

ServisFirst Bancshares, Inc.  
Form 10-Q  
August 05, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

**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**

*(State or Other Jurisdiction of Incorporation or Organization)*

**26-0734029**

*(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  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

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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

Class  
Common stock, \$.001 par value

Outstanding as of August 1, 2008  
5,113,482

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**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SERVISFIRST BANCSHARES, INC.  
CONSOLIDATED BALANCE SHEETS****(In thousands except share and per share amounts)**

<b><u>Assets</u></b>	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
Cash and due from banks	\$ 26,994	\$ 15,756
Interest bearing balances due from depository institutions	55	34,068
Federal funds sold	72	16,598
Cash and cash equivalents	27,121	66,422
Securities available for sale	91,773	87,233
Restricted equity securities	2,658	1,202
Mortgage loans held for sale	3,869	2,463
Loans	836,520	675,281
Less allowance for loan losses	(9,438)	(7,732)
Loans, net	827,082	667,549
Premises and equipment, net	3,965	4,176
Accrued interest and dividends receivable	3,979	3,949
Deferred tax assets	3,566	2,432
Other real estate owned	8,202	1,623
Other assets	895	1,201
<b>Total assets</b>	<b>\$ 973,110</b>	<b>\$ 838,250</b>
<b><u>Liabilities and Stockholders Equity</u></b>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 97,066	\$ 85,018
Interest-bearing	750,359	677,665
Total deposits	847,425	762,683
Federal funds purchased	26,302	
Other borrowings	20,320	73
Accrued interest payable	1,336	782
Other liabilities	2,857	2,465
<b>Total liabilities</b>	<b>898,240</b>	<b>766,003</b>
Stockholders equity:		
Common stock, par value \$.001 per share; 15,000,000 shares authorized; 5,113,482 shares issued and outstanding	5	5
Preferred stock, par value \$.001 per share; 1,000,000 shares authorized; no shares outstanding.		

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Additional paid-in capital	63,479	63,159
Retained earnings	11,402	8,082
Accumulated other comprehensive income (loss)	(16)	1,001
<b>Total stockholders equity</b>	<b>74,870</b>	<b>72,247</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 973,110</b>	<b>\$ 838,250</b>

See Notes to Unaudited Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest income:</b>				
Interest and fees on loans	\$ 11,938	\$ 10,435	\$ 24,312	\$ 19,904
Taxable securities	975	394	1,881	650
Nontaxable securities	229	159	444	292
Federal funds sold	164	1,140	437	2,093
Other interest and dividends	35	2	102	16
<b>Total interest income</b>	<b>13,341</b>	<b>12,130</b>	<b>27,176</b>	<b>22,955</b>
<b>Interest expense:</b>				
Deposits	4,457	6,133	10,179	11,359
Borrowed funds	190		216	
<b>Total interest expense</b>	<b>4,647</b>	<b>6,133</b>	<b>10,395</b>	<b>11,359</b>
<b>Net interest income</b>	<b>8,694</b>	<b>5,997</b>	<b>16,781</b>	<b>11,596</b>
<b>Provision for loan losses</b>	<b>2,137</b>	<b>816</b>	<b>3,519</b>	<b>1,460</b>
<b>Net interest income after provision for loan losses</b>	<b>6,557</b>	<b>5,181</b>	<b>13,262</b>	<b>10,136</b>
<b>Noninterest income:</b>				
Service charges on deposit accounts	290	104	546	217
Other operating income	405	198	692	348
<b>Total noninterest income</b>	<b>695</b>	<b>302</b>	<b>1,238</b>	<b>565</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	2,400	2,116	5,227	3,982
Equipment and occupancy	522	375	1,053	710
Professional services	259	129	575	230
Other operating expense	1,349	783	2,505	1,385
<b>Total noninterest expense</b>	<b>4,530</b>	<b>3,403</b>	<b>9,360</b>	<b>6,307</b>
Income before income taxes	2,722	2,080	5,140	4,394
Provision for income taxes	972	783	1,820	1,590

Net income	\$ 1,750	\$ 1,297	\$ 3,320	\$ 2,804
<b>Basic earnings per share</b>	<b>\$ 0.34</b>	<b>\$ 0.29</b>	<b>\$ 0.65</b>	<b>\$ 0.63</b>
<b>Diluted earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.29</b>	<b>\$ 0.63</b>	<b>\$ 0.62</b>

**See Notes to Unaudited Consolidated Financial Statements.**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net income</b>	\$ 1,750	\$ 1,297	\$ 3,320	\$ 2,804
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) arising during the period from securities available for sale, net of tax (benefit) of \$(818) and \$(466) for the three and six months ended June 30, 2008, respectively, and \$388 and \$369 for the three months ended June 30, 2008, respectively	(1,592)	753	(905)	716
Unrealized gains(losses) arising during the period from derivative, net of tax (benefit) of \$35 for the six months ended June 30, 2008, and \$18 and \$26 for the three and six months ended June 30, 2007, respectively		24	68	42
Reclassification adjustment for net gains realized on derivatives in net income, net of tax of \$46 and \$92 for the three and six months ended June 30, 2008, respectively	(90)		(180)	
Other comprehensive income (loss)	(1,682)	777	(1,017)	758
<b>Comprehensive income</b>	<b>\$ 68</b>	<b>2,074</b>	<b>2,303</b>	<b>3,562</b>

See Notes to Unaudited Consolidated Financial Statements.



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**SERVISFIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**(Unaudited)**  
**(In Thousands)**

	<b>Common</b>	<b>Additional Paid-in</b>	<b>Retained</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total Stockholders</b>
	<b>Stock</b>	<b>Capital</b>	<b>Earnings</b>	<b>(Loss)</b>	<b>Equity</b>
<b>Balance December 31, 2007</b>	\$5	\$ 63,159	\$ 8,082	\$ 1,001	\$ 72,247
Other comprehensive loss				(1,017)	(1,017)
Stock based compensation expense		320			320
Net income			3,320		3,320
<b>Balance June 30, 2008</b>	\$5	\$ 63,479	\$ 11,402	\$ (16)	\$ 74,870

See Notes to Unaudited Consolidated Financial Statements.

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**SERVISFIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
**(Unaudited)**  
**(In Thousands)**

	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,320	\$ 2,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax benefit	(623)	(1,415)
Provision for loan losses	3,519	1,460
Depreciation and amortization	450	275
Net amortization (accretion) of investments	(174)	(58)
Amortized gain on derivative	272	
Increase in accrued interest and dividends receivable	(30)	(362)
Stock compensation expense	320	257
Increase in accrued interest payable	554	149
Proceeds from sale of mortgages held for sale	(45,669)	(22,452)
Originations of mortgages held for sale	44,263	22,195
(Gain) loss on sale of other real estate	97	(15)
Net change in other operating activities	(335)	(180)
Net cash provided by operating activities	5,965	2,656
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(10,956)	(26,829)
Proceeds from maturities/calls, pay downs of securities available for sale	5,220	3,663
Increase in loans	(170,097)	(86,990)
Purchase of premises and equipment	(239)	(1,027)
Purchase of restricted equity securities	(1,457)	(396)
Proceeds from sale of other real estate	972	276
Net cash used in investing activities	(176,557)	(111,303)
<b>FINANCING ACTIVITIES</b>		
Net increase in non-interest bearing deposits	12,048	19,398
Net increase in interest bearing deposits	72,694	152,153
Net increase in federal funds purchased	26,302	
Proceeds from other borrowings	20,247	
Net cash provided by financing activities	131,291	171,551
Net increase (decrease) in cash and cash equivalents	(39,301)	62,904
Cash and cash equivalents at beginning of period	66,422	53,335

Cash and cash equivalents at end of period	\$ 27,121	\$ 116,239
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**See Notes to Unaudited Consolidated Financial Statements.**

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**SERVISFIRST BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(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 registration statement on Form 10 effective on May 27, 2008.

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

**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. The following supplemental cash flow information addresses certain cash payments and noncash transactions for the six months ended June 30, 2008 and 2007, respectively.

	Six Months Ended June 30,	
	2008	2007
	(In Thousands)	
Interest paid	\$ 9,836	\$ 11,211
Income taxes paid	\$ 2,560	\$ 2,585
Transfers of loans to other real estate	\$ 6,857	\$

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In Thousands, Except Share and Per Share Amounts)			
Weighted average common shares outstanding	5,113,482	4,463,606	5,113,482	4,463,606
Net income	\$ 1,750	\$ 1,297	\$ 3,320	\$ 2,804
Basic earnings per common share	\$ 0.34	\$ 0.29	\$ 0.65	\$ 0.63
Weighted average common shares outstanding	5,113,482	4,463,606	5,113,482	4,463,606
Dilutive effects of assumed conversions and exercises of stock options and warrants	176,611	37,744	174,435	25,842
Weighted average common and dilutive potential common shares outstanding	5,290,093	4,501,351	5,287,917	4,489,449
Net income	\$ 1,750	\$ 1,297	\$ 3,320	\$ 2,804
Diluted earnings per common share	\$ 0.33	\$ 0.29	\$ 0.63	\$ 0.62

**NOTE 4 EMPLOYEE AND DIRECTOR BENEFITS****Stock Options**

At June 30, 2008, the Company has stock-based compensation plans, which are described below. The compensation cost that has been charged against income for the plan was approximately \$159,000 and \$320,000 for the three and six months ended June 30, 2008, and \$137,000 and \$257,000 for the three and six months ended June 30, 2007, respectively. Included in stock-based compensation for 2008 and 2007 is expense recognized related to option and warrants granted in 2005, the fair value of which were determined using a Black-Scholes-Merton valuation model. Under the Company's 2005 Amended and Restated Stock Option Plan (the "Plan"), there are 1,025,000 shares authorized for issuance. Option 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 plan is ten years.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company has granted non-plan options to certain key 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 the 2005 Amended and Restated Stock Option 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 Alabama traded community 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.

	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Expected volatility	20.00%	20.00%
Expected dividends	.50%	.50%
Expected term in years	7 years	7 years
Risk-free rate	2.93%	4.56%

The following table summarizes stock option activity during the six months ended June 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In Thousands)
Outstanding January 1, 2008	712,500	\$ 13.12	8.43	\$ 4,905
Granted	13,500	20.00		
Exercised				
Forfeited				
Outstanding at June 30, 2008	726,000	\$ 13.24	7.99	4,905
Exercisable at June 30, 2008	42,000	\$ 10.24	6.98	\$ 410

There were no stock options issued during the three months ended June 30, 2008.

**Stock Warrants**

In recognition of the efforts and financial risks undertaken by the Bank's organizers 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 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, 2008 and 2007 was 60,000.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The fair value of each stock warrants granted in 2005 was estimated on the date of grant using a Black-Scholes-Merton valuation model using the assumptions noted in the following table.

	<b>Year Ended December 31, 2005</b>
Expected volatility	20.00%
Expected dividends	0.00%
Expected term (in years)	3 years
Risk-free rate	3.69%

There were no stock warrants granted, exercised, or forfeited during the six months ended June 30, 2008. A total of 20,000 stock warrants became exercisable during the three months ended June 30, 2008.

**NOTE 5 ADOPTION OF NEW ACCOUNTING INTERPRETATIONS**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other financial accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. The Company chose not to elect the fair value option for its financial assets and financial liabilities existing at January 1, 2008 and did not elect the fair value option on financial assets and financial liabilities transacted in the six months ended June 30, 2008. Therefore, the adoption of SFAS No. 159 had no impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157 *Fair Value Measurements*, for financial assets and financial liabilities and any other assets and liabilities carried at fair value. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. On November 14, 2007, FASB issued SFAS 157-2, *Effective Date FASB Statement No. 157*. FASB No. 157-2 delays the effective date of Statement No. 157 for other non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. The company's adoption of SFAS No. 157 did not have a material effect on the Company's consolidated financial statements for financial assets and financial liabilities and any other assets or liabilities carried at fair value.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2008, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). Under FAS 162, the GAAP hierarchy will now reside in the accounting literature established by the FASB. FAS162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements in conformity with GAAP. FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411 *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. FAS 162 will not impact our financial statements.

In March, 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB No. 133*. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosure about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedging items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedging items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will adopt this Statement at the beginning of the Company's fiscal year ending December 31, 2009. The Company has not determined the effect that the adoption of FAS 161 will have on its financial statement disclosures.

**NOTE 7 FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Company adopted the methods of fair value as described in SFAS No. 157, *Fair value Measurements*, to value its financial assets and financial liabilities measured at fair value. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No.157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value 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, as well as considers counterparty credit risk in its assessment of fair value.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents the fair value hierarchy of financial assets and financial liabilities measured at fair value as of June 30, 2008:

	Fair Value Measurement at June 30, 2008			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (Dollar amounts in thousands)	Significant Unobservable Inputs (Level 3)	
Assets Measured on a Recurring Basis:				
Available-for-sale securities (1)	\$	\$ 91,773		\$ 91,773
Assets measured on a Nonrecurring Basis:				
Impaired loans			10,125	\$ 10,125

(1) The Company chose not to elect the fair value option as prescribed by SFAS No. 159 for its financial assets and financial liabilities that had not been previously carried at fair value. Therefore, certain financial assets and financial liabilities not carried at fair value, such as the Company's investment in the Federal Home Loan

Bank are still  
reported at their  
carrying values.

During the first and second quarter of 2008 the Company recognized losses related to certain assets that are measured at fair value on a nonrecurring basis (i.e. loans). Approximately \$491,000 of losses related to loans were recognized as specific allocations to the allowance for loan losses in the six months ended June 30, 2008, including \$433,000 in the three months ended June 30, 2008.

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**ITEM 2. MANagements Discussion and Analysis of Consolidated 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. This discussion is intended to supplement and highlight information contained in the accompanying unaudited consolidated financial statements for the three months and six months ended June 30, 2008 and June 30, 2007.

**Forward Looking Statements**

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and reports to stockholders. Statements in this Form 10-Q 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. Such forward-looking statements are made based upon our management's belief as well as assumptions made by, and information currently available to, our management. Our actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors, including governmental monetary and fiscal policies, deposit levels, loan demand, loan collateral values, securities portfolio values, interest rate risk management; 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 the loan portfolio and our deposit base; the effects of competition in the banking business from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market funds and other financial institutions operating in our market area and elsewhere, including institutions operating through the Internet; changes in governmental regulation relating to the banking industry, including regulations relating to branching and acquisitions, failure of assumptions underlying the establishment of reserves for loan losses, including the value of collateral underlying delinquent loans and other factors. We caution that such factors are not exclusive. We do not undertake to update any forward-looking statement that may be made from time to time by, or on behalf of, us.

**Business**

We are a bank holding company within the meaning of the Bank Holding Company Act of 1956 headquartered in Birmingham, Alabama. Through our wholly-owned bank subsidiary, we operate seven full service banking offices located in Jefferson, Shelby, Madison and Montgomery counties in the metropolitan statistical areas (hereinafter, and more commonly, referred to as MSAs) of Birmingham-Hoover, Huntsville and Montgomery, Alabama.

We were originally incorporated as a Delaware corporation in August 2007 for the purpose of acquiring all of the common stock of ServisFirst Bank, an Alabama banking corporation (separately referred to herein as the Bank), that was formed on April 28, 2005 and commenced operations on May 2, 2005. On November 29, 2007, we became the sole shareholder of the Bank by virtue of a plan of reorganization and agreement of merger pursuant to which a wholly-owned subsidiary formed for the purpose of the reorganization was merged with and into the Bank with the Bank surviving and each shareholder of the Bank exchanging their shares of the Bank's common stock for an equal number of shares of our common stock.

We were organized to facilitate the Bank's ability to serve its customers' requirements for financial services. The holding company structure provides flexibility for expansion of our banking business through the possible acquisition of other financial institutions, the provision

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of additional banking-related services which the traditional commercial bank may not provide under present laws and additional financing alternatives such as the issuance of trust preferred securities. We have no present plans to acquire any operating subsidiaries in addition to the Bank, but we may make acquisitions in the future if we deem them to be in the best interest of our stockholders. Any such acquisitions would be subject to applicable regulatory approvals and requirements. However, we do plan to issue trust preferred securities for the purpose of increasing our capital base if and when we deem market conditions to be acceptable.

We are headquartered at 3300 Cahaba Road, Suite 300, Birmingham, Alabama 35223 (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) and two offices in the Montgomery, Alabama MSA (Montgomery County) which constitute our primary service areas. We also serve certain adjacent areas to our primary service areas. Our principal business is to accept deposits from the public and to make loans and other investments. Our principal source of funds for loans and investments are demand, time, savings, and other deposits (including negotiable orders of withdrawal, or NOW accounts) and the amortization and prepayment of loans and borrowings. 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, 2008, the Company had total consolidated assets of \$973,110,000 an increase of \$134,860,000 or 16.09% over the \$838,250,000 reported at December 31, 2007. Total loans were \$836,520,000 at June 30, 2008, a \$161,239,000 or 23.88% increase over the \$675,281,000 at December 31, 2007. Total deposits were \$847,425,000 at June 30, 2008, an increase of \$84,742,000 or 11.11% over the \$762,683,000 at December 31, 2007. The increase in loans and deposits was from organic growth in existing branches in Birmingham and Huntsville, Alabama, and our expansion into the Montgomery, Alabama market beginning in 2007.

Net income for the quarter ended June 30, 2008 was \$1,750,000 an increase of \$453,000 or 34.93% compared to the \$1,297,000 for the quarter ended June 30, 2007. Basic earnings per common share were \$0.34 for the three months ended June 30, 2008 compared with \$0.29 for the same period in 2007.

**Significant 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 and fair value of financial instruments are particularly subject to change.

**Table of Contents****Financial Condition****Investment Securities**

Investment securities available for sale totaled \$91,773,000 at June 30, 2008, and \$87,233,000 at December 31, 2007.

The investment portfolio at June 30, 2008, and December 31, 2007 consisted of the following:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Market Value</b>
	(In Thousands)			
As of June 30, 2008:				
Securities available for sale:				
Mortgage backed securities	\$ 59,650	\$ 140	\$ (444)	\$ 59,346
State and municipal securities	26,727	280	(132)	26,875
Corporate bonds	5,964		(412)	5,552
<b>Total</b>	<b>\$ 92,341</b>	<b>\$ 420</b>	<b>\$ (988)</b>	<b>\$ 91,773</b>
As of December 31, 2007:				
Securities available for sale:				
Mortgage backed securities	\$ 62,162	\$ 471	\$ (30)	\$ 62,603
State and municipal securities	24,271	374	(15)	24,630
<b>Total</b>	<b>\$ 86,433</b>	<b>\$ 845</b>	<b>\$ (45)</b>	<b>\$ 87,233</b>

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 has occurred, and industry analysts' reports. As management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

The following table shows the amortized cost of the Company's investment securities by their stated maturity at June 30, 2008.

	<b>Less than one year</b>	<b>One year to five years</b>	<b>Five years to ten years</b>	<b>More than ten years</b>	<b>Total</b>
	(In Thousands)				
As of June 30, 2008					
Mortgage backed securities	\$	\$ 28,301	\$ 26,754	\$ 4,595	\$ 59,650
State and municipal securities		1,564	13,282	11,881	26,727
Corporate bonds			4,034	1,930	5,964
<b>Total</b>	<b>\$</b>	<b>\$ 29,865</b>	<b>\$ 44,070</b>	<b>\$ 18,406</b>	<b>\$ 92,341</b>

All securities held are traded in liquid markets. As of June 30, 2008, we owned certain restricted securities from the Federal Home Loan Bank with an aggregate book value and market value of \$2,408,000 and 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.



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The bank's investment portfolio consists of mortgage-backed pass-thru securities, tax exempt securities and corporate bonds. The bank does not invest in collateral debt obligations (CDO's). All tax exempt securities are issued by municipalities 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, 2008 total investment portfolio has a combined average credit rating of AA+. At June 30, 2008, we had \$72,000 in federal funds sold, compared with \$16,598,000 at December 31, 2007. The decrease in 2008 is due to the strong loan demand in the first half of 2008.

**Loans**

We had total loans of \$836,520,000 at June 30, 2008 compared to \$675,281,000 at December 31, 2007, an increase of \$161,239,000 or 23.88%. At June 30, 2008, 63.90% of our loans were in our Birmingham offices, 25.89% in our Huntsville offices, and 10.21% in our Montgomery offices. The following table details our loans at June 30, 2008 and December 31, 2007:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	(In Thousands)	
Commercial, financial and agricultural	\$ 260,763	\$ 219,684
Real estate - construction	223,377	195,238
Real estate - mortgage:		
Owner occupied	128,466	89,014
1-4 family	99,630	64,325
Other	93,890	83,663
Total real estate mortgage	321,986	237,002
Consumer	30,394	23,357
Total loans	836,520	675,281
Less allowance for loan losses	(9,438)	(7,732)
Net loans	\$ 827,082	\$ 667,549

**Asset Quality**

The allowance for loan losses is established and maintained 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 feels that the allowance is adequate at June 30, 2008. The company has allocated 46.92% of the total loan loss reserve to real estate construction loans at June 30, 2008. Management is very aggressive with its portfolio monitoring to identify and deteriorating loans, act quickly to attempt workout, or, if need be, foreclose and write down the assets. Disposing of these assets quickly while limiting losses is our top priority to minimize the impact on capital.

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The following table presents a summary of changes in the allowances for loan losses for the six months ended June 30, 2008 and 2007, respectively. The largest balance of our charge-offs are on real estate construction loans. Real estate construction loans represent 26.70% of our loan portfolio. Real estate construction charge offs were \$1,469,000 in the second quarter of 2008.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	(In Thousands)			
Allowance for loan losses at beginning of period	\$ 8,852	\$ 6,038	\$ 7,732	\$ 5,418
Charge-offs				
Commercial, financial and agricultural		(23)	(1)	(43)
Real estate construction	(1,469)		(1,748)	
Real estate mortgage				
Owner occupied				
1-4 family	(77)		(77)	
Other				
Total real estate mortgage			(77)	
Consumer	(5)	(6)	(6)	(10)
Total charge-offs	(1,551)	(29)	(1,832)	(53)
Recoveries				
Commercial, financial and industrial			19	
Real estate construction				
Real estate mortgage				
Owner occupied				
1-4 family				
Other				
Total real estate mortgage				
Consumer				
Total recoveries			19	
Net charge-offs	(1,551)	(29)	(1,813)	(53)
Provision for loan losses charged to expense	2,137	816	3,519	1,460
Allowance for loan losses at end of period	\$ 9,438	\$ 6,825	\$ 9,438	\$ 6,825
As a percentage of year to date average loans:				
Annualized charge-offs	0.79%	0.02%	0.48%	0.02%
Annualized provision for loan losses	1.08%	0.66%	0.94%	0.62%



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

	June 30, 2008		2007		December 31, 2007	
	Amount	Percentage of loans in each category of total loans	Amount  (Dollars in Thousands)	Percentage of loans in each category of total loans	Amount	Percentage of loans in each category of total loans
Commercial, financial and agricultural	\$ 970	31.17%	\$ 1,391	35.84%	\$ 1,714	32.53%
Real estate construction	4,428	26.70%	4,434	35.00%	3,487	28.91%
Real estate mortgage	1,139	38.49%	191	26.27%	340	35.10%
Consumer	33	3.64%	199	2.89%	12	3.46%
Other	2,868		610		2,179	
Total	\$ 9,438	100.00%	\$ 6,825	100.00%	\$ 7,732	100.00%

**Non-performing Assets**

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

We have adopted the principles of Financial Accounting Standards Board (FASB) SFAS No. 114 and No. 118 relating to accounting for impaired loans and as of June 30, 2008, our impaired loans, inclusive of non-accrual loans, totaled \$10,125,000, and had associated reserves of approximately \$1,861,000. This compares to impaired loans and associated reserves of \$11,612,000 and \$1,370,000, respectively at December 31, 2007. A loan is considered impaired when it is probable, based on current information and events; 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 either the present value of expected future cash flows discounted at the loans effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependant. The amount of impairment, if any, and subsequent changes 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 nonaccrual status.

Non-performing assets, comprised of non-accrual loans, loans ninety days or more past due and still accruing, and other real estate owned totaled \$13,195,000 at June 30, 2008, compared

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to \$6,094,000 at December 31, 2007. Non-accrual loans were \$3,218,000 at June 30, 2008, a decrease of \$1,066,000 from non-accrual loans of \$4,284,000 at December 31, 2007. Loans ninety days past due and still accruing totaled \$1,775,000 at June 30, 2008, compared to \$187,000 at December 31, 2007. Other real estate owned totaled \$8,202,000 as of June 30, 2008, compared to \$1,623,000 at December 31, 2007.

A summary of nonperforming assets as of June 30, 2008, June 30, 2007 and December 31, 2007 follows:

	June 30, 2008	December 31, 2007	June 30, 2007
	(Dollars in Thousands)		
Non-accrual loans	\$ 3,218	4,284	2,484
Loans 90 days or more past due and still accruing	1,775	187	6
All other real estate owned	8,202	1,623	371
Total non-performing assets	\$ 13,195	6,094	2,861

The decrease to our non-accrual loans during the first half of 2008 is the net result of transfers to OREO.

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. Any difference between the disposition value and the loan balance is for charged off. Once the property is in OREO sales efforts begin.

Based on the change in economic conditions, in particular the slow down in the residential construction industry, non performing assets could increase due to the inability of customers to service their debt.

**Deposits**

Total deposits increased \$84,742,000 or 11.11% to \$847,425,000 at June 30, 2008 compared to \$762,683,000 reported at December 31, 2007. The company experienced good deposit growth in the first half of 2008 as a result of our expansion into the Montgomery market in 2007 and expanded customer relationships in the Birmingham and Huntsville markets. We anticipate that deposit growth will closely match future loan demand in the second half of 2008. Management is reviewing the rate structure of their current deposit products and is making the necessary adjustments to further increase deposit growth, such as increasing certificate of deposit rates and expanding current deposit relationships through the efforts of our officers.

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

**Other Borrowings**

As of June 30, 2008, we had borrowed \$320,000 under a \$500,000 line of credit with a regional bank. The note is unsecured. The note is due in October 2008 and the interest rate varies at the lender's base commercial lending rate. The interest rate at June 30, 2008 was 5.00%.

On March 19, 2008 we borrowed \$20,000,000 from the Federal Home Loan Bank of Atlanta, of which \$10,000,000 bears interest at 2.995%, and is payable on March 19, 2012, and \$10,000,000 bears interest at 3.275%, and is payable on March 19, 2013.

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Federal funds purchased were \$26,302,000 at June 30, 2008. Management believes that fed funds purchased will decrease in the second half of 2008 based on deposit growth resulting from increases in deposit rates along with the funds generated by a potential trust preferred offering.

**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. In the event of compression in liquidity due to a run-off in deposits, we have a liquidity policy and procedure that provides for certain actions under varying liquidity conditions. These actions include borrowing from existing correspondent banks, selling or participating loans, and the curtailment of loan commitments and funding. At June 30, 2008, our liquid assets, represented by cash and due from banks, federal funds sold and available-for-sale securities, totaled \$118,894,000. Additionally, our subsidiary bank had additional borrowing availability of approximately \$52 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements, and had additional borrowing availability of \$105 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. 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.

To finance our continued growth and planned expansion activities, before our reorganization into a holding company structure, the Bank issued 649,875 shares of common stock in September of 2007 for approximately \$13 million in capital before offering expenses. 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. We are also exploring the possibility of issuing trust preferred securities if market conditions become favorable to us.

We are subject to general FDIC guidelines which 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 increasing or decreasing in any material manner.

The following table reflects the contractual maturities of our term liabilities as of June 30, 2008. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

	<b>Total</b>	<b>Payments due by Period</b>			
		<b>(In Thousands)</b>			
		<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More than 5 Years</b>
Contractual Obligations (1)					
Deposits without a stated maturity	\$ 702,834	702,834			
Certificates of deposit (2)	\$ 144,591	132,620	8,883	3,088	
FHLB borrowings	\$ 20,000			20,000	
Federal funds purchased	\$ 26,302	26,302			
Other borrowings	\$ 320	320			
Operating lease commitments	\$ 5,971	915	1,509	1,085	2,462
<b>Total</b>	<b>\$ 900,018</b>	<b>862,991</b>	<b>10,392</b>	<b>24,173</b>	<b>2,462</b>

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- (1) Excludes interest
- (2) Certificates of deposit give customers the right to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.

**Capital Adequacy**

As of June 30, 2008, 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, 2008. Furthermore, the Alabama Banking Department has required that we maintain a leverage ratio of 8% for the first three years of our operations until May 2, 2008 and 7% thereafter.

The following table sets forth (i) the capital ratios required by the FDIC and the Alabama Banking Department's leverage ratio requirement to be maintained by us for the first three years of our operations and (ii) our actual ratios of capital to total regulatory or risk-weighted assets, as of June 30, 2008, December 31, 2007, and June 30, 2007.

	Actual		For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
	ServisFirst Bancshares	ServisFirst Bank		
June 30, 2008				
Total Capital to Risk Weighted Assets	10.00%	10.03%	8.00%	10.00%
Tier 1 Capital to Risk Weighted Assets	8.88%	8.91%	4.00%	6.00%
Tier 1 Capital to Average Assets	7.92%	7.94%	4.00%	5.00%
December 31, 2007				
Total Capital to Risk Weighted Assets	11.22%	11.22%	8.00%	10.00%
Tier 1 Capital to Risk Weighted Assets	10.12%	10.12%	4.00%	6.00%

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Tier 1 Capital to Average Assets	8.40%	8.40%	4.00%	5.00%
June 30, 2007				
Total Capital to Risk Weighted Assets	N/A	10.91%	8.00%	10.00%
Tier 1 Capital to Risk Weighted Assets	N/A	9.72%	4.00%	6.00%
Tier 1 Capital to Average Assets	N/A	8.55%	4.00%	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,

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elements of credit risk in excess of the amount recognized in the 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 financial instruments for commitments to extend credit beyond current fundings, credit card arrangements, standby letters of credit and financial guarantees 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, 2008:

	(In Thousands)
Commitments to extend credit beyond current fundings	\$ 285,394
Credit card arrangements	8,270
Standby letters of credit and financial guarantees	26,026
<b>Total</b>	<b>\$ 319,690</b>

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 contract. 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.

**Derivatives**

Prior to 2008 we entered into an interest rate floor with a notional amount of \$50 million in order to fix the minimum interest rate on a corresponding amount of our floating-rate loans. In our management's opinion, market conditions were appropriate and the interest rate floor was sold in January 2008 and the related gain of \$817,000 has been deferred and will be amortized to income over the remaining term of the original agreement which would have terminated on June 22, 2009. A gain of \$136,000 and \$272,000 was recognized in interest income for the three and six months ended June 30, 2008.

**Net Income**

Net income for the three months ended June 30, 2008 was \$1,750,000, compared to net income of \$1,297,000 for the three months ended June 30, 2007. Net income for the six months ended June 30, 2008 was \$3,320,000, compared to net income of \$2,804,000 for the six months ended June 30, 2007. The increases in net income are primarily attributable to a significant increase in net interest income due to significant growth of our deposits and loan portfolio resulting

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from significant continued core growth in Birmingham and Huntsville and our expansion into Montgomery in 2007. These positive effects were partially offset by increases in the provision for loan losses, to \$2,137,000 from \$816,000 for the three months ended June 30, 2008, and 2007 respectively, and to \$3,519,000 from \$1,460,000 for the six months ended June 30, 2008 and 2007, respectively, and increases in non-interest expense, to \$4,530,000 from \$3,403,000 for the three months ended June 30, 2008 and 2007, respectively, and to \$9,360,000 from \$6,307,000 for the six months ended June 30, 2008 and 2007 respectively. The increase in provision for loan losses was the result of funding the loan loss reserve to match the growth in the loan portfolio and loan charge-offs. The increase in non-interest expense was due to an increase in personnel and general operating expenses due to our growth. Basic and diluted net income per common share were \$0.34 and \$0.33, respectively, for the three months ended June 30, 2008, compared to \$0.29 per common share for both basic and diluted for the three months ended June 30, 2007. Basic and diluted net income per common share were \$0.65 and \$0.63, respectively, for the six months ended June 30, 2008, compared to \$0.63 and \$0.62 per common share for basic and diluted for the six months ended June 30, 2007. Return on average assets for the three months ended June 30, 2008 was 0.74%, compared to 0.80% in 2007, and return on average stockholders' equity was 9.31% for the three months ended June 30, 2008, compared to 9.51% in 2007.

**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.

Beginning in mid-2004, the Federal Reserve Open Market Committee, or FOMC, increased interest rates 400 basis points through mid-2006 where interest rates remained constant until September 2007 when the FOMC began lowering interest rates in reaction to the affects of the sub-prime credit crisis. Since September 2007, the FOMC has lowered interest rates 275 basis points including an emergency 75 basis point decrease in January 2008, 75 basis points at its March 18, 2008 meeting, and 25 basis points at its April 30, 2008 meeting. In anticipation of these decreases in interest rates, our management has placed us in a moderately liability sensitive position. This means that more liabilities are scheduled to reprice within the next year than assets, thereby taking advantage of the anticipated decrease in interest rates.

Net interest income increased \$2,697,000, or 44.97%, to \$8,694,000 for the three months ended June 30, 2008 from \$5,997,000 for the three months ended June 30, 2007. This was due to an increase in total interest income of \$1,211,000, or 9.98%, plus a decrease in total interest expense of \$1,486,000 or 24.23%. Net interest income increased \$5,185,000, or 44.71%, to \$16,781,000 for the six months ended June 30, 2008 from \$11,596,000 for the six months ended June 30, 2007. This was due to an increase in total interest income of \$4,221,000, or 18.39%, plus a decrease in total interest expense of \$964,000, or 8.49%. The increase in total interest income was primarily attributable to loan growth as a consequence of significant continued core growth in Birmingham and Huntsville and our expansion into Montgomery in 2007.

The following table shows for the three and six months ended June 30, 2008 and 2007, the average balances of each principal category of our assets, liabilities and stockholders' equity,

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and an analysis of net interest revenue. The table is presented on a tax equivalent basis if applicable.

**Average Consolidated Balance Sheet and Net Interest Analysis on a Fully Tax  
Equivalent Basis**

**Three Months Ended June 30,**

	<b>Average Balance</b>	<b>2008 Income/ Expense</b>	<b>Yield/ Rate</b>	<b>Average Balance</b>	<b>2007 Income/ Expense</b>	<b>Yield/ Rate</b>
	(Dollar Amounts In Thousands)					
Assets:						
Interest-earning assets:						
Loans, net of unearned income(1)	\$ 791,383	11,896	6.03%	494,836	10,409	8.44%
Mortgage loans held for sale	2,871	42	5.87%	1,758	26	5.93%
Investment securities:						
Taxable	68,930	975	5.66%	28,583	394	5.51%
Tax-exempt(2)(3)	23,342	329	5.64%	16,198	229	5.65%
Total investment securities(3)	92,272	1,304	5.65%	44,781	623	5.56%
Federal funds sold	30,353	164	2.16%	87,855	1,140	5.19%
Restricted equity securities	2,659	34	5.28%	1,201	2	0.67%
Interest bearing balances with banks	37	1	5.42%	35		
Total interest-earning assets	919,575	13,441	5.86%	630,466	12,200	7.76%
Non-interest earning assets						
Cash and due from banks	17,167			13,527		
Net fixed assets	3,972			3,085		
Allowance for loan losses, accrued interest and other assets	5,105			(562)		
Total assets	\$ 945,819			646,516		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Interest bearing demand deposits	\$ 95,781	367	1.54%	36,186	263	2.92%
Savings deposits	431	1	0.52%	243	1	1.65%
Money market accounts	524,806	2,655	2.03%	418,868	5,219	5.00%
Time deposits	135,300	1,434	4.25%	50,799	650	5.13%
Federal funds purchased	5,041	30	2.39%			



Other borrowed funds	20,250	160	3.17%			
Total interest-bearing liabilities	781,609	4,647	2.38%	506,096	6,133	4.86%
Non-interest liabilities						
Non-interest bearing demand deposits	86,019			82,910		
Other liabilities	2,611			2,803		
Stockholders equity	75,580			54,707		
Total liabilities and stockholders equity	\$ 945,819			646,516		
Net interest spread			3.48%			2.90%
Net interest margin			3.84%			3.82%

(1) Non-accrual loans are included in average loan balances in all years. Loan fees of \$319,000 and \$353,000 are included in interest income in 2008 and 2007, respectively.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 34%.

(3) Unrealized gains (losses) of \$1,753,000 and (\$263,000) are excluded from the yield calculation in 2008 and 2007, respectively.

**Table of Contents****Average Consolidated Balance Sheet and Net Interest Analysis on a Fully Tax Equivalent Basis**

Six Months Ended June 30,

	<b>Average Balance</b>	<b>2008 Income/ Expense</b>	<b>Yield/ Rate</b>	<b>Average Balance</b>	<b>2007 Income/ Expense</b>	<b>Yield/ Rate</b>
(Dollar Amounts In Thousands)						
Assets:						
Interest-earning assets:						
Loans, net of unearned income(1)	\$ 753,739	24,238	6.45%	472,658	19,845	8.42%
Mortgage loans held for sale	2,636	74	5.66%	1,484	59	8.01%
Investment securities:						
Taxable	67,021	1,881	5.61%	23,679	650	5.49%
Tax-exempt (2)(3)	22,607	639	5.64%	14,802	420	5.68%
Total investment securities (3)	89,628	2,520	5.62%	38,481	1,070	5.51%
Federal funds sold	34,274	437	2.55%	81,200	2,093	5.15%
Restricted equity securities	2,013	49	4.93%	1,018	15	3.00%
Interest bearing balances with banks	2,395	53	4.41%	33	1	2.92%
Total interest-earning assets	884,685	27,371	6.20%	594,874	23,083	7.78%
Non-interest earning assets						
Cash and due from banks	16,448			13,049		
Net fixed assets	4,076			2,888		
Allowance for loan losses, accrued interest and other assets	3,555			(490)		
Total assets	\$ 908,764			610,321		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Interest bearing demand deposits						
	\$ 81,633	714	1.76%	40,059	520	2.62%
Savings deposits	404	1	0.74%	200	2	1.53%
Money market accounts	535,651	6,872	2.57%	387,482	9,591	4.96%
Time deposits	117,565	2,592	4.42%	48,653	1246	5.14%

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Federal funds purchased	2,521	30	2.39%	0	0	0.00%
Other borrowings	11,319	186	3.30%	0	0	0.00%
Total interest-bearing liabilities	749,093	10,395	2.78%	476,394	11,359	4.78%
Non-interest liabilities						
Non-interest bearing demand deposits	81,939			77,192		
Other liabilities	3,129			2,690		
Stockholders equity	74,603			54,045		
Total liabilities and stockholders equity	\$ 908,764			610,321		
Net interest spread			3.42%			3.00%
Net interest margin			3.77%			3.94%

(1) Non-accrual loans are included in average loan balances in all years. Loan fees of \$617,000 and \$683,000 are included in interest income in 2008 and 2007, respectively.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 34%.

(4) Unrealized gains (losses) of \$1,594,000 and (\$211,000) are excluded from the yield calculation in 2008 and 2007, respectively.

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**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 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, and 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 under Statement of Financial Accounting Standards ( SFAS ) Statement No. 114 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 \$3,519,000 for the six months ended June 30, 2008, an increase of \$2,059,000 in comparison to \$1,460,000 in 2007. Our management continues to maintain a proactive approach to credit risk management as the economy experiences cycles and as we continue to grow. Nonperforming loans increased to \$4,993,000, or 0.60%, of total loans at June 30, 2008 from \$4,471,000 or 0.66%, of total loans at December 31, 2007, and impaired loans decreased to \$10,125,000 or 1.21%, of total loans at June 30, 2008 compared to \$11,612,000, or 1.72% of total loans at December 31, 2007. The allowance for loan losses totaled \$9,438,000, or 1.13%, of loans, net of unearned income, at June 30, 2008, compared to \$7,732,000, or 1.15%, of loans, net of unearned income, at December 31, 2007.

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**Noninterest Income**

Noninterest income totaled \$695,000 for the three months ended June 30, 2008, an increase of \$393,000, or 130.13% compared to the same period in 2007. For the six months ended June 30, 2008, noninterest income totaled \$1,238,000, an increase of \$673,000, or 119.12% compared to the same period in 2007.

Income from mortgage banking operations for the three months ended June 30, 2008 was \$306,000, an increase of \$199,000 or 185.98% from \$107,000 for the three months ended June 30, 2007. Income from mortgage banking operations for the six months ended June 30, 2008 was \$516,000, an increase of \$245,000 or 90.41% from \$271,000 for the six months ended June 30, 2007. These increases are due to increased origination activity in 2008. Income from customer service charges and fees for the three months ended June 30, 2008 increased \$186,000, or 178.85% , to \$290,000 from \$104,000 for the three months ended June 30, 2007. Income from customer service charges and fees for the six months ended June 30, 2008 increased \$329,000, or 151.61%, to \$546,000 from \$217,000 for the six months ended June, 2007. The increase is primarily due to a gain of transaction accounts from 2007 to 2008. Merchant service fees were \$116,000 for the three months ended June 30, 2008 an increase of \$87,000 or 300.00% compared to \$29,000 for the three months ended June 30, 2007. Merchant service fees were \$210,000 for the six months ended June 30, 2008 an increase of \$143,000 or 213.43% compared to \$67,000 for the six months ended June 30, 2007.

**Noninterest Expense**

Noninterest expense totaled \$4,530,000 for the three months ended June 30, 2008, an increase of \$1,127,000, or 33.12% compared to the same period in 2007. For the six months ended June 30, 2008, noninterest expense totaled \$9,360,000, an increase of \$3,053,000, or 48.41% compared to the same period in 2007.

Noninterest expense increased for the three months and six months ended June 30, 2008 over the corresponding periods in 2007 primarily due to our continued growth and expansion which has resulted in the addition of personnel and the opening of new offices in Montgomery and our reorganization into a holding company. Salaries and employee benefits increased \$284,000, or 13.42 % , to \$2,400,000 for the three months ended June 30, 2008, compared to \$2,116,000 in 2007. Salaries and employee benefits increased \$1,245,000, or 31.27%, to \$5,227,000 for the six months ended June 30, 2008, compared to \$3,982,000 in 2007. These increases are primarily the result of our increased employee base to 131 employees at June 30, 2008 from 96 at June 30, 2007.

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**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 twelve 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 uses a computer model to analyze the maturities of rate sensitive assets and liabilities. The model 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. As of June 30, 2008, our gap was within such ranges.

The interest rate risk model that defines the gap position also performs a *rate shock* test of the balance sheet. The rate shock procedure measures the impact on the economic value of equity (EVE) which is a measure of long term interest rate risk. EVE is the difference between the market value of our assets and the liabilities and is our liquidation value. In this analysis, the model calculates the discounted cash flow or market value of each category on the balance sheet. The percent change in EVE is a measure of the volatility of risk. Regulatory guidelines specify a maximum change of 30% for a 200 basis points rate change. At June 30, 2008, the percent change at plus or minus 200 basis points is well within that range at 8.97% and (0.37%), respectively.

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The chart below identifies the EVE impact of a shift in rates of 100 and 200 basis points in either direction.

**Economic Value of Equity Under Rate Shock  
At June 30, 2008**

	<b>-200bps</b>	<b>-100bps</b>	<b>0bps</b>	<b>+100bps</b>	<b>+200bps</b>
	(Dollars in Thousands)				
Economic value of equity	\$ 74,279	74,593	74,870	78,277	81,586
Actual dollar change	\$ (277)	(591)	0	3,407	6,716
Percent change	(0.37)%	(0.79)%	0.00%	4.55%	8.97%

The EVE rate shock shows that the EVE would increase in a rising rate and decline in a falling rate environment. The EVE simulation model is a static model which provides information only at a certain point in time. For example, in a rising rate environment, the model does not take into account actions which management might take to change the impact of rising rates on us. Given that limitation, it is still useful in assessing the impact of an unanticipated movement in interest rates.

The above analysis may not on its own be an entirely accurate indicator of how net interest income or EVE will be affected by changes in interest rates. Income associated with interest earning assets and costs associated with interest bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. Our asset liability committee develops its view of future rate trends by monitoring economic indicators, examining the views of economists and other experts, and understanding the current status of our balance sheet and conducts a quarterly analysis of the rate sensitivity position. The results of the analysis are reported to our board of directors.

#### **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. 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 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, 2008. Based upon the evaluation, our CEO and CFO have concluded that, as of June 30, 2008, our disclosure

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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 Securities and Exchange Act of 1934, as amended) 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.

**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 believe that there are no proceedings threatened or pending against us at this time.

**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 Report on Form 10, as amended, for the year ended December 31, 2007, 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 Form 10. 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**

There were no unregistered sales of equity securities by ServisFirst Bancshares, Inc. during the second quarter of 2008.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None.



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**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.

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**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 there unto duly authorized.

SERVISFIRST BANCSHARES, INC.

Date: August 5, 2008

By /s/ Thomas A. Broughton, III  
Thomas A. Broughton, III  
President and Chief Executive Officer

Date: August 5, 2008

By /s/ William M. Foshee  
William M. Foshee  
Chief Financial Officer

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