ServisFirst Bancshares, Inc.
Form 10-Q
August 03, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______to_______

Commission file number 000-53149

SERVISFIRST BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-0734029
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

(205) 949-0302
(Registrant’s Telephone Number, Including Area Code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding as of July 30, 2010
Common stock, $.001 par value	5,513,482

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION		
Item 1.	Consolidated Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	37
Item 4.	Controls and Procedures	37
PART II. OTHER INFORMATION		
Item 1	Legal Proceedings	38
Item 1A.	Risk Factors	38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3.	Defaults Upon Senior Securities	38
Item 5.	Other Information	39
Item 6.	Exhibits	39

EX-31.01 SECTION 302, CERTIFICATION OF THE CEO
EX-31.02 SECTION 302, CERTIFICATION OF THE CFO
EX-31.01 SECTION 906, CERTIFICATION OF THE CEO
EX-31.01 SECTION 906, CERTIFICATION OF THE CFO

PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS JUNE 30, 2010 AND DECEMBER 31, 2009
(In thousands, except share and per share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Cash and due from banks	$ 26,570	$ 26,982
Interest-bearing balances due from depository institutions	100,532	48,544
Federal funds sold	148	680
Cash and cash equivalents	127,250	76,206
Debt securities:		
Available for sale	234,808	255,453
Held to maturity	1,659	645
Restricted equity securities	3,510	3,241
Mortgage loans held for sale	4,462	6,202
Loans	1,288,410	1,207,084
Less allowance for loan losses	(15,713)	(14,737)
Loans, net	1,272,697	1,192,347
Premises and equipment, net	4,701	5,088
Accrued interest and dividends receivable	6,144	6,200
Deferred tax assets	4,104	4,872
Other real estate owned	10,773	12,525
Other assets	11,776	10,718
Total assets	$ 1,681,884	$ 1,573,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 188,657	$ 211,307
Interest-bearing	1,326,247	1,221,048
Total deposits	1,514,904	1,432,355
Other borrowings	24,929	24,922
Trust preferred securities	30,349	15,228
Accrued interest payable	887	1,026
Other liabilities	1,769	2,344
Total liabilities	1,572,838	1,475,875
Stockholders' equity:		
Common stock, par value $.001 per share; 15,000,000 shares authorized; 5,513,482 shares issued and outstanding	6	6
Preferred stock, par value $.001 per share; 1,000,000 shares authorized; no shares outstanding	-	-
Additional paid-in capital	75,392	75,078
Retained earnings	28,999	20,965

Accumulated other comprehensive income		4,649		1,573
Total stockholders' equity		109,046		97,622
Total liabilities and shareholders' equity	$	1,681,884	$	1,573,497

See Notes to Consolidated Financial Statements.

3

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest income:				
Interest and fees on loans	$ 16,750	$ 13,583	$ 32,954	$ 26,092
Taxable securities	1,670	1,004	3,422	2,111
Nontaxable securities	544	343	1,068	620
Federal funds sold	16	47	18	69
Other interest and dividends	16	2	36	43
Total interest income	18,996	14,979	37,498	28,935
Interest expense:				
Deposits	2,829	3,967	5,682	8,360
Borrowed funds	859	511	1,602	1,029
Total interest expense	3,688	4,478	7,284	9,389
Net interest income	15,308	10,501	30,214	19,546
Provision for loan losses	2,537	2,608	5,075	5,068
Net interest income after provision for loan losses	12,771	7,893	25,139	14,478
Noninterest income:				
Service charges on deposit accounts	588	376	1,154	732
Securities gains	15	-	53	-
Other operating income	401	906	929	1,470
Total noninterest income	1,004	1,282	2,136	2,202
Noninterest expenses:				
Salaries and employee benefits	3,147	3,590	6,629	6,956
Equipment and occupancy expense	774	622	1,554	1,210
Professional services	205	216	405	429
Other operating expenses	3,435	2,454	6,405	4,720
Total noninterest expenses	7,561	6,882	14,993	13,315
Income before income taxes	6,214	2,293	12,282	3,365
Provision for income taxes	2,193	734	4,248	1,086
Net income	$ 4,021	$ 1,559	$ 8,034	$ 2,279
Basic earnings per share	$ 0.73	$ 0.28	$ 1.46	$ 0.42
Diluted earnings per share	$ 0.65	$ 0.27	$ 1.33	$ 0.40

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 4,021	$ 1,559	$ 8,034	$ 2,279
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) arising during period from securities available for sale, net of tax (benefit) of $1,557 and $1,693 for the three and six months ended June 30, 2010, respectively, and $(45) and $26 for the three and six months ended June 30, 2009	2,821	(88)	3,110	50
Reclassification adjustment for net gains on sale of securities in net income, net of tax of $6 and $19 for the three and six months ended June 30, 2010, respectively	(9)	-	(34)	-
Reclassification adjustment for net gains realized on derivatives in net income, net of tax of $46 and $93 for the three and six months ended June 30, 2009	-	(90)	-	(180)
Other comprehensive income (loss), net of tax	2,812	(178)	3,076	(130)
Comprehensive income	$ 6,833	$ 1,381	$ 11,110	$ 2,149

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010
(Unaudited)
(In thousands, except share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2009	6	75,078	20,965	1,573	97,622
Other comprehensive income	-	-	-	3,076	3,076
Stock-based compensation expense	-	314	-	-	314
Net income	-	-	8,034	-	8,034
Balance, June 30, 2010	$ 6	$ 75,392	$ 28,999	$ 4,649	$ 109,046

See Notes to Consolidated Financial Statements

SERVISFIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In thousands) (Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net income	$ 8,034	$ 2,279
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred tax benefit	(925)	(1,109)
Provision for loan losses	5,075	5,068
Depreciation and amortization	537	552
Net amortization (accretion) of investments	331	(248)
Amortized gain on derivative	-	(272)
Decrease (increase) in accrued interest and dividends receivable	56	(86)
Stock compensation expense	314	395
Decrease in accrued interest payable	(139)	(209)
Proceeds from sale of mortgage loans held for sale	60,934	117,090
Originations of mortgage loans held for sale	(59,981)	(123,654)
Gain on sale of securities available for sale	(53)	-
Net loss on sale of other real estate owned	175	683
Decrease in special prepaid FDIC insurance assessments	1,462	-
Net change in other assets, liabilities, and other operating activities	(2,703)	(730)
Net cash provided by (used in) operating activities	13,117	(241)
INVESTMENT ACTIVITIES		
Purchase of securities available for sale	(20,865)	(18,351)
Proceeds from maturities, calls and paydowns of securities available for sale	16,002	9,199
Purchase of securities held to maturity	(1,014)	-
Increase in loans	(88,814)	(147,290)
Purchase of premises and equipment	(150)	(1,021)
Purchase of restricted equity securities	(269)	(582)
Proceeds from sale of securities available for sale	29,999	-
Proceeds from sale of other real estate owned and repossessions	5,514	4,191
Additions to other real estate owned	(75)	-
Net cash used in investing activities	(59,672)	(153,854)
FINANCING ACTIVITIES		
Net (decrease) increase in noninterest-bearing deposits	(22,650)	17,710
Net increase in interest-bearing deposits	105,199	151,456
Proceeds from issuance of trust preferred securities	15,050	-
Proceeds from other borrowings	-	5,000
Proceeds from sale of stock, net	-	3,479
Net cash provided by financing activities	97,599	177,645
Net increase in cash and cash equivalents	51,044	23,550
Cash and cash equivalents at beginning of year	76,206	72,918
Cash and cash equivalents at end of year	$ 127,250	$ 96,468

SUPPLEMENTAL DISCLOSURE				
Cash paid for:				
Interest	$	7,423	$	9,578
Income taxes		5,058		2,310
NONCASH TRANSACTIONS				
Transfers of loans from held for sale to held for investment	$	787	$	1,861
Other real estate acquired in settlement of loans		4,671		3,811

See Notes to Consolidated Financial Statements.

SERVISFIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(Unaudited)

NOTE 1 - GENERAL

The accompanying condensed consolidated financial statements in this report have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including Regulation S-X and the instructions for Form 10-Q, and have not been audited. These consolidated financial statements do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position and the consolidated results of operations for the interim periods have been made. All such adjustments are of a normal nature. The consolidated results of operations are not necessarily indicative of the consolidated results of operations which ServisFirst Bancshares, Inc. (the "Company") may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 2009.

All reported amounts are in thousands except share and per share data.

Certain reclassifications have been made in the December 31, 2009 Consolidated Balance Sheet to conform to classifications used in 2010. There was no affect on total assets, liabilities or stockholders' equity.

NOTE 2 - CASH AND CASH FLOWS

Cash on hand, cash items in process of collection, amounts due from banks, and Federal funds sold are included in cash and cash equivalents.

NOTE 3 - EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options and warrants, as well as the potential common stock issuable upon possible conversion of the preferred securities described in Note 10 to the Consolidated Financial Statements.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
	(In Thousands, Except Shares and Per Share Data)							
Earnings Per Share								
Weighted average common shares outstanding		5,513,482		5,513,482		5,513,482		5,458,006
Net income	$	4,021	$	1,559	$	8,034	$	2,279
Basic earnings per share	$	0.73	$	0.28	$	1.46	$	0.42
Weighted average common shares outstanding		5,513,482		5,513,482		5,513,482		5,458,006
Dilutive effects of assumed conversions and exercise of stock options, warrants, and convertible debt		886,447		296,173		646,359		292,521
Weighted average common and dilutive potential common shares outstanding		6,399,929		5,809,655		6,159,841		5,750,527
Net income	$	4,021	$	1,559	$	8,034	$	2,279
Effect of interest expense on convertible debt, net of tax and discretionary expenditures related to conversion		148		-		172		-
Net income, adjusted for effect of debt conversion	$	4,169	$	1,559	$	8,206	$	2,279
Diluted earnings per share	$	0.65	$	0.27	$	1.33	$	0.40

NOTE 4 - SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at June 30, 2010 and December 31, 2009 are summarized as follows:

	Amortized Cost		Gross Unrealized Gain		Gross Unrealized Loss		Market Value	
	(In Thousands)							
June 30, 2010:								
Securities Available for Sale								
U.S. Treasury and government sponsored agencies	$	60,157	$	1,873	$	-	$	62,030
Mortgage-backed securities		102,360		4,143		-		106,503
State and municipal securities		63,130		1,324		(278)		64,176
Corporate debt		2,008		91		-		2,099
Total	$	227,655	$	7,431	$	(278)	$	234,808
Securities Held to Maturity								
State and municipal securities	$	1,659	$	18	$	(4)	$	1,673
Total	$	1,659	$	18	$	(4)	$	1,673
December 31, 2009:								
Securities Available for Sale								

U.S. Treasury and government sponsored agencies	$	92,368	$	412	$	(453)	$	92,327
Mortgage-backed securities		99,608		2,717		(625)		101,700
State and municipal securities		58,090		876		(567)		58,399
Corporate debt		3,004		36		(13)		3,027
Total	$	253,070	$	4,041	$	(1,658)	$	255,453
Securities Held to Maturity								
State and municipal securities	$	645	$	1	$	(3)	$	643
Total	$	645	$	1	$	(3)	$	643

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

The following table identifies, as of June 30, 2010 and December 31, 2009, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The Company has the ability and intent to hold its securities until such time as lost value is recovered, or the securities mature. Further, the Company believes any deterioration in value on its current investment securities is attributable to changes in market interest rates and not credit quality of the issuer.

	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
June 30, 2010:				
U.S. Treasury and government sponsored agencies	$ -	$ -	$ -	$ -
Mortgage-backed securities	-	-	-	-
State and municipal securities	(282)	15,272	-	-
Corporate debt	-	-	-	-
	$ (282)	$ 15,272	$ -	$ -
December 31, 2009:				
U.S. Treasury and government sponsored agencies	$ (437)	$ 42,836	$ -	$ -
Mortgage-backed securities	(625)	44,993	-	-
State and municipal securities	(569)	20,479	-	-
Corporate debt	(17)	2,074	(13)	986
	$ (1,648)	$ 110,382	$ (13)	$ 986

At June 30, 2010, none of the Company's 348 debt securities had been in an unrealized loss position for 12 or more months.

NOTE 5 - EMPLOYEE AND DIRECTOR BENEFITS

Stock Options

At June 30, 2010, the Company had stock-based compensation plans, as described below. The compensation cost that has been charged to earnings for the plans was approximately $180,000 and $314,000 for the three and six months ended June 30, 2010 and $199,000 and $395,000 for three and six months ended June 30, 2009, respectively.

The Company's 2005 Amended and Restated Stock Option Plan allows for the grant of stock options to purchase up to 1,025,000 shares of the Company's common stock. The Company's 2009 Stock Incentive Plan authorizes the grant of up to 425,000 shares and allows for the issuance of Stock Appreciation Rights, Restricted Stock, Stock Options, Non-stock Share Equivalents, Performance Shares or Performance Units. Both plans allow for the grant of incentive stock options and non-qualified stock options, and awards are generally granted with an exercise price equal to the estimated fair market value of the Company's common stock at the date of grant. The maximum term of the options

granted under the plans is ten years.

The Company has granted non-plan options to certain persons representing key business relationships to purchase up to an aggregate amount of 55,000 shares of the Company's common stock at between $15.00 and $20.00 per share for 10 years. These options are non-qualified and not part of either Plan.

The Company estimates the fair value of each stock option award using a Black-Scholes-Merton valuation model that uses the assumptions noted in the following table.

Expected volatilities are based on an index of southeastern United States publicly traded banks. The expected term for options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U. S. Treasury yield curve in effect at the time of grant.

	2010	2009
Expected volatility	25.00%	20.00%
Expected dividends	0.50%	0.50%
Expected term (in years)	7 years	7 years
Risk-free rate	2.32%	1.65%

The following table summarizes stock option activity during the six months ended June 30, 2010 and 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Six Months Ended June 30, 2010:				
Outstanding at January 1, 2010	833,500	$ 15.00	6.8	$ 8,333
Granted	11,000	25.00	9.6	-
Exercised	-	-	-	-
Forfeited	(10,000)	15.00	6.7	-
Outstanding at June 30, 2010	834,500	15.13	6.4	$ 8,238
Exercisable at June 30, 2010	249,696	$ 11.33	5.5	$ 3,413
Six Months Ended June 30, 2009:				
Outstanding at January 1, 2009	796,000	$ 14.50	7.7	$ 8,363
Granted	37,500	25.00	9.8	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at June 30, 2009	833,500	14.97	7.8	$ 8,363
Exercisable at June 30, 2009	121,264	$ 11.73	6.6	$ 1,609

Restricted Stock

During the first quarter of 2010, 10,000 shares of restricted stock were granted employees. During the fourth quarter of 2009, 20,000 shares of restricted stock were granted to a key executive. The value of restricted stock awards is determined to be the current value of the Company's stock, and this total value will be recognized as compensation

expense over the vesting period, which is five years from the date of grant. As of June 30, 2010, there was $674,000 of total unrecognized compensation cost related to non-vested restricted stock. The cost is expected to be recognized evenly over the remaining 4.4 years of the restricted stock's vesting period.

Stock Warrants

In recognition of the efforts and financial risks undertaken by the organizers of ServisFirst Bank (the "Bank") in 2005, the Bank granted warrants to organizers to purchase a total 60,000 shares of common stock at a price of $10, which was the fair market value of the Bank's common stock at the date of the grant. The warrants became warrants to purchase a like number of shares of the Company's common stock upon the formation of the Company as a holding company for the Bank. The warrants vest in equal annual increments over a three-year period commencing on the first anniversary date of the Bank's incorporation and will terminate on the tenth anniversary of the incorporation date. The total number of warrants outstanding at June 30, 2010 and 2009 was 60,000.

The Company issued warrants for 75,000 shares of common stock at a price of $25 per share in the third quarter of 2008. These warrants were issued in connection with the trust preferred securities that are discussed in detail in Note 9.

The Company issued warrants for 15,000 shares of common stock at a price of $25 per share in the second quarter of 2009. These warrants were issued in connection with the issuance and sale of the Bank's 8.25% Subordinated Note discussed in detail in Note 11.

NOTE 6 - DERIVATIVES

During 2008, the Company entered into interest rate swaps ("swaps") to facilitate customer transactions and meet their financing needs. Upon entering into these swaps, the Company entered into offsetting positions with a regional correspondent bank in order to minimize the risk to the Company. As of June 30, 2010, the Company was party to two swaps with notional amounts totaling approximately $12.0 million with customers, and two swaps with notional amounts totaling approximately $12.0 million with a regional correspondent bank. These swaps qualify as derivatives, but are not designated as hedging instruments. The Company has recorded the value of these swaps at $885,000 in offsetting entries in other assets and other liabilities.

The Company has entered into agreements with secondary market investors to deliver loans on a "best efforts delivery" basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a 30-day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. The fair values of the Company's agreements with investors and rate lock commitments to customers as of June 30, 2010 and December 31, 2009 were not material.

NOTE 7 - ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued two related accounting pronouncements changing the accounting principles and disclosure requirements for securitizations and special purpose entities. The pronouncements remove the concept of a "qualifying special-purpose entity", change the requirements for derecognizing financial assets and change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. These pronouncements also expand existing disclosure requirements to include more information about transfers of financial assets and where companies have exposure to the risks related to transfers of financial assets. The Company adopted the provisions of these pronouncements as of January 1, 2010, but neither had a material impact on the consolidated financial statements.

During January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06 – "Improving Disclosures About Fair Value Measurements", which added disclosure requirements about transfers in and out of Levels 1 and 2, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The Company adopted these provisions of the ASU in preparing the Consolidated Financial Statements for the period ended June 30, 2010. The adoption of these provisions of this ASU, which was subsequently codified into Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures," only affected the disclosure requirements for fair value measurements and as a result had no impact on the Company's consolidated financial statements. See Note 8 to the Consolidated Financial Statements for the disclosures required by this ASU.

This ASU also requires that Level 3 activity about purchases, sales, issuances, and settlements of assets measured at fair value on a recurring basis be presented on a gross basis rather than as a net number, as currently permitted. This provision of the ASU is effective for the Company's reporting period ending June 30, 2011. As this provision amends only the disclosure requirements for fair value measurements, the adoption will have no impact on the Company's consolidated financial statements.

During February 2010, the FASB updated ASU No. 2010-09, Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements. This guidance amends FASB ASC Topic 855, Subsequent Events, so that issuers filing periodic reports with the Securities and Exchange Commission ("SEC filers") no longer are required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. SEC filers must evaluate subsequent events through the date the financial statements are issued.

NOTE 8 - FAIR VALUE MEASUREMENT

Measurement of fair value under United States generally accepted accounting principles ("US GAAP") establishes a hierarchy that prioritizes observable and unobservable inputs used to measure fair value, as of the measurement date, into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

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

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and also considers counterparty credit risk in its assessment of fair value.

Securities – Where quoted prices are available in an active market, securities are classified within level 1 of the hierarchy. Level 1 securities include highly liquid government securities such as U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the Company generally relies on prices obtained from independent vendors. Securities measured with these techniques are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow calculations using inputs observable in the market where available. Examples include U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified in Level 3 of the hierarchy.

13

Interest Rate Swap Agreements – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the hierarchy. These fair value estimations include primarily market observable inputs such as yield curves and option volatilities, and include the value associated with counterparty credit risk.

Impaired Loans- Impaired loans are measured and reported at fair value when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of the collateral if the loan is collateral-dependent. Impaired loans are subject to nonrecurring fair value adjustment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. The amount recognized as an impairment charge related to impaired loans that are measured at fair value on a nonrecurring basis was $1,244,000 and $3,852,000 during the three and six months ended June 30, 2010, respectively, and $1,456,000 and $3,333,000 for the three and six months ended June 30, 2009, respectively. Impaired loans are classified within Level 3 of the hierarchy.

Other real estate owned – Other real estate assets ("OREO") acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. The amount charged to earnings was $558,000 and $659,000 during the three and six months ended June 30, 2010, respectively, and $176,000 and $967,000 during the three and six months ended June 30, 2009. These charges were for write-downs in the value of OREO and losses on the disposal of OREO. OREO is classified within Level 3 of the hierarchy.

The following table presents the Company's financial assets and financial liabilities carried at fair value on a recurring basis as of June 30, 2010 and December 31, 2009:

	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
Assets Measured on a Recurring Basis:				
Available-for-sale securities	$ -	$ 234,808	$ -	$ 234,808
Interest rate swap agreements	-	885		885
Total assets at fair value	$ -	$ 235,693	$ -	$ 235,693
Liabilities Measured on a Recurring Basis:				
Interest rate swap agreements	$ -	$ 885	$ -	$ 885

	Fair Value Measurements at December 31, 2009 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
Assets Measured on a Recurring Basis:				
Available-for-sale securities	$ -	$ 255,453	$ -	$ 255,453
Interest rate swap agreements	-	413		413
Total assets at fair value	$ -	$ 255,866	$ -	$ 255,866
Liabilities Measured on a Recurring Basis:				
Interest rate swap agreements	$ -	$ 413	$ -	$ 413

The following table presents the Company's financial assets and financial liabilities carried at fair value on a nonrecurring basis as of June 30, 2010:

	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
Assets Measured on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 11,930	$ 11,930
Other real estate owned	-	-	10,773	10,773
Total assets at fair value	$ -	$ -	$ 22,703	$ 22,703

Fair Value Measurements at December 31, 2009 Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(In Thousands)		
Assets Measured on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 8,003	$ 8,003
Other real estate owned	-	-	12,525	12,525
Total assets at fair value	$ -	$ -	$ 20,528	$ 20,528

15

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

The carrying amount and estimated fair value of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or non-recurring basis, at June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial Assets:				
Cash and cash equivalents	$ 127,250	$ 127,250	$ 76,206	$ 76,206
Investment securities available for sale	234,808	234,808	255,453	255,453
Investment securities held to maturity	1,659	1,673	645	643
Restricted equity securities	3,510	3,510	3,241	3,241
Mortgage loans held for sale	4,462	4,462	6,202	6,202
Loans, net	1,272,697	1,276,049	1,192,347	1,193,202
Accrued interest and dividends receivable	6,144	6,144	6,200	6,200
Derivative	885	885	413	413
Financial Liabilities:				
Deposits	$ 1,514,904	$ 1,517,143	$ 1,432,355	$ 1,435,387
Borrowings	24,929	25,768	24,922	25,981
Trust preferred securities	30,349	27,136	15,228	12,681
Accrued interest payable	887	887	1,026	1,026
Derivative	885	885	413	413

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statements of financial condition for cash and cash equivalents approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If a quoted market price is not available, fair value is based on quoted market prices of comparable instruments.

Restricted equity securities: Fair values for other investments are considered to be their cost.

Loans: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair value is based on carrying amounts. The fair value of other loans (for example, fixed-rate commercial real estate loans, mortgage loans, and industrial loans) is estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair value for impaired loans is estimated using discounted cash flow analysis, or underlying collateral values, where applicable.

Derivatives: The fair values of the derivative agreements are based on quoted prices from an outside third party.

Accrued interest and dividends receivable: The carrying amount of accrued interest and dividends receivable approximates its fair value.

Deposits: The fair values of demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other borrowings: The fair values of other borrowings are estimated using discounted cash flow analysis, based on interest rates currently being offered by the Federal Home Loan Bank for borrowings of similar terms as those being valued.

Trust preferred securities: The fair values of trust preferred securities are estimated using a discounted cash flow analysis, based on interest rates currently being offered on the best alternative debt available at the measurement date.

Accrued interest payable: The carrying amount of accrued interest payable approximates its fair value.

Loan commitments: The fair values of the Company's off-balance sheet financial instruments are based on fees currently charged to enter into similar agreements. Since the majority of the Company's other off-balance-sheet instruments consist of non-fee-producing, variable-rate commitments, the Company has determined they do not have a distinguishable fair value.

NOTE 9 - SUBORDINATED DEFERRABLE INTEREST DEBENTURES

On September 2, 2008, ServisFirst Capital Trust I, a subsidiary of the Company (the "2008 Trust"), sold 15,000 shares of its 8.5% trust preferred securities to accredited investors for $15,000,000 or $1,000 per share and 463,918 shares of its common securities to the Company for $463,918 or $1.00 per share. The 2008 Trust invested the $15,463,918 of the proceeds from such sale in the Company's 8.5% junior subordinated deferrable interest debenture due September 1, 2038 in the principal amount of $15,463,918 (the "Debenture"). The Debenture bears a fixed rate of interest at 8.5% per annum and is subordinate and junior in right of payment to all of the Company's senior debt; provided, however, the Company will not incur any additional senior debt in excess of 0.5% of the Company's average assets for the fiscal year immediately preceding, unless such incurrence is approved by a majority of the holders of the outstanding trust preferred securities.

Holders of the trust preferred securities are entitled to receive distributions accruing from the original date of issuance. The distributions are payable quarterly in arrears on December 1, March 1, June 1 and September 1 of each year, commencing December 1, 2008. The distributions accrue at an annual fixed rate of 8.5%. Payments of distributions on the trust preferred securities will be deferred in the event interest payments on the Debenture is deferred, which may occur at any time and from time to time, for up to 20 consecutive quarterly periods. During any deferral period, the Company may not pay dividends or make certain other distributions or payments as provided for in the Indenture. If payments are deferred, holders accumulate additional distributions thereon at 8.5%, compounded quarterly, to the extent permitted by law.

In addition, the Company issued a total of 75,000 warrants, each with the right to purchase one share of the Company's common stock for a purchase price of $25.00. The warrants were issued in increments of 500 for each $100,000 of trust preferred securities purchased. Each warrant is exercisable for a period beginning upon its date of issuance and ending upon the later to occur of either (i) September 1, 2013 or (ii) 60 days following the date upon which the Company's common stock becomes listed for trading upon a "national securities exchange" as defined under the Securities Exchange Act of 1934. The Company estimated the fair value of each warrant using a Black-Scholes-Merton valuation model and determined the fair value per warrant to be $5.65. This total value of $423,000 was recorded as a discount and reduced the net book value of the debentures to $15,052,000 with an offsetting increase to the Company's additional paid-in capital. The discount will be amortized over a three-year period.

The trust preferred securities are subject to mandatory redemption upon repayment of the Debenture at its maturity, September 1, 2038, or its earlier redemption. The Debenture is redeemable by the Company (i) prior to September 1, 2011, in whole upon the occurrence of a Special Event, as defined in the Indenture, or (ii) in whole or in part on or after September 1, 2011 for any reason. In the event of the redemption of the trust preferred securities prior to September 1, 2011, the holders of the trust preferred securities will be entitled to $1,050 per share, plus accumulated and unpaid distributions thereon (including accrued interest thereon), if any, to the date of payment. In the event of the redemption of the trust preferred securities on or after September 1, 2011, the holders of the trust preferred securities will be entitled to receive $1,000 per share plus accumulated and unpaid distributions thereon (including accrued interest thereon), if any, to the date of payment.

The Company has the right at any time to terminate the 2008 Trust and cause the Debenture to be distributed to the holders of the trust preferred securities in liquidation of the Trust. This right is optional and wholly within the Company's discretion as set forth in the Indenture.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Company to the extent of funds held by the Trust (the "Preferred Securities Guarantee"). The Preferred Securities Guarantee, when taken together with the Company's other obligations under the debentures, constitutes a full and unconditional guarantee, on a subordinated basis, by the Company of payments due on the trust preferred securities.

The Company is required by the Federal Reserve Board to maintain certain levels of capital for bank regulatory purposes. The Federal Reserve Board has determined that certain cumulative preferred securities having the characteristics of trust preferred securities qualify as minority interests, which is included in Tier 1 capital for bank and financial holding companies. In calculating the amount of Tier 1 qualifying capital, the trust preferred securities can only be included up to the amount constituting 25% of total Tier 1 capital elements (including trust preferred securities). Such Tier 1 capital treatment provides the Company with a more cost-effective means of obtaining capital for bank regulatory purposes than if the Company were to issue preferred stock.

NOTE 10 – JUNIOR SUBORDINATED MANDATORY CONVERTIBLE DEFERRABLE INTEREST DEBENTURES DUE MARCH 15, 2040

On February 9, 2010 the Company established a new Delaware statutory trust subsidiary, ServisFirst Capital Trust II (the "2010 Trust"), which issued 15,000 shares of its 6.0% Mandatory Convertible Trust Preferred Securities (the "Preferred Securities") for $15,000,000, or $1,000 per Preferred Security on March 15, 2010. The 2010 Trust simultaneously issued 50,000 shares of its common securities to the Company for a purchase price of $50,000, or $1.00 per share, which together with the Preferred Securities, constitutes all of the issued and outstanding securities of the 2010 Trust (collectively, the "Trust Securities"). The 2010 Trust invested all of the proceeds from the sale of the Trust Securities in the Company's 6.0% Junior Subordinated Mandatory Convertible Deferrable Interest Debentures

due March 15, 2040 in the principal amount of $15,050,000 (the “Subordinated Debentures”). The Preferred Securities were offered and sold to accredited investors in a private placement.

Holders of the Preferred Securities will be entitled to receive distributions accruing from March 15, 2010, and payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing June 15, 2010 unless the Company defers interest payments on the Subordinated Debentures. Distributions accrue at an annual rate equal to 6.0% of the liquidation amount of $1,000 per Preferred Security. The rate and the distribution dates for the Preferred Securities correspond to the interest rate and payment dates on the Subordinated Debentures, which constitute substantially all the assets of the 2010 Trust. As a result, if principal or interest is not paid on the Subordinated Debentures, no corresponding amounts will be paid on the Preferred Securities. The 2010 Trust also pays a distribution on the common securities at an annual rate of 6.0% of the purchase price of the common securities, but such payments are financially immaterial since they simply represent a return of funds to the Company.

The Subordinated Debentures are subordinate and junior in right of payment to all of the Company's senior debt, as defined in the Indenture (as defined below); provided, however, that, while any of the Preferred Securities remain outstanding, the Company shall not incur any additional senior debt in excess of 0.5% of the Company's average assets for the fiscal year immediately preceding, unless approved by the holders of a majority of the outstanding Preferred Securities. The Company has the right to defer payments of interest on the Subordinated Debentures from time to time, for up to 20 consecutive quarterly periods for each deferral period. During any deferral period, the Company may not (i) pay dividends on or redeem any of its capital stock, (ii) pay principal of or interest on any debt securities ranking pari passu with or subordinate to the Subordinated Debentures or (iii) make any guaranty payments with respect to any guaranty of the debt securities of any of the Company's subsidiaries if such guaranty ranks pari passu with or junior in right of payment to the Subordinated Debentures.

If not previously redeemed or converted into common stock of the Company, the Preferred Securities will automatically and mandatorily convert into common stock of the Company on March 15, 2013 at a conversion price of $25 per share of common stock. In addition to such mandatory conversion, the Preferred Securities may be converted into common stock of the Company at the option of the holder at any time prior to the earliest to occur of maturity, redemption or mandatory conversion at the same conversion price.

The Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity (as defined in the Indenture), or upon earlier redemption of the Subordinated Debentures. The Subordinated Debentures are redeemable by the Company at any time in whole, but not in part, upon the occurrence of a special event, as defined in the Indenture.

The Company has the right at any time to terminate the 2010 Trust and cause the Subordinated Debentures to be distributed to the holders of the Preferred Securities in liquidation of the 2010 Trust. This right is optional and wholly within the Company's discretion.

The Company is required by the Federal Reserve Board to maintain certain levels of capital for bank regulatory purposes. The Federal Reserve Board has determined that certain cumulative preferred securities having the characteristics of trust preferred securities qualify as minority interests, which is included in Tier 1 capital for bank and financial holding companies. In calculating the amount of Tier 1 qualifying capital, the trust preferred securities can only be included up to the amount constituting 25% of total Tier 1 capital elements (including trust preferred securities). Such Tier 1 capital treatment provides the Company with a more cost-effective means of obtaining capital for bank regulatory purposes than if the Company were to issue preferred stock.

NOTE 11 - SUBORDINATED NOTE DUE SEPTEMBER 1, 2016

On June 23, 2009, the Bank issued $5,000,000 aggregate principal amount of its 8.25% Subordinated Note due June 1, 2016 to an accredited investor at 100% of par. The note is subordinate and junior in right of payment upon any liquidation of the Bank as to principal, interest and premium to obligations to the Bank's depositors and other obligations to its general and secured creditors. Interest payments are due and payable on each September 1, December 1, March 1 and June 1, commencing on September 1, 2009. Interest accrues at an annual rate of 8.25%. The proceeds from the note payable are included in Tier 2 capital of the Bank and the Company.

In addition, the Company issued to the investor a total of 15,000 warrants, each representing the right to purchase one share of the Company's common stock for a purchase price of $25.00. Each warrant is exercisable for a period beginning upon its date of issuance and ending on June 1, 2016. The Company estimated the fair value of each warrant using a Black-Scholes-Merton valuation model and determined the fair value per warrant to be $5.71. This total value of $86,000 was recorded as a discount and reduced the net book value of the debentures to $4,914,000 with an offsetting increase to the Company's additional paid-in capital. The discount will be amortized over a five-year period.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is designed to provide a better understanding of various factors relating to the results of operations and financial condition of ServisFirst Bancshares, Inc. (the "Company") and its wholly owned subsidiary, ServisFirst Bank (the "Bank"). This discussion is intended to supplement and highlight information contained in the accompanying unaudited consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009.

Forward-Looking Statements

Statements in this document that are not historical facts, including, but not limited to, statements concerning future operations, results or performance, are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words "believe," "expect," "anticipate," "project," "plan," "intend," "will," "would," "might" and similar expres signify forward-looking statements. Such statements involve inherent risks and uncertainties. ServisFirst Bancshares, Inc. cautions that such forward-looking statements, wherever they occur in this press release or in other statements attributable to ServisFirst Bancshares, Inc., are necessarily estimates reflecting the judgment of ServisFirst Bancshares, Inc.'s senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in light of various factors that could affect the accuracy of such forward-looking statements, including: general economic conditions, especially in the credit markets and in the Southeast; the performance of the capital markets; changes in interest rates, yield curves and interest rate spread relationships; changes in accounting and tax principles, policies or guidelines; changes in legislation or regulatory requirements; changes in our loan portfolio and the deposit base, possible changes in laws and regulations and governmental monetary and fiscal policies, including, but not limited to, economic stimulus initiatives and so-called "bailout" initiatives; the cost and other effects of legal and administrative cases and similar contingencies; possible changes in the creditworthiness of customers and the possible impairment of the collectibility of loans and the value of collateral; the effect of natural disasters, such as hurricanes, in our geographic markets; and increased competition from both banks and non-banks. The foregoing list of factors is not exhaustive. For discussion of these and other risks that may cause actual results to differ from expectations, please refer to "Risk Factors" in our most recent Annual Report on Form 10-K and our other SEC filings. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our

actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained herein. Accordingly, you should not place undue reliance on any forward-looking statements, which speak only as of the date made.

Business

We are a bank holding company under the Bank Holding Company Act of 1956 incorporated in Delaware and headquartered in Birmingham, Alabama. Through the Bank, we operate eight full-service banking offices located in Jefferson, Shelby, Madison, Montgomery and Houston counties in the metropolitan statistical areas (“MSAs”) of Birmingham-Hoover, Huntsville, Montgomery and Dothan, Alabama.

We are headquartered at 850 Shades Creek Parkway, Birmingham, Alabama 35209 (Jefferson County). In addition to the Jefferson County headquarters, the Bank currently operates through two offices in the Birmingham-Hoover, Alabama MSA (one office in Jefferson County and one office in North Shelby County), two offices in the Huntsville, Alabama MSA (Madison County), two offices in the Montgomery, Alabama MSA (Montgomery County) and one office in the Dothan, Alabama MSA (Houston County), which constitute our primary service areas. Our principal business is to accept deposits from the public and to make loans and other investments. Our principal sources of funds for loans and investments are demand, time, savings, and other deposits (including negotiable orders of withdrawal, or NOW accounts). Our principal sources of income are interest and fees collected on loans, interest and dividends collected on other investments and service charges. Our principal expenses are interest paid on savings and other deposits (including NOW accounts), interest paid on our other borrowings, employee compensation, office expenses and other overhead expenses.

Overview

As of June 30, 2010, the Company had total consolidated assets of $1,681,884,000, an increase of $108,387,000, or 6.89%, over $1,573,497,000 at December 31, 2009. Total loans were $1,288,410,000 at June 30, 2010, an $81,326,000, or 6.74%, increase over $1,207,084,000 at December 31, 2009. Total deposits were $1,514,904,000 at June 30, 2010, an increase of $82,549,000, or 5.76%, over $1,432,355,000 at December 31, 2009.

Net income for the quarter ended June 30, 2010 was $4,021,000, an increase of $2,462,000, or 157.92%, from $1,559,000 for the quarter ended June 30, 2009. Basic and fully diluted earnings per common share were $.73 and $.65, respectively, for the three months ended June 30, 2010, compared with $.28 and $.27, respectively, for the same period in 2009. This increase was primarily attributable to a higher net interest margin and an improved efficiency ratio, both of which are explained in detail under the captions “Net Interest Income” and “Noninterest Expense”, respectively, below.

Net income for the six months ended June 30, 2010 was $8,034,000, an increase of $5,755,000, or 252.52%, from $2,279,000 for the six months ended June 30, 2009. Basic and fully diluted earnings per share were $1.46 and $1.33, respectively, for the six months ended June 30, 2010, compared with $.42 and $.40, respectively for the same period in 2009. Again, this increase was primarily attributable to a higher net interest margin and an improved efficiency ratio, as explained below.

Critical Accounting Policies

The accounting and financial policies of the Company conform to accounting principles generally accepted in the United States and to general practices within the banking industry. To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, valuation of foreclosed real estate, deferred taxes, and fair value of financial instruments are particularly subject to change. Information concerning our accounting policies with respect to these items is available in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Financial Condition

Investment Securities

Investment securities available for sale totaled $234,808,000 at June 30, 2010 and $255,453,000 at December 31, 2009. Investment securities held to maturity totaled $1,659,000 at June 30, 2010 and $645,000 at December 31, 2009. Approximately $32,807,000 in callable agency securities were sold or called during the first half of 2010, and were partially replaced by the purchase of $16,386,000 in mortgage backed securities and $5,492,000 in municipal debt securities. The purchased securities will increase the portfolio yield and will also provide monthly principal cash flow.

Each quarter, management assesses whether there have been events or economic circumstances to indicate that a security on which there is an unrealized loss is other-than-temporarily impaired. Management considers several factors, including the amount and duration of the impairment; the intent and ability of the Company to hold the security for a period sufficient for a recovery in value; and known recent events specific to the issuer or its industry. In analyzing an issuer's financial condition, management considers whether the securities are issued by agencies of the federal government, whether downgrades by bond rating agencies have occurred, and industry analysts' reports, among other things. As the Company currently has the ability to hold its investment securities for the foreseeable future, no declines are deemed to be other than temporary. The Company will continue to evaluate its investment securities for possible other-than-temporary impairment, which could result in a future non-cash charge to earnings.

The following table shows the amortized cost of the Company's investment securities by their stated maturity at June 30, 2010:

	Less Than One Year	One Year to Five Years	Five Years to Ten Years	More Than Ten Years	Total
			(In Thousands)		
U.S. Treasury and government sponsored agencies	$ -	$ 27,697	$ 22,598	$ 9,862	$ 60,157
Mortgage-backed securities	-	1,514	19,357	81,489	102,360
State and municipal securities	165	6,018	42,347	16,259	64,789
Corporate debt	-	-	2,008	-	2,008
	$ 165	$ 35,229	$ 86,310	$ 107,610	$ 229,314
Taxable-equivalent Yield	6.96%	2.76%	4.82%	4.42%	4.32%

All securities held are traded in liquid markets. As of June 30, 2010, we owned certain restricted securities of the Federal Home Loan Bank with an aggregate book value and market value of $3,260,000 and certain securities of First National Bankers Bank in which we invested $250,000. We had no investments in any one security, restricted or liquid, in excess of 10% of our stockholders' equity.

The Bank's investment portfolio consists of mortgage-backed pass-through securities, tax-exempt securities and corporate bonds. The Bank does not invest in collateralized debt obligations ("CDOs"). All tax-exempt securities currently held are issued by government issuers within the State of Alabama. All corporate bonds have a Standard and Poor's or Moody's rating of A-1 or better when purchased. The June 30, 2010 total investment portfolio has a combined average credit rating of AA.

The carrying value of investment securities pledged to secure public funds on deposit and for other purposes as required by law was $110,468,000 and $117,377,000 as of June 30, 2010 and December 31, 2009, respectively.

At June 30, 2010, we had $148,000 in federal funds sold, compared with $680,000 at December 31, 2009.

Loans

We had total loans of $1,288,410,000 at June 30, 2010, an increase of $81,326,000, or 6.74%, compared to $1,207,084,000 at December 31, 2009. At June 30, 2010, 51% of our loans were in our Birmingham offices, 24% in our Huntsville offices, 13% in our Montgomery offices, and 12% in our Dothan office.

The following table details our loans at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Commercial, financial and agricultural	$ 492,114	$ 461,088
Real estate - construction (1)	218,479	224,178
Real estate - mortgage:		
Owner occupied	230,937	203,983
1-4 Family	185,146	165,512
Other	125,230	119,749
Total Real Estate Mortgage	541,313	489,244
Consumer	36,504	32,574
Total Loans	1,288,410	1,207,084
Allowance for loan losses	(15,713)	(14,737)
Total Loans, Net	$ 1,272,697	$ 1,192,347

(1) includes Owner Occupied real estate construction loans in the amount of $7,965 and $10,045 at June 30, 2010 and December 31, 2009, respectively

Asset Quality

We establish and maintain the allowance for loan losses at levels management deems adequate to absorb anticipated credit losses from identified and otherwise inherent risks in the loan portfolio as of the balance sheet date. In assessing the adequacy of the allowance for loan losses, management considers its evaluation of the loan portfolio, past due loan experience, collateral values, current economic conditions and other factors considered necessary to maintain the allowance at an adequate level. Management believes that the allowance is adequate at June 30, 2010.

A loan is considered impaired when it is probable, based on current information and events, that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. The amount of impairment, if any, and subsequent changes in impairments are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for non-accrual status. At June 30, 2010, we had $51,192,000 in impaired loans, including all non-accrual loans. $3,389,000 of the Company's allowance for loan losses was specifically allocated to $15,319,000 of these loans. The increase in impaired loans at June 30, 2010 relates to management's determination to increase the number of loans evaluated on a loan-by-loan basis to encompass all loans classified as substandard or below (see "Provision for Loan Losses" below), coupled with prevailing economic conditions.

The following table presents a summary of changes in the allowances for loan losses for the three and six months ended June 30, 2010 and 2009, respectively. The largest balance of our charge-offs during the three and six months ended June 30, 2010, $1,586,000 and $1,924,000, respectively, were in real estate construction loans. $1,515,000 of the charge-offs in real estate construction loans during the three months ended June 30, 2010 were of residential lot development loans. Real estate construction loans represent 16.96% of our loan portfolio at June 30, 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Allowance for Loan Losses				
Balance, beginning of period	$ 15,323	$ 12,412	$ 14,737	$ 10,602
Charge-offs:				
Commercial, financial and agricultural	(166)	(808)	(1,013)	(808)
Real estate - construction	(1,586)	(574)	(1,924)	(1,208)
Real estate - mortgage:				
Owner Occupied	(370)	-	(548)	-
1-4 family mortgage	(61)	-	(694)	(40)
Other	-	-	-	-
Total real estate mortgage	(431)	-	(1,242)	(40)
Consumer	(58)	(71)	(74)	(86)
Total charge-offs	(2,241)	(1,453)	(4,253)	(2,142)
Recoveries:				
Commercial, financial and agricultural	38	-	94	-
Real estate - construction	44	-	44	39
Real estate - mortgage:				
Owner Occupied	12	-	12	-
1-4 family mortgage	-	-	3	-
Other	-	-	-	-
Total real estate mortgage	12	-	15	-
Consumer	-	-	1	-
Total recoveries	94	-	154	39
Net charge-offs	(2,147)	(1,453)	(4,099)	(2,103)
Provision for loan losses charged to expense	2,537	2,608	5,075	5,068
Balance, end of period	$ 15,713	$ 13,567	$ 15,713	$ 13,567
As a percent of year to date average loans:				
Annualized net charge-offs	0.69%	0.55%	0.67%	0.41%
Annualized provision for loan losses	0.81%	0.98%	0.83%	0.99%

The following table presents the allocation of the allowance for loan losses for each respective loan category with the corresponding percentage of loans in each category to total loans. We believe the comprehensive allowance analysis performed by our credit administration group is in compliance with all current regulatory guidelines.

	June 30, 2010		December 31, 2009		June 30, 2009	
	Amount	Percentage of Loans in Each Category of	Amount	Percentage of Loans in Each Category of	Amount	Percentage of Loans in Each Category of

	(In Thousands)	Total Loans	(In Thousands)	Total Loans	(In Thousands)	Total Loans
Commercial, financial and agricultural	$ 4,593	38.20%	$ 3,058	38.20%	$ 3,537	37.57%
Real estate - construction	5,875	16.96%	6,295	18.57%	5,708	22.83%
Real estate - mortgage	848	42.01%	1,242	40.53%	514	36.96%
Consumer	87	2.83%	1	2.70%	35	2.64%
Other	4,310	-	4,141	-	3,773	-
Total	$ 15,713	100.00%	$ 14,737	100.00%	$ 13,567	100.00%

Nonperforming Assets

It is our policy to classify loans as non-accrual when they are past due in principal or interest payments for more than 90 days or if we believe it is otherwise not reasonable to expect collection of principal and interest due under the original terms. Exceptions are allowed for 90-day past due loans when such loans are secured by real estate or negotiable collateral and are in the process of collection. Generally, payments received on non-accrual loans are applied directly to principal.

Nonperforming assets, comprising non-accrual loans, loans 90 days or more past due and still accruing, other real estate owned ("OREO"), and troubled debt restructurings in which the loan was not current when the terms were restructured totaled $18,811,000 at June 30, 2010, compared to $24,713,000 at December 31, 2009 and $24,482,000 at June 30, 2009. Non-accrual loans were $7,866,000 at June 30, 2010, a decrease of $4,055,000 from non-accrual loans of $11,921,000 at December 31, 2009 and a decrease of $6,748,000 from non-accrual loans of $14,614,000 at June 30, 2009. Loans 90 days past due and still accruing totaled $172,000 at June 30, 2010, compared to $267,000 at December 31, 2009 and $111,000 at June 30, 2009. There was one troubled debt restructured loan for $518,000 at June 30, 2009.

A summary of nonperforming assets as of June 30, 2010, December 31, 2009 and June 30, 2009 follows:

	June 30, 2010	December 31, 2009	June 30, 2009
		(In Thousands)	
Nonaccrual loans	$ 7,866	$ 11,921(1)	$ 14,614(1)
Past due 90 days and still accruing	172	267	111
All other real estate owned	10,773	12,525	9,239
Troubled debt restructures	-	-	518
Total non-performing assets	$ 18,811	$ 24,713	$ 24,482

(1) $1,785 of this amount represents a loan that is guaranteed by the U.S. Department of Agriculture

At June 30, 2010, we had one troubled debt restructure that was current at the time it was restructured, and is performing under the terms of the restructured agreement at this time. This loan has a carrying value of $660,000.

The decrease in non-accrual loans from December 31, 2009 to June 30, 2010 was the result of a combination of loans being foreclosed and transferred to OREO, loans being paid off, and one loan, based on being brought current, being put back on accruing status. The decrease in OREO from December 31, 2009 to June 30, 2010 was the result of sales exceeding amounts transferred, and, to a lesser extent, write-downs in the value of OREO.

At June 30, 2010, total nonperforming assets included finished and unfinished homes of $3,576,000, residential lots of $7,622,000, raw land of $5,548,000 and commercial buildings of $1,386,000. Our OREO procedures currently determine disposition value, the value used to place the property into OREO, based on the most recent fair value appraisal of the property that we have at the time, less estimated costs to sell the property.

Deposits

Total deposits increased $82,549,000, or 5.76%, to $1,514,904,000 at June 30, 2010 compared to $1,432,355,000 at December 31, 2009. This increase in deposits is a result of organic growth within our Montgomery and Dothan, Alabama markets. We anticipate long-term sustainable growth in deposits through continued development of market share in our less mature markets and through organic growth in all of our markets.

For amounts and rates of our deposits by category, see the table "Average Consolidated Balance Sheets and Net Interest Analysis on a Fully Taxable Equivalent Basis" under the subheading "Net Interest Income"

Other Borrowings

On March 19, 2008, we borrowed $20.0 million from the Federal Home Loan Bank of Atlanta, of which $10.0 million bears interest at 2.995% per annum and is payable on March 19, 2012, and $10.0 million bears interest at 3.275% per annum and is payable on March 19, 2013. As discussed in Note 9 to the Consolidated Financial Statements, we borrowed $15.5 million through the issuance of trust preferred securities and the related debenture on September 2, 2008. Both financial instruments bear an identical annual rate of interest of 8.50% and pay interest on March 1, June 1, September 1 and December 1 of each year. The current book value of this borrowing is $15.3 million as a result of amortization of the discount associated with 75,000 warrants issued to the holders of the Preferred Securities. As discussed in Note 10 to the Consolidated Financial Statements, we borrowed $15.0 million through the issuance of trust preferred securities and the related debenture on March 15, 2010. Both financial instruments bear an identical rate of interest of 6.00% and pay interest on March 15, June 15, September 15 and December 15 of each year. As discussed in Note 11 to the Consolidated Financial Statements, on June 23, 2009, the Bank issued a $5.0 million subordinated note due June 1, 2016 in a private placement. The note bears interest at an annual rate of 8.25% payable on March 1, June 1, September 1 and December 1 of each year.

Liquidity

Liquidity is defined as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

The retention of existing deposits and attraction of new deposit sources through new and existing customers is critical to our liquidity position. If our liquidity were to decline due to a run-off in deposits, we have procedures that provide for certain actions under varying liquidity conditions. These actions include borrowing from existing correspondent banks, selling or participating loans, and curtailing loan commitments and funding. At June 30, 2010, liquid assets, which are represented by cash and due from banks, federal funds sold and unpledged available-for-sale securities, totaled $290 million. Additionally, the Bank had additional borrowing availability of approximately $269 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements, and had additional borrowing availability of $3 million at the Federal Home Loan Bank of Atlanta to meet short-term funding needs. We believe these sources of funding are adequate to meet immediate anticipated funding needs, but we will need additional capital to maintain our current growth. Our management meets on a quarterly basis to review sources and uses of funding to determine the appropriate strategy to ensure an appropriate level of liquidity. At the current time, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments and deposit withdrawals. Our regular sources of funding are from the growth of our deposit base, repayment of principal and interest on loans, the sale of loans and the renewal of time deposits. In addition, we have issued debt as described above under "Other Borrowings".

We are subject to general FDIC guidelines that require a minimum level of liquidity. Management believes our liquidity ratios meet or exceed these guidelines. Our management is not currently aware of any trends or demands that are reasonably likely to result in liquidity materially increasing or decreasing.

The following table reflects the contractual maturities of our term liabilities as of June 30, 2010. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

	Payments due by Period				
	Total	1 year or less	Over 1 - 3 years	Over 3 - 5 years	Over 5 years
	(In Thousands)				
Contractual Obligations (1)					
Deposits without a stated maturity	$ 1,269,318	$ -	$ -	$ -	$ -
Certificates of deposit (2)	245,586	193,403	40,645	11,538	-
FHLB borrowings	20,000	-	20,000	-	-
Subordinated debentures	30,349	-	-	-	30,349
Subordinated note payable	4,929	-	-	-	4,929
Operating lease commitments	17,542	1,784	3,642	3,765	8,351
Total	$ 1,587,724	$ 195,187	$ 64,287	$ 15,303	$ 43,629

(1) Excludes interest
(2) Certificates of deposit give customers the right to early withdrawal. Early withdrawals may be subject to penalties.

Capital Adequacy

In the first quarter of 2010, we formed ServisFirst Capital Trust II, which issued 15,000 shares of its 6.0% Mandatory Convertible Trust Preferred Securities (the “Preferred Securities”) for $15,000,000 on March 15, 2010. The Trust invested all of the proceeds from the sale of the Trust Securities in the Company’s 6.0% Junior Subordinated Mandatory Convertible Deferrable Interest Debentures due March 15, 2040 in the principal amount of $15,050,000 (the “Subordinated Debentures”). The Preferred Securities were offered and sold to accredited investors in a private placement. The Federal Reserve Board has deemed these securities to qualify as Tier 1 capital of the Company up to 25% of Tier 1 capital elements. See Note 10 to the consolidated financial statements for further discussion of the issuance and sale of the Preferred Securities.

As of June 30, 2010, our most recent notification from the FDIC categorized us as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, we must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. Our management believes that we are well-capitalized under the prompt corrective action provisions as of June 30, 2010.

The following table sets forth (i) the capital ratios required by the FDIC and the Alabama Banking Department’s leverage ratio requirement and (ii) our actual ratios of capital to total regulatory or risk-weighted assets, as of June 30, 2010, December 31, 2009, and June 30, 2009:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount (In Thousands)	Ratio	Amount (In Thousands)	Ratio	Amount (In Thousands)	Ratio
As of June 30, 2010:						
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 155,039	11.80%	$ 105,221	8.00%	$ 131,527	10.00%
ServisFirst Bank	154,786	11.78%	105,165	8.00%	131,457	10.00%
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	134,397	10.23%	52,611	4.00%	78,916	6.00%
ServisFirst Bank	134,144	10.21%	52,583	4.00%	78,874	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	134,397	8.48%	63,423	4.00%	79,279	5.00%
ServisFirst Bank	134,144	8.46%	63,409	4.00%	79,262	5.00%
As of December 31, 2009:						
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 130,708	10.47%	$ 99,903	8.00%	$ 124,879	10.00%
ServisFirst Bank	130,252	10.44%	99,851	8.00%	124,814	10.00%
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	111,049	8.89%	49,952	4.00%	74,927	6.00%
ServisFirst Bank	110,593	8.86%	49,926	4.00%	74,888	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	111,049	6.97%	63,767	4.00%	79,709	5.00%
ServisFirst Bank	110,593	6.94%	63,737	4.00%	79,672	5.00%
As of June 30, 2009:						
Total Capital to Risk-Weighted Assets:						
Consolidated	$ 120,627	10.74%	$ 89,836	8.00%	$ 112,295	10.00%
ServisFirst Bank	124,566	11.10%	89,781	8.00%	112,226	10.00%
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	107,060	9.53%	44,918	4.00%	67,377	6.00%
ServisFirst Bank	106,084	9.45%	44,890	4.00%	67,335	6.00%
Tier 1 Capital to Average Assets:						
Consolidated	107,060	8.29%	51,635	4.00%	64,544	5.00%
ServisFirst Bank	106,084	8.22%	51,605	4.00%	64,506	5.00%

Off-Balance Sheet Arrangements

In the normal course of business we are a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit beyond current fundings, credit card arrangements, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in those particular financial instruments.

Our exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Financial instruments whose contract amounts represent credit risk at June 30, 2010 are as follows:

	(In Thousands)
Commitments to extend credit	$ 515,559
Credit card arrangements	22,538
Standby letters of credit	40,495
	$ 578,592

Commitments to extend credit beyond current fundings are agreements to lend to a customer as long as there is no violation of any condition established in the applicable loan agreement. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by us upon extension of credit is based on our management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All letters of credit are due within one year or less of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Results of Operations

Summary of Net Income

Net income for the three months ended June 30, 2010 was $4,021,000, compared to net income of $1,559,000 for the three months ended June 30, 2009. Net income for the six months ended June 30, 2010 was $8,034,000, compared to net income of $2,279,000 for the six months ended June 30, 2009. The increase in net income was primarily attributable to a higher net interest margin and an improved efficiency ratio. Net interest income for the three months ended June 30, 2010 increased to $15,308,000, or 45.78%, compared to $10,501,000 for the same period in 2009. Net interest income for the six months ended June 30, 2010 increased to $30,214,000, or 54.58%, compared to $19,546,000 for the same period in 2009. Operating expenses for the three months ended June 30, 2010 increased to $7,561,000, or 9.87%, compared to $6,882,000 in 2009, and for the six months ended June 30, 2010 increased to $14,993,000, or 12.60%, compared to $13,315,000 in 2009. The provision for loan losses decreased $71,000 to $2,537,000 for the three months ended June 30, 2010 compared to the same period in 2009, and increased $7,000 to $5,075,000 for the six months ended June 30, 2010 compared to the same period in 2009. Noninterest income decreased $278,000 to $1,004,000 for the three months ended June 30, 2010 compared to the same period in 2009, and decreased $66,000 to $2,136,000 for the six months ended June 30, 2010 compared to the same period in 2009. Basic and diluted net income per common share were $.73 and $.65, respectively, for the three months ended June 30, 2010, compared to $.28 and $.27, respectively, for the same period in 2009. Basic and diluted net income per common share were $1.46 and $1.33, respectively, for the six months ended June 30, 2010, compared to $.42 and $.40, respectively, for the same period in 2009. Return on average assets for the three and six months ended June 30, 2010 was 1.02% and 1.04%, respectively, compared to 0.48% and 0.37% in 2009, and return on average stockholders' equity for the three and six months ended June 30, 2010 was 15.34% and 15.77%, respectively, compared to 6.77% and 5.10% in 2009.

Net Interest Income

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. The major factors which affect net interest income are changes in volumes, the yield on interest-earning assets and the cost of interest-bearing liabilities. Our management's ability to respond to changes in interest rates by effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and the momentum of our primary source of earnings.

Taxable-equivalent net interest income increased $4,888,000, or 45.89%, to $15,539,000 for the three months ended June 30, 2010 compared to $10,651,000 in 2009, and increased $10,888,000, or 54.94%, to $30,705,000 for the six months ended June 30, 2010 compared to $19,817,000 in 2009. These increases were primarily attributable to growth in interest-earning assets and lower rates on interest-bearing deposits. The taxable-equivalent yield on interest-earning assets increased to 5.04% for the three months ended June 30, 2010 from 4.81% for the same period in 2009, and increased to 5.09% for the six months ended June 30, 2010 from 4.87% for the same period in 2009. The yield on loans for the three months ended June 30, 2010 was 5.33% compared to 5.08% for the same period in 2009, and was 5.36% compared to 5.08% for the six months ended June 30, 2010 and 2009, respectively. Loan fees included in the yield calculation increased to $211,000 for the three months ended June 30, 2010 from $172,000 for the same period in 2009, and increased to $398,000 for the six months ended June 30, 2010 from $308,000 for the same period in 2009. The cost of total interest-bearing liabilities decreased to 1.16% for the three months ended June 30, 2010 from 1.68% for the same period in 2009, and to 1.16% for the six months ended June 30, 2010 from 1.84% for the same period in 2009. The higher interest rate on the trust preferred securities sold in September 2008, 8.50%, limited the decrease in the average rate paid on interest-bearing liabilities.

The following tables show, for the three months ended June 30, 2010 and 2009, the average balances of each principal category of our assets, liabilities and stockholders' equity, and an analysis of net interest revenue. The accompanying tables reflect changes in our net interest margin as a result of changes in the volume and rate of our interest-earning assets and interest-bearing liabilities for the same periods. Changes as a result of mix or the number of days in the periods have been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. The tables are presented on a taxable-equivalent basis if applicable:

Average Balance Sheets and Net Interest Analysis
On a Fully Taxable-Equivalent Basis
For the Three Months Ended June 30,
(dollars in thousands)

	2010			2009		
	Average Balance	Interest Earned / Paid	Average Yield / Rate	Average Balance	Interest Earned / Paid	Average Yield / Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)	$ 1,256,458	$ 16,708	5.33%	$ 1,064,554	$ 13,485	5.08%
Mortgage loans held for sale	4,294	42	3.92	8,839	98	4.45
Investment securities:						
Taxable	175,088	1,669	3.82	71,081	1,004	5.67
Tax-exempt (2)	55,120	776	5.65	35,596	493	5.56
Total investment securities (3)	230,208	2,445	4.26	106,677	1,497	5.63
Federal funds sold	28,171	16	0.23	75,649	46	0.24
Restricted equity securities	4,024	13	1.30	3,241	10	1.24
Interest-bearing balances with banks	7,621	3	0.16	2,607	3	0.46
Total interest-earning assets	$ 1,530,776	$ 19,227	5.04%	$ 1,261,567	$ 15,139	4.81%
Noninterest-earning assets:						
Cash and due from banks	25,371			17,044		
Net fixed assets and equipment	5,019			4,098		
Allowance for loan losses, accrued interest and other assets	23,675			8,165		
Total assets	$ 1,584,841			$ 1,290,874		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 241,929	$ 314	0.52%	$ 151,414	$ 380	1.01%
Savings deposits	2,379	3	0.51	882	1	0.45
Money market accounts	737,956	1,383	0.75	674,303	2,198	1.31
Time deposits	240,317	1,129	1.88	209,215	1,388	2.66
Fed funds purchased	1,142	3	1.05	-	-	0.00
Other borrowings	55,260	856	6.21	35,463	521	5.89
Total interest-bearing liabilities	$ 1,278,983	$ 3,688	1.16	$ 1,071,277	$ 4,488	1.68
Noninterest-bearing liabilities:						
	195,753			124,343		

Noninterest-bearing demand deposits				
Other liabilities	4,937		2,905	
Stockholders' equity	102,294		91,138	
Unrealized gains on securities and derivatives	2,874		1,211	
Total liabilities and stockholders' equity	$ 1,584,841		$ 1,290,874	
Net interest spread		3.88%		3.13%
Net interest margin		4.07%		3.39%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $211,000 and $172,000 are included in interest income in 2010 and 2009, respectively.
(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 35%.
(3) Unrealized gains of $4,356,000 and $1,756,000 are excluded from the yield calculation in 2010 and 2009, respectively.

	Three Months Ended June 30, 2010 Compared to 2009 Increase (Decrease) in Interest Income and Expense Due to Changes in:		
	Volume	Rate	Total
	(In Thousands)		
Interest-earning assets:			
Loans, net of unearned income	2,526	697	3,223
Mortgages held for sale	(45)	(11)	(56)
Investment securities:			
Securities - taxable	1,078	(413)	665
Securities - tax-exempt	275	8	283
Federal funds sold	(27)	(3)	(30)
Restricted equity securities	3	-	3
Interest-bearing balances with banks	3	(3)	-
Total interest-earning assets	3,813	275	4,088
Interest-bearing liabilities:			
Interest-bearing demand deposits	166	(232)	(66)
Savings	2	-	2
Money market accounts	191	(1,006)	(815)
Time deposits	186	(445)	(259)
Fed funds purchased	2	1	3
Other borrowed funds	306	29	335
Total interest-bearing liabilities	853	(1,653)	(800)
Increase in net interest income	2,960	1,928	4,888

Average Balance Sheets and Net Interest Analysis
On a Fully Taxable-Equivalent Basis
For the Six Months Ended June 30,
(dollars in thousands)

	2010			2009		
	Average Balance	Interest Earned / Paid	Average Yield / Rate	Average Balance	Interest Earned / Paid	Average Yield / Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)	$ 1,237,864	$ 32,877	5.36%	$ 1,028,711	$ 25,916	5.08%
Mortgage loans held for sale	3,810	77	4.08	8,050	176	4.41
Investment securities:						
Taxable	181,681	3,422	3.80	72,426	2,111	5.88
Tax-exempt (2)	55,168	1,559	5.70	31,988	891	5.62
Total investment securities (3)	236,849	4,981	4.24	104,414	3,002	5.80
Federal funds sold	15,902	18	0.23	55,166	69	0.25
Restricted equity securities	3,886	25	1.30	2,958	17	1.16
Interest-bearing balances with banks	7,835	11	0.28	10,996	26	0.48
Total interest-earning assets	$ 1,506,146	$ 37,989	5.09%	$ 1,210,295	$ 29,206	4.87%
Noninterest-earning assets:						
Cash and due from banks	23,790			17,852		
Net fixed assets and equipment	5,130			3,982		
Allowance for loan losses, accrued interest and other assets	21,968			8,362		
Total assets	$ 1,557,034			$ 1,240,491		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 232,905	$ 621	0.54%	$ 147,600	$ 880	1.20%
Savings deposits	2,140	5	0.47	867	2	0.47
Money market accounts	722,272	2,680	0.75	652,002	4,741	1.47
Time deposits	245,927	2,376	1.95	193,795	2,737	2.85
Fed funds purchased	9,883	31	0.63	-	-	0.00
Other borrowings	49,003	1,571	6.46	35,285	1,029	5.88
Total interest-bearing liabilities	$ 1,262,130	$ 7,284	1.16	$ 1,029,549	$ 9,389	1.84
Noninterest-bearing liabilities:						
	188,305			118,109		

Noninterest-bearing demand deposits				
Other liabilites	3,884		2,635	
Stockholders' equity	100,220		88,940	
Unrealized gains on securities and derivatives	2,495		1,258	
Total liabilities and stockholders' equity	$ 1,557,034		$ 1,240,491	
Net interest spread		3.92%		3.03%
Net interest margin		4.11%		3.30%

(1) Non-accrual loans are included in average loan balances in all periods. Loan fees of $398,000 and $308,000 are included in interest income in 2010 and 2009, respectively.
(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 35%.
(3) Unrealized gains of $3,781,000 and $1,758,000 are excluded from the yield calculation in 2010 and 2009, respectively.

34

	Six Months Ended June 30,		
	2010 Compared to 2009 Increase (Decrease) in Interest Income and Expense Due to Changes in:		
	Volume	Rate	Total
		(In Thousands)	
Interest-earning assets:			
Loans, net of unearned income	5,495	1,466	6,961
Mortgages held for sale	(87)	(12)	(99)
Investment securities:			
Securities - taxable	2,272	(961)	1,311
Securities - tax-exempt	655	13	668
Federal funds sold	(45)	(6)	(51)
Restricted equity securities	6	2	8
Interest-bearing balances with banks	(6)	(9)	(15)
Total interest-earning assets	8,290	493	8,783
Interest-bearing liabilities:			
Interest-bearing demand deposits	364	(623)	(259)
Savings	3	-	3
Money market accounts	466	(2,527)	(2,061)
Time deposits	630	(991)	(361)
Fed funds purchased	15	16	31
Other borrowed funds	432	110	542
Total interest-bearing liabilities	1,910	(4,015)	(2,105)
Increase in net interest income	6,380	4,508	10,888

Provision for Loan Losses

The provision expense for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Our management reviews the adequacy of the allowance for loan losses on a quarterly basis. The allowance for loan losses calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and is a loan in which management perceives there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale, with loan officers having the primary responsibility for assigning risk grades and for the timely reporting of changes in the risk grades. These processes, the assigned risk grades, and the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Impaired loans are reviewed specifically and separately to determine the appropriate reserve allocation. Our management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan’s effective interest rate, the loan’s observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level.

The provision for loan losses was $2,537,000 for the three months ended June 30, 2010, a decrease of $71,000 from $2,608,000 for the three months ended June 30, 2009. The provision for loan losses was $5,075,000 for the six months ended June 30, 2010, a $7,000 increase over $5,068,000 for the six months ended June 30, 2009. Our management continues to maintain a proactive approach to credit risk management. Nonperforming loans decreased significantly to $8,038,000, or 0.62% of total loans, at June 30, 2010 from $12,188,000, or 1.01% of total loans, at December 31, 2009, and decreased from $15,243,000, or 1.37% of total loans, at June 30, 2009. Impaired loans increased to $51,192,000, or 3.97% of total loans at June 30, 2010. The increase in impaired loans at June 30, 2010 relates to management's determination to increase the number of loans evaluated on a loan-by-loan basis to encompass all loans classified as substandard or below, coupled with prevailing economic conditions. The allowance for loan losses totaled $15,713,000, or 1.22% of loans, net of unearned income, at June 30, 2010, compared to $14,911,000, or 1.24% of loans, net of unearned income, at December 31, 2009 and $13,567,000, or 1.22% of loans, net of unearned income, at June 30, 2009.

Noninterest Income

Noninterest income totaled $1,004,000 for the three months ended June 30, 2010, a decrease of $278,000, or 21.68%, compared to the same period in 2009, and totaled $2,136,000 for the six months ended June 30, 2010, a decrease of $66,000, or 3.00%, compared to the same period in 2009. Income from mortgage banking operations for the three months ended June 30, 2010 was $333,000, down $431,000, or 56.41%, from $764,000 for the same period in 2009, and for the six months ended June 30, 2009 was $747,000, down $536,000, or 41.78%, from $1,283,000 for the same period in 2009. These decreases in mortgage income are reflective of the high refinancing volume in 2009 due to historically low interest rates. Income from customer service charges and fees for the three months ended June 30, 2010 increased $212,000, or 56.38%, to $588,000 from $376,000 for the same period in 2009, and for the six months ended June 30, 2009 increased $422,000, or 57.65%, to $1,154,000 from $732,000 for the same period in 2009. The increase is primarily due to an increase in transaction accounts from 2009 to 2010. Merchant service fees were $99,000 for the three months ended June 30, 2010, a decrease of $77,000, or 43.75%, compared to $176,000 for the same period in 2009, and were $200,000 for the six months ended June 30, 2010, a decrease of $125,000, or 38.46%, compared to $325,000 for the same period in 2009.

Noninterest Expense

Noninterest expense totaled $7,561,000 for the three months ended June 30, 2010, an increase of $679,000, or 9.87%, compared to $6,882,000 in 2009, and totaled $14,993,000 for the six months ended June 30, 2010, an increase of $1,678,000, or 12.60%, compared to $13,315,000 in 2009. The increases for the three and six month periods in 2010 over the same periods in 2009 were primarily due to higher FDIC insurance assessments on our deposits, higher rent and insurance expense related to our move into our new headquarters building in Birmingham in July 2009, and higher data processing charges due to increases in the number of accounts and transaction volume. These increases were partially offset by lower salaries and employee benefits expenses and lower merchant processing expenses. Salaries and employee benefits expenses are down for the three and six months ended June 30, 2010, compared to 2009, due to lower commissions on mortgage lending and higher deferred loan origination expenses.

Income Tax Expense

Income tax expense was $2,193,000 for the three months ended June 30, 2010 versus $734,000 for the same period in 2009, and was $4,248,000 for the six months ended June 30, 2010 versus $1,086,000 for the same period in 2009. Our effective tax rates for the three and six months ended June 30, 2010 were 35.29% and 34.59%, respectively, compared to 32.01% and 32.27% for the same periods in 2009. Our primary permanent differences are related to SFAS 123(R) option expenses and tax-free income. We increased our marginal accrual rate from 34% to 35% based on anticipated net income for the full year 2010.

36

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Like all financial institutions, we are subject to market risk from changes in interest rates. Interest rate risk is inherent in the balance sheet due to the mismatch between the maturities of rate-sensitive assets and rate-sensitive liabilities. If rates are rising, and the level of rate-sensitive liabilities exceeds the level of rate-sensitive assets, the net interest margin will be negatively impacted. Conversely, if rates are falling, and the level of rate-sensitive liabilities is greater than the level of rate-sensitive assets, the impact on the net interest margin will be favorable. Managing interest rate risk is further complicated by the fact that all rates do not change at the same pace; in other words, short-term rates may be rising while longer-term rates remain stable. In addition, different types of rate-sensitive assets and rate-sensitive liabilities react differently to changes in rates.

To manage interest rate risk, we must take a position on the expected future trend of interest rates. Rates may rise, fall or remain the same. Our asset-liability committee develops its view of future rate trends and strives to manage rate risk within a targeted range by monitoring economic indicators, examining the views of economists and other experts, and understanding the current status of our balance sheet. Our annual budget reflects the anticipated rate environment for the next 12 months. The asset-liability committee conducts a quarterly analysis of the rate sensitivity position and reports its results to our board of directors.

The asset-liability committee thoroughly analyzes the maturities of rate-sensitive assets and liabilities. This analysis measures the “gap”, which is defined as the difference between the dollar amount of rate-sensitive assets repricing during a period and the volume of rate-sensitive liabilities repricing during the same period. The gap is also expressed as the ratio of rate-sensitive assets divided by rate-sensitive liabilities. If the ratio is greater than one, the dollar value of assets exceeds the dollar value of liabilities; the balance sheet is “asset-sensitive.” Conversely, if the value of liabilities exceeds the value of assets, the ratio is less than one and the balance sheet is “liability-sensitive.” Our internal policy requires management to maintain the gap such that net interest margins will not change more than 10% if interest rates change 100 basis points or more than 15% if interest rates change 200 basis points.

ITEM 4. CONTROLS AND PROCEDURES

CEO and CFO Certification.

Appearing as exhibits to this report are Certifications of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”). The Certifications are required to be made by Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO, as of June 30, 2010. Based upon the Evaluation, our CEO and CFO have concluded that, as of June 30, 2010, our disclosure controls and procedures are effective to ensure that material information relating to ServisFirst Bancshares, Inc. and its subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. As disclosed in that report, during the first quarter of 2010, we discovered a material weakness in our internal control over financial reporting relating to the treatment in our financial statements of the Federal Deposit Insurance Corporation's special three-year prepaid premium assessment for the year ended December 31, 2009. We corrected this material weakness prior to the filing of our Annual Report on Form 10-K, and we have changes to our internal control over financial reporting that we believe appropriate to ensure that similar changes in FDIC assessments and prepayments are accurately reported.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be a party to various legal proceedings arising in the ordinary course of business. We are not currently a party to any material legal proceedings except as disclosed in Item 3, "Legal Proceedings", in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and there has been no material change in any matter described therein.

ITEM 1A. RISK FACTORS

Our business is influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond our control. We have identified a number of these risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in the Form 10-K. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see "Forward-Looking Statements" under Part 1, Item 2 above.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

All information required by this Item has previously been reported on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibit:

31.01 Certification of principal executive officer pursuant to Rule 13a-14(a).
31.02 Certification of principal financial officer pursuant to Rule 13a-14(a).
32.01 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350.
32.02 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SERVISFIRST BANCSHARES, INC.

Date: August 3, 2010	By	/s/ Thomas A. Broughton, III Thomas A. Broughton, III President and Chief Executive Officer
Date: August 3, 2010	By	/s/ William M. Foshee William M. Foshee Chief Financial Officer