	1,460	2,244
Merger related costs	6,603	372	7,127	465
Other operating expenses	19,885	19,532	39,772	35,927
TOTAL NON-INTEREST EXPENSE	71,408	64,137	137,730	125,931
INCOME BEFORE INCOME TAXES	34,125	34,718	65,936	69,841
Provision for income taxes	11,060	11,809	20,751	23,427
NET INCOME	23,065	22,909	45,185	46,414
Preferred stock dividends	--	--	--	24
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$23,065	$22,909	$45,185	$46,390
BASIC EARNINGS PER SHARE	$0.72	$0.75	$1.43	$1.53
DILUTED EARNINGS PER SHARE	$0.72	$0.75	$1.42	$1.52

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Comprehensive Income

Three and Six Months Ended June 30, 2017 and 2016

(In thousands, except per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
	(Unaudited)		(Unaudited)	
NET INCOME	$23,065	$22,909	$45,185	$46,414
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains arising during the period on available-for-sale securities	7,133	4,865	8,700	15,446
Less: Reclassification adjustment for realized gains included in net income	2,236	3,759	2,299	4,088
Other comprehensive gain, before tax effect	4,897	1,106	6,401	11,358
Less: Tax effect of other comprehensive gain	1,921	434	2,511	4,455
TOTAL OTHER COMPREHENSIVE INCOME	2,976	672	3,890	6,903
COMPREHENSIVE INCOME	$26,041	$23,581	$49,075	$53,317

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016

(In thousands)	June 30, 2017 (Unaudited)	June 30, 2016
OPERATING ACTIVITIES		
Net income	$45,185	$46,414
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,649	8,039
Provision for loan losses	11,330	7,439
Gain on sale of available-for-sale securities	(2,299)	(4,088)
Net accretion of investment securities and assets	(13,884)	(15,810)
Net amortization on borrowings	213	208
Stock-based compensation expense	3,958	1,719
(Gain) loss on sale of premises and equipment, net of impairment	(615)	3,000
Gain on sale of foreclosed assets held for sale	(141)	(1,180)
Gain on sale of mortgage loans held for sale	(5,432)	(6,584)
Deferred income taxes	2,230	615
Increase in cash surrender value of bank owned life insurance	(1,677)	(1,824)
Originations of mortgage loans held for sale	(222,946)	(293,929)
Proceeds from sale of mortgage loans held for sale	239,900	300,249
Changes in assets and liabilities:		
Interest receivable	2,283	1,643
Assets held in trading accounts	(9)	(2,899)
Other assets	11,656	17,239
Accrued interest and other liabilities	(12,949)	(11,088)
Income taxes payable	9,471	(3,142)
Net cash provided by operating activities	75,923	46,021
INVESTING ACTIVITIES		
Net originations of loans	(340,457)	(89,962)
(Increase) decrease in due from banks - time	490	4,326
Purchases of premises and equipment, net	(26,664)	(4,044)
Proceeds from sale of premises and equipment	3,475	--
Proceeds from sale of foreclosed assets held for sale	7,510	19,364
Proceeds from sale of available-for-sale securities	326,937	232,806
Proceeds from maturities of available-for-sale securities	17,720	61,164
Purchases of available-for-sale securities	(197,439)	(280,506)
Proceeds from maturities of held-to-maturity securities	44,240	79,976
Purchases of held-to-maturity securities	(860)	(6,162)
Proceeds from the sale of held-to-maturity securities	441	--
Proceeds from bank owned life insurance death benefits	--	1,876

Purchases of bank owned life insurance	(25)	(25)
Cash paid in business combinations, net of cash received	(22,000)	--
Net cash (used in) provided by investing activities	(186,632)	18,813
FINANCING ACTIVITIES		
Net change in deposits	(20,660)	(57,893)
Repayments of subordinated debentures	--	(594)
Dividends paid on preferred stock	--	(24)
Dividends paid on common stock	(15,897)	(14,514)
Net change in other borrowed funds	198,803	29,538
Net change in federal funds purchased and securities sold under agreements to repurchase	(10,773)	3,640
Net shares issued under stock compensation plans	3,191	4,210
Redemption of preferred stock	--	(30,852)
Net cash provided by (used in) financing activities	154,664	(66,489)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,955	(1,655)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	285,659	252,262
CASH AND CASH EQUIVALENTS, END OF PERIOD	$329,614	$250,607

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2017 and 2016

(In thousands, except share data)	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2015	$30,852	$ 303	$662,378	$ (2,665)	$385,987	$1,076,855
Comprehensive income				6,903	46,414	53,317
Stock issued for employee stock purchase plan – 6,002 shares	--	--	231	--	--	231
Stock-based compensation plans, net – 131,546 shares	--	1	5,697	--	--	5,698
Preferred stock redeemed	(30,852)	--	--	--	--	(30,852)
Dividends on preferred stock	--	--	--	--	(24)	(24)
Dividends on common stock – $0.48 per share	--	--	--	--	(14,514)	(14,514)
Balance, June 30, 2016 (Unaudited)	--	304	668,306	4,238	417,863	1,090,711
Comprehensive income	--	--	--	(19,450)	50,400	30,950
Stock issued for employee stock purchase plan – 9,733 shares	--	--	355	--	--	355
Stock-based compensation plans, net – 16,269 shares	--	1	2,071	--	--	2,072
Stock issued for Citizens National acquisition – 835,741 common shares	--	8	41,244	--	--	41,252
Cash dividends – $0.48 per share	--	--	--	--	(14,229)	(14,229)
Balance, December 31, 2016	--	313	711,976	(15,212)	454,034	1,151,111
Comprehensive income				3,890	45,185	49,075
Stock issued for employee stock purchase plan – 13,001 shares	--	--	618	--	--	618
Stock-based compensation plans, net – 122,138 shares	--	1	6,530	--	--	6,531
Stock issued for Hardeman acquisition – 799,970 common shares	--	8	42,630	--	--	42,638
Dividends on common stock – $0.50 per share	--	--	--	--	(15,897)	(15,897)
Balance, June 30, 2017 (Unaudited)	$--	$ 322	$761,754	$ (11,322)	$483,322	$1,234,076

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 (the "Company") and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain gains and fees were reclassified within non-interest income categories in the 2016 financial statements to conform to the 2017 presentation. These reclassifications were not material to the consolidated financial statements. The consolidated balance sheet of the Company as of December 31, 2016, 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 2016 filed with the U.S. Securities and Exchange Commission (the "SEC").

Recently Issued Accounting Pronouncements

ASU 2017-09 – *Stock Compensation: Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, 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. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures, but it is not expected to have a material impact.

ASU 2017-08 – *Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08"). ASU 2017-08 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 current 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. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We elected to adopt the provisions of ASU 2017-08 during the quarter ended March 31, 2017 in advance of the required application date. The adoption of this standard did not have a material effect on the Company's results of operations, financial position or disclosures.

ASU 2017-04 – *Goodwill and Other: Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compare the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge 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. ASU 2017-04 is effective 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.

ASU 2016-15 – *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 is designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard also provides guidance on when an entity should separate or aggregate cash flows based on the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Since ASU 2016-15 applies to the classification of cash flows, no impact is anticipated on the Company's financial position or results of operations; however, the Company is currently evaluating the impact this standard will have on its financial statement disclosures, but it is not expected to have a material impact.

ASU 2016-13 – *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 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 in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP ("Accounting Principles Generally Accepted in the United States of America") 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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We have formed a cross functional team that is assessing our data and system needs and is evaluating the impact of adopting the new guidance. We expect 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 the Company's results of operations, financial position or disclosures.

ASU 2016-09 – *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 became effective for annual and interim periods beginning after December 15, 2016. The prospective adoption of this standard has not had a material effect on the Company's results of operations, financial position or disclosures. The impact of the requirement to report those income tax effects in earnings reduced reported federal and state income tax expense by $0.3 million and $1.5 million, respectively, for the three and six months ended June 30, 2017.

ASU 2016-02 – *Leases* ("ASU 2016-02"). ASU 2016-02 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. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Based on leases outstanding as of June 30, 2017, we do not expect the new standard to have a material impact on our results of operations, but anticipate increases in our assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact the level of materiality.

ASU 2016-01 – *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 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. ASU 2016-01 is effective for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company’s results of operations, financial position or disclosures, but it is not expected to have a material impact.

ASU 2015-16 – *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”). ASU 2015-16 requires entities to recognize measurement period adjustments during the reporting period in which the adjustments are determined. The income effects, if any, of a measurement period adjustment are cumulative and are to be reported in the period in which the adjustment to a provisional amount is determined. Also, ASU 2015-16 requires presentation on the face of the income statement or in the notes, the effect of the measurement period adjustment as if the adjustment had been recognized at acquisition date. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 became effective for annual and interim periods beginning after December 15, 2015 and should be applied prospectively to measurement period adjustments that occur after the effective date. The adoption of this standard has not had a material effect on the Company’s results of operations, financial position or disclosures.

ASU 2015-14 – *Revenue from Contracts with Customers: Deferral of the Effective Date* (“ASU 2015-14”). ASU 2015-14 is an update to the effective date in ASU 2014-09 – *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 is effective prospectively, for annual and interim periods, beginning after December 15, 2017. The adoption of this standard is not expected to have a material effect on the Company’s results of operations, financial position or disclosures. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, which comprises a significant portion of our revenue stream. We believe that for most revenue streams within the scope of ASU 2015-14, the amendments will not change the timing of when the revenue is recognized. We will continue to evaluate the impact focusing on noninterest income sources within the scope of ASU 2015-14; however, we do not expect adoption to have a material impact on the Company’s results of operations, financial position or disclosures.

There have been no other significant changes to the Company’s accounting policies from the 2016 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 the Company’s present or future financial position or results of operations.

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. 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 loans acquired, other than purchased impaired loans, 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 these loans. The Company evaluates at each balance sheet date whether the present value of the loans determined using the effective interest rates has decreased significantly and if so, recognizes 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 loan.

For further discussion of our acquisition and loan accounting, see Note 2, Acquisitions, and Note 5, Loans Acquired.

Earnings Per Common Share (“EPS”)

Basic EPS is computed by dividing reported net income available to common shareholders by weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing reported net income available to common shareholders by the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of earnings per common share for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Net income available to common shareholders	$23,065	$22,909	$45,185	$46,390
Average common shares outstanding	31,817	30,353	31,585	30,340
Average potential dilutive common shares	209	99	209	99
Average diluted common shares	32,026	30,452	31,794	30,439
Basic earnings per share	$0.72	$0.75	$1.43	$1.53
Diluted earnings per share (1)	$0.72	$0.75	$1.42	$1.52

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(1) Stock options to purchase 258,255 and 65,005 shares for the three and six months ended June 30, 2016 were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price. There were no stock options excluded from the earnings per share calculation due to the related exercise price exceeding the average market price for the three and six months ended June 30, 2017.

NOTE 2: ACQUISITIONS

Hardeman County Investment Company, Inc.

On May 15, 2017, the Company completed the acquisition of Hardeman County Investment Company, Inc. (“Hardeman”), headquartered in Jackson, Tennessee, including its wholly-owned bank subsidiary, First South Bank. The Company issued 799,970 shares of its common stock valued at approximately $42.6 million as of May 15, 2017, plus

$30.0 million in cash in exchange for all outstanding shares of Hardeman common stock.

Prior to the acquisition, Hardeman conducted banking business from 10 branches located in western Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $462.9 million in assets, including approximately $251.6 million in loans (inclusive of loan discounts) and approximately $389.0 million in deposits. The Company expects to complete the systems conversion and merge First South Bank into Simmons Bank in September 2017. As part of the systems conversion, 5 existing Simmons and First South Bank branches will be consolidated.

Goodwill of $29.4 million was recorded as a result of the transaction. The merger strengthened the Company's position in the western Tennessee market and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions 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 Hardeman transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from Hardeman	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$ 8,001	$ --	$ 8,001
Interest bearing balances due from banks - time	1,984	--	1,984
Investment securities	170,654	(316)	170,338
Loans acquired	257,641	(5,992)	251,649
Allowance for loan losses	(2,382)	2,382	--
Foreclosed assets	1,083		