

SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 07, 2008

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2008

Commission File Number 0-6253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

71-0407808
(I.R.S. Employer
Identification No.)

501 Main Street, Pine Bluff, Arkansas
(Address of principal executive offices)

71601
(Zip Code)

870-541-1000
(Registrant's telephone number, including area code)

Not Applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of the Registrant's Common Stock as of October 23, 2008 was 13,958,932.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2008

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

ASSETS

(In thousands, except share data)	September 30, 2008 (Unaudited)	December 31, 2007
Cash and non-interest bearing balances due from banks	\$ 70,640	\$ 82,630
Interest bearing balances due from banks	71,837	21,140
Federal funds sold	7,310	6,460
Cash and cash equivalents	149,787	110,230
Investment securities	576,072	530,930
Mortgage loans held for sale	4,377	11,097
Assets held in trading accounts	890	5,658
Loans	1,936,279	1,850,454
Allowance for loan losses	(25,548)	(25,303)
Net loans	1,910,731	1,825,151
Premises and equipment	78,357	75,473
Foreclosed assets held for sale, net	4,044	2,629
Interest receivable	23,322	21,345
Bank owned life insurance	39,220	38,039
Goodwill	60,605	60,605
Core deposit premiums	2,777	3,382
Other assets	10,010	7,908
TOTAL ASSETS	\$ 2,860,192	\$ 2,692,447

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

LIABILITIES AND STOCKHOLDERS' EQUITY

(In thousands, except share data)	September 30, 2008 (Unaudited)	December 31, 2007
LIABILITIES		
Non-interest bearing transaction accounts	\$ 318,660	\$ 310,181
Interest bearing transaction accounts and savings deposits	1,024,176	761,233
Time deposits	951,556	1,111,443
Total deposits	2,294,392	2,182,857
Federal funds purchased and securities sold under agreements to repurchase	104,002	128,806
Short-term debt	1,480	1,777
Long-term debt	157,019	82,285
Accrued interest and other liabilities	22,482	24,316
Total liabilities	2,579,375	2,420,041
STOCKHOLDERS' EQUITY		
Capital stock		
Class A, common, par value \$0.01 a share, authorized 60,000,000 shares, 13,958,932 issued and outstanding at 2008 and 13,918,368 at 2007	140	139
Surplus	40,744	41,019
Undivided profits	241,682	229,520
Accumulated other comprehensive income		
Unrealized (depreciation) appreciation on available-for-sale securities, net of income tax credits of \$1,094 at 2008 and income taxes of \$1,037 at 2007	(1,749)	1,728
Total stockholders' equity	280,817	272,406
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,860,192	\$ 2,692,447

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Income
Three and Nine Months Ended September 30, 2008 and 2007

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 (Unaudited)	2007	2008 (Unaudited)	2007
INTEREST INCOME				
Loans	\$ 31,548	\$ 36,604	\$ 95,812	\$ 105,751
Federal funds sold	176	302	716	1,303
Investment securities	7,063	6,046	20,687	17,656
Mortgage loans held for sale	112	147	338	383
Assets held in trading accounts	--	71	42	124
Interest bearing balances due from banks	309	131	1,184	938
TOTAL INTEREST INCOME	39,208	43,301	118,779	126,155
INTEREST EXPENSE				
Deposits	12,607	16,635	41,700	49,299
Federal funds purchased and securities sold under agreements to repurchase	429	1,404	1,813	4,057
Short-term debt	62	519	101	637
Long-term debt	1,763	1,173	4,929	3,568
TOTAL INTEREST EXPENSE	14,861	19,731	48,543	57,561
NET INTEREST INCOME	24,347	23,570	70,236	68,594
Provision for loan losses	2,214	850	5,895	2,432
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,133	22,720	64,341	66,162
NON-INTEREST INCOME				
Trust income	1,608	1,528	4,707	4,639
Service charges on deposit accounts	4,009	3,759	11,134	10,912
Other service charges and fees	648	698	2,021	2,198
Income on sale of mortgage loans, net of commissions	595	715	2,077	2,121
Income on investment banking, net of commissions	131	90	779	393
Credit card fees	3,491	3,115	10,144	8,789
Premiums on sale of student loans	3	419	1,135	2,042
Bank owned life insurance income	370	367	1,157	1,090
Gain on mandatory partial redemption of Visa shares	--	--	2,973	--
Other income	433	682	1,870	1,980
TOTAL NON-INTEREST INCOME	11,288	11,373	37,997	34,164
NON-INTEREST EXPENSE				
Salaries and employee benefits	14,056	13,778	42,697	41,406
Occupancy expense, net	1,912	1,671	5,526	4,945

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Furniture and equipment expense	1,543	1,455	4,505	4,428
Other real estate and foreclosure expense	57	77	185	137
Deposit insurance	267	85	468	220
Other operating expenses	6,606	6,157	18,395	18,312
TOTAL NON-INTEREST EXPENSE	24,441	23,223	71,776	69,448
INCOME BEFORE INCOME TAXES	8,980	10,870	30,562	30,878
Provision for income taxes	2,506	3,370	9,278	9,710
NET INCOME	\$ 6,474	\$ 7,500	\$ 21,284	\$ 21,168
BASIC EARNINGS PER SHARE	\$ 0.47	\$ 0.53	\$ 1.53	\$ 1.50
DILUTED EARNINGS PER SHARE	\$ 0.46	\$ 0.53	\$ 1.51	\$ 1.48

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2008 and 2007

(In thousands)	September 30, 2008	September 30, 2007
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$ 21,284	\$ 21,168
Items not requiring (providing) cash		
Depreciation and amortization	4,268	4,161
Provision for loan losses	5,895	2,432
Gain on mandatory partial redemption of Visa shares	(2,973)	--
Net amortization of investment securities	205	119
Stock-based compensation expense	466	307
Deferred income taxes	563	725
Bank owned life insurance income	(1,157)	(1,090)
Changes in		
Interest receivable	(1,977)	(3,725)
Mortgage loans held for sale	6,720	(1,153)
Assets held in trading accounts	4,768	(995)
Other assets	(2,444)	1,974
Accrued interest and other liabilities	(2,429)	3,278
Income taxes payable	(1,142)	123
Net cash provided by operating activities	32,047	27,324
INVESTING ACTIVITIES		
Net originations of loans	(96,871)	(96,521)
Purchases of premises and equipment, net	(6,547)	(8,706)
Proceeds from sale of foreclosed assets	3,981	2,382
Proceeds from mandatory partial redemption of Visa shares	2,973	--
Proceeds from maturities of available-for-sale securities	268,209	72,601
Purchases of available-for-sale securities	(325,485)	(72,614)
Proceeds from maturities of held-to-maturity securities	34,276	20,224
Purchases of held-to-maturity securities	(25,823)	(20,512)
Purchases of bank owned life insurance	(25)	(405)
Net cash used in investing activities	(145,312)	(103,551)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	111,535	(2,174)
Net (repayments) issuance of short-term debt	(297)	61,481
Dividends paid	(7,948)	(7,590)
Proceeds from issuance of long-term debt	86,025	6,135
Repayment of long-term debt	(11,291)	(9,791)
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(24,804)	1,948
Repurchase of common stock, net	(398)	(7,351)
Net cash provided by financing activities	152,822	42,658
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,557	(33,569)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	110,230	151,151
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 149,787	\$ 117,582

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
 Consolidated Statements of Stockholders' Equity
 Nine Months Ended September 30, 2008 and 2007

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income (loss)	Undivided Profits	Total
Balance, December 31, 2006	\$ 142	\$ 48,678	\$ (2,198)	\$ 212,394	\$ 259,016
Comprehensive income					
Net income	--	--	--	21,168	21,168
Change in unrealized depreciation on available-for-sale securities, net of income tax credits of \$1,331	--	--	2,218	--	2,218
Comprehensive income					23,386
Stock issued as bonus shares – 8,800 shares	--	250	--	--	250
Exercise of stock options – 30,200 shares	--	466	--	--	466
Stock granted under stock-based compensation plans	--	143	--	--	143
Securities exchanged under stock option plan	--	(187)	--	--	(187)
Repurchase of common stock – 294,831 shares	(3)	(7,880)	--	--	(7,883)
Dividends paid – \$0.54 per share	--	--	--	(7,590)	(7,590)
Balance, September 30, 2007 (Unaudited)	139	41,470	20	225,972	267,601
Comprehensive income					
Net income	--	--	--	6,192	6,192
Change in unrealized depreciation on available-for-sale securities, net of income taxes of \$1,025	--	--	1,708	--	1,708
Comprehensive income					7,900
Stock issued as bonus shares – 6,346 shares	--	169	--	--	169
Exercise of stock options – 3,520 shares	--	43	--	--	43
Stock granted under stock-based compensation plans	--	35	--	--	35
Securities exchanged under stock option plan	--	(16)	--	--	(16)
Repurchase of common stock – 25,895 shares	--	(682)	--	--	(682)
Dividends paid – \$0.19 per share	--	--	--	(2,644)	(2,644)
Balance, December 31, 2007	139	41,019	1,728	229,520	272,406
Cumulative effect of adoption of a new accounting principle on January 1, 2008 (Note 1)	--	--	--	(1,174)	(1,174)
Comprehensive income					
Net income	--	--	--	21,284	21,284
Change in unrealized appreciation on available-for-sale securities, net of					

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income tax credits of \$2,086	--	--	(3,477)	--	(3,477)
Comprehensive income					17,807
Stock issued as bonus shares – 17,490 shares	--	530	--	--	530
Stock issued for employee stock purchase plan – 5,359 shares	--	135	--	--	135
Exercise of stock options – 95,497 shares	1	1,182	--	--	1,183
Stock granted under stock-based compensation plans	--	123	--	--	123
Securities exchanged under stock option plan	--	(965)	--	--	(965)
Repurchase of common stock – 45,180 shares	--	(1,280)	--	--	(1,280)
Dividends paid – \$0.57 per share	--	--	--	(7,948)	(7,948)
Balance, September 30, 2008 (Unaudited)	\$ 140	\$ 40,744	\$ (1,749)	\$ 241,682	\$ 280,817

See Condensed Notes to Consolidated Financial Statements.

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SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2007 has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2007 filed with the Securities and Exchange Commission.

Recently Issued Accounting Pronouncements

Emerging Issues Task Force ("EITF") Issue No. 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in Statement of Financial Accounting Standards ("SFAS") No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. The Company adopted EITF 06-4 on January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings totaling \$1,174,000. The Company does not expect the adoption of EITF 06-4 to have a material impact on the Company's ongoing financial position or results of operations.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. For additional information, see Note 16 – Fair Value Measurements.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. While SFAS 159 is effective for the Company beginning January 1, 2008, the Company has not elected the fair value option that is offered by this statement.

In December, 2007, FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements and SFAS 141R, Business Combinations. Both are effective for annual periods beginning after December 15, 2008. The Company is currently evaluating the impact of these Statements, but does not expect either to have a material effect on the Company's financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2007 Form 10-K.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three and nine months ended September 30, 2008 and 2007.

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 6,474	\$ 7,500	\$ 21,284	\$ 21,168
Average common shares outstanding	13,951	13,977	13,941	14,084
Average potential dilutive common shares	168	200	168	200
Average diluted common shares	14,119	14,177	14,109	14,284
Basic earnings per share	\$ 0.47	\$ 0.53	\$ 1.53	\$ 1.50
Diluted earnings per share	\$ 0.46	\$ 0.53	\$ 1.51	\$ 1.48

NOTE 2: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

(In thousands)	September 30, 2008				December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Treasury	\$ --	\$ --	\$ --	\$ --	\$ 1,500	\$ 14	\$ --	\$ 1,514
U.S. Government agencies	19,000	395	--	19,395	37,000	722	(19)	37,703
Mortgage-backed securities	112	3	--	115	129	2	--	131
State and political subdivisions	161,763	715	(2,399)	160,079	149,262	1,089	(354)	149,997
Other securities	930	--	--	930	2,393	--	--	2,393
	\$ 181,805	\$ 1,113	\$ (2,399)	\$ 180,519	\$ 190,284	\$ 1,827	\$ (373)	\$ 191,738
Available-for-Sale								
U.S. Treasury	\$ 6,962	\$ 28	\$ --	\$ 6,990	\$ 5,498	\$ 26	\$ --	\$ 5,524
U.S. Government agencies	367,759	1,165	(3,929)	364,995	317,998	3,090	(299)	320,789
Mortgage-backed securities	2,913	2	(117)	2,798	2,923	--	(165)	2,758
State and political subdivisions	635	2	--	637	855	3	--	858
Other securities	18,841	6	--	18,847	10,608	109	--	10,717
	\$ 397,110	\$ 1,203	\$ (4,046)	\$ 394,267	\$ 337,882	\$ 3,228	\$ (464)	\$ 340,646

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold these securities to maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

During the third quarter of 2008, the Company determined that its investment in FNMA common stock, held in the AFS-Other securities category, had become other-than-temporarily impaired. As a result of this impairment the security was written-down by \$75,000. The Company had accumulated this stock over several years in the form of stock dividends from FNMA. The remaining balance of this investment is approximately \$6,000. The Company has no investment in FNMA or FHLMC preferred stock.

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$436,130,000 at September 30, 2008 and \$410,645,000 at December 31, 2007.

The book value of securities sold under agreements to repurchase amounted to \$79,926,000 and \$91,466,000 for September 30, 2008 and December 31, 2007, respectively.

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Income earned on securities for the nine months ended September 30, 2008 and 2007 is as follows:

(In thousands)	2008	2007
Taxable		
Held-to-maturity	\$ 1,169	\$ 1,991
Available-for-sale	14,793	11,785
Non-taxable		
Held-to-maturity	4,698	3,837
Available-for-sale	27	43
Total	\$ 20,687	\$ 17,656

Maturities of investment securities at September 30, 2008 are as follows:

(In thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 16,747	\$ 16,724	\$ 15,455	\$ 15,478
After one through five years	47,168	47,524	21,174	21,214
After five through ten years	79,506	79,582	339,652	336,830
After ten years	38,384	36,689	1,988	1,898
Other securities	--	--	18,841	18,847
Total	\$ 181,805	\$ 180,519	\$ 397,110	\$ 394,267

There were no realized gains or losses on investment securities for the nine-months ended September 30, 2008 or 2007.

The state and political subdivision debt obligations are primarily non-rated bonds and represent small, Arkansas issues, which are evaluated on an ongoing basis.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

The various categories of loans are summarized as follows:

(In thousands)	September 30, 2008	December 31, 2007
Consumer		
Credit cards	\$ 162,862	\$ 166,044
Student loans	102,346	76,277
Other consumer	137,763	137,624
Real Estate		
Construction	227,071	260,924
Single family residential	400,845	382,676
Other commercial	576,958	542,184
Commercial		
Commercial	184,690	193,091
Agricultural	130,988	73,470
Financial institutions	2,581	7,440
Other	10,175	10,724
Total loans before allowance for loan losses	\$ 1,936,279	\$ 1,850,454

As of September 30, 2008, credit card loans, which are unsecured, were \$162,862,000 or 8.4% of total loans, versus \$166,044,000, or 9.0% of total loans at December 31, 2007. The credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Credit card loans are regularly reviewed to facilitate the identification and monitoring of creditworthiness.

At September 30, 2008 and December 31, 2007, impaired loans totaled \$16,551,000 and \$12,519,000, respectively. All impaired loans had either specific or general allocations within the allowance for loan losses. Allocations of the allowance for loan losses relative to impaired loans were \$3,990,000 at September 30, 2008 and \$2,851,000 at December 31, 2007. Approximately \$198,000 and \$161,000 of interest income was recognized on average impaired loans of \$14,839,000 and \$11,525,000 as of September 30, 2008 and 2007, respectively. Interest recognized on impaired loans on a cash basis during the first nine months of 2008 and 2007 was immaterial.

Transactions in the allowance for loan losses are as follows:

(In thousands)	2008	2007
Balance, beginning of year	\$ 25,303	\$ 25,385
Additions		
Provision charged to expense	5,895	2,432
	31,198	27,817
Deductions		
Losses charged to allowance, net of recoveries of \$1,588 and \$2,160 for the first nine months of 2008 and 2007, respectively	5,650	2,710
Balance, September 30	\$ 25,548	25,107
Additions		
Provision charged to expense		1,749
Deductions		
Losses charged to allowance, net of recoveries of \$409 for the last three months of 2007		1,553
Balance, end of year		\$ 25,303

NOTE 4: GOODWILL AND CORE DEPOSIT PREMIUMS

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Core deposit premiums are periodically evaluated as to the recoverability of their carrying value.

The carrying basis and accumulated amortization of core deposit premiums (net of core deposit premiums that were fully amortized) at September 30, 2008 and December 31, 2007, were as follows:

(In thousands)	September 30, 2008	December 31, 2007
Gross carrying amount	\$ 6,822	\$ 6,822
Accumulated amortization	(4,045)	(3,440)
Net core deposit premiums	\$ 2,777	\$ 3,382

Core deposit premium amortization expense recorded for the nine months ended September 30, 2008 and 2007, was \$605,000 and \$616,000, respectively. The Company's estimated amortization expense for the remainder of 2008 is \$203,000, and for each of the following four years is: 2009 – \$802,000; 2010 – \$699,000; 2011 – \$451,000; and 2012 – \$321,000.

NOTE 5: TIME DEPOSITS

Time deposits include approximately \$395,040,000 and \$452,262,000 of certificates of deposit of \$100,000 or more at September 30, 2008 and December 31, 2007 respectively.

NOTE 6: INCOME TAXES

The provision for income taxes is comprised of the following components:

(In thousands)	September 30, 2008	September 30, 2007
Income taxes currently payable	\$ 8,715	\$ 8,985
Deferred income taxes	563	725
Provision for income taxes	\$ 9,278	\$ 9,710

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

(In thousands)	September 30, 2008	December 31, 2007
Deferred tax assets		
Allowance for loan losses	\$ 8,911	\$ 8,705
Valuation of foreclosed assets	63	63
Deferred compensation payable	1,440	1,432
FHLB advances	17	29
Vacation compensation	856	820
Loan interest	88	88
Available-for-sale securities	1,094	--
Other	253	234
Total deferred tax assets	12,722	11,371
Deferred tax liabilities		
Accumulated depreciation	(411)	(558)
Deferred loan fee income and expenses, net	(1,172)	(954)
FHLB stock dividends	(574)	(717)
Goodwill and core deposit premium amortization	(8,344)	(7,341)
Available-for-sale securities	--	(1,037)
Other	(1,019)	(1,130)
Total deferred tax liabilities	(11,520)	(11,737)
Net deferred tax assets (liabilities) included in other assets (liabilities) on balance sheets	\$ 1,202	\$ (366)

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

(In thousands)	September 30, 2008	September 30, 2007
Computed at the statutory rate (35%)	\$ 10,697	\$ 10,807
Increase (decrease) resulting from:		
Tax exempt income	(1,760)	(1,490)
Other differences, net	341	393
Actual tax provision	\$ 9,278	\$ 9,710

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, effective January 1, 2007. Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of Interpretation 48 did not have a significant impact on the Company's financial position, operations or cash flows.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction. The Company's U.S. federal income tax returns are open and subject to examinations from the 2004 tax year and forward. The Company's various state income tax returns are generally open from the 2004 and later tax return years based on individual state statute of limitations.

NOTE 7: SHORT-TERM AND LONG-TERM DEBT

Long-term debt at September 30, 2008 and December 31, 2007, consisted of the following components:

(In thousands)	September 30, 2008	December 31, 2007
FHLB advances, due 2008 to 2033, 2.40% to 8.41% secured by real estate loans	\$ 126,089	\$ 51,355
Trust preferred securities, due 2033, fixed at 8.25%, callable in 2008 without penalty	10,310	10,310
Trust preferred securities, due 2033, floating rate of 2.80% above the three-month LIBOR reset quarterly, callable in 2008 without penalty	10,310	10,310
Trust preferred securities, due 2033, fixed rate of 6.97% through 2010, thereafter, at a floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable in 2010 without penalty	10,310	10,310
	\$ 157,019	\$ 82,285

At September 30, 2008, the Company had no Federal Home Loan Bank (“FHLB”) advances with original maturities of one year or less.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of each trust. The preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Company. Each trust’s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company’s obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust’s obligations under the trust securities issued by each respective trust.

Aggregate annual maturities of long-term debt at September 30, 2008 are:

(In thousands)	Year	Annual Maturities
	2008	\$ 3,347
	2009	7,230
	2010	26,204
	2011	37,418
	2012	5,467
	Thereafter	77,353
	Total	\$ 157,019

NOTE 8: CONTINGENT LIABILITIES

The Company and/or its subsidiaries have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries. The Company or its subsidiaries remain the subject of one (1) lawsuit asserting claims against the Company or its subsidiaries.

On October 1, 2003, an action in Pulaski County Circuit Court was filed by Thomas F. Carter, Tena P. Carter and certain related entities against Simmons First Bank of South Arkansas and Simmons First National Bank alleging wrongful conduct by the banks in the collection of certain loans. The Company was later added as a party defendant. The plaintiffs are seeking \$2,000,000 in compensatory damages and \$10,000,000 in punitive damages. The Company and the banks have filed Motions to Dismiss. The plaintiffs were granted additional time to discover any evidence for litigation, and have submitted such findings. At the hearing on the Motions for Summary Judgment, the Court dismissed Simmons First National Bank due to lack of venue. Venue has been changed to Jefferson County for the Company and Simmons First Bank of South Arkansas. Non-binding mediation failed on June 24, 2008. Jury trial is set for the week of June 22, 2009. At this time, no basis for any material liability has been identified. The Company and the bank continue to vigorously defend the claims asserted in the suit.

NOTE 9: CAPITAL STOCK

On November 28, 2007, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 700,000 shares of Class A common stock, or approximately 5% of the outstanding common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the nine-month period ended September 30, 2008, the Company repurchased 45,180 shares of stock under the repurchase plan with a weighted average repurchase price of \$28.38 per share. Under the current stock repurchase plan, the Company can repurchase an additional 645,672 shares.

Effective July 1, 2008, the Company made a strategic decision to temporarily suspend stock repurchases. This decision was made to preserve capital and cash at the parent company, both of which may be needed in potential future acquisitions.

NOTE 10: UNDIVIDED PROFITS

The Company's subsidiary banks are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Comptroller of the Currency is required, if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits, as defined, for that year combined with its retained net profits of the preceding two years. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of current year earnings plus 75% of the retained net earnings of the preceding year. At September 30, 2008, the bank subsidiaries had approximately \$16.3 million available for payment of dividends to the Company, without prior approval of the regulatory agencies.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier 1 leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of September 30, 2008, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's "total risk-based capital" ratio was 13.79% at September 30, 2008.

NOTE 11: STOCK BASED COMPENSATION

The Company's Board of Directors has adopted various stock compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, and bonus stock awards. Pursuant to the plans, shares are reserved for future issuance by the Company, upon exercise of stock options or awarding of bonus shares granted to directors, officers and other key employees.

The table below summarizes the transactions under the Company's active stock compensation plans for the nine months ended September 30, 2008:

	Stock Options Outstanding		Non-Vested Stock Awards Outstanding	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant-Date Fair-Value
Balance, January 1, 2008	535,450	\$ 17.71	31,478	\$ 26.72
Granted	49,190	30.31	17,490	30.31
Stock Options Exercised	(95,497)	12.39	--	--
Stock Awards Vested	--	--	(11,524)	27.18
Forfeited/Expired	(35,170)	14.79	--	--
Balance, September 30, 2008	453,973	\$ 20.42	37,444	\$ 28.26
Exercisable, September 30, 2008	334,753	\$ 17.52		

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The following table summarizes information about stock options under the plans outstanding at September 30, 2008:

Range of Exercise Prices	Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$10.56 to \$12.22	188,280	1.4 Years	\$12.09	188,280	\$12.09
\$15.35 to \$16.32	8,753	1.7 Years	\$15.90	8,753	\$15.90
\$23.78 to \$24.50	94,550	3.9 Years	\$24.05	92,500	\$24.04
\$26.19 to \$27.67	58,600	5.3 Years	\$26.20	27,340	\$26.21
\$28.42 to \$28.42	54,600	6.4 Years	\$28.42	17,880	\$28.42
\$30.31 to \$30.31	49,190	7.4 Years	\$30.31	--	--

Stock-based compensation expense totaled \$465,706 and \$306,611 during the nine months ended September 30, 2008 and 2007, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. Unrecognized stock-based compensation expense related to stock options totaled \$647,404 at September 30, 2008. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.96 years. Unrecognized stock-based compensation expense related to non-vested stock awards was \$1,028,485 at September 30, 2008. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.19 years.

Aggregate intrinsic values of outstanding stock options and exercisable stock options at September 30, 2008 were \$6.9 million and \$6.1 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$35.60 as of September 30, 2008, and the exercise price multiplied by the number of options outstanding. The total intrinsic values of stock options exercised during the nine months ended September 30, 2008 and 2007, were \$2.2 million and \$330,000, respectively.

NOTE 12: ADDITIONAL CASH FLOW INFORMATION

(In thousands)	Nine Months Ended	
	2008	2007
Interest paid	\$ 50,471	\$ 57,557
Income taxes paid	\$ 9,857	\$ 8,447

NOTE 13: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Professional services	\$ 661	\$ 741	\$ 1,990	\$ 2,032
Postage	407	597	1,319	1,780
Telephone	468	462	1,300	1,331
Credit card expense	1,215	1,064	3,497	2,974
Operating supplies	373	374	1,248	1,264
Amortization of core deposit premiums	201	203	605	616
Visa litigation liability reversal	--	--	(1,220)	--
Other expense	3,281	2,716	9,656	8,315
Total other operating expenses	\$ 6,606	\$ 6,157	\$ 18,395	\$ 18,312

NOTE 14: CERTAIN TRANSACTIONS

From time to time the Company and its subsidiaries have made loans and other extensions of credit to directors, officers, their associates and members of their immediate families. From time to time directors, officers and their associates and members of their immediate families have placed deposits with the Company's subsidiary banks. Such loans, other extensions of credit and deposits were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features.

NOTE 15: COMMITMENTS AND CREDIT RISK

The Company grants agri-business, commercial and residential loans to customers throughout Arkansas, along with credit card loans to customers throughout the United States. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At September 30, 2008, the Company had outstanding commitments to extend credit aggregating approximately \$251,353,000 and \$436,198,000 for credit card commitments and other loan commitments, respectively. At December 31, 2007, the Company had outstanding commitments to extend credit aggregating approximately \$244,052,000 and \$411,421,000 for credit card commitments and other loan commitments, respectively.

Letters of credit are conditional commitments issued by the Company, 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. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to \$10,368,000 and \$9,906,000 at September 30, 2008 and December 31, 2007, respectively, with terms ranging from 90 days to three years. At September 30, 2008 and December 31, 2007 the Company's deferred

revenue under standby letter of credit agreements is approximately \$83,000 and \$42,000, respectively.

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NOTE 16: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 has been applied prospectively as of the beginning of the year.

SFAS 157 defines fair value as 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. SFAS 157 also establishes a fair value hierarchy which requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis during the third quarter of 2008.

(In thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities	\$394,267	\$ --	\$394,267	\$ --

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency 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 within Level 3 of the hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

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The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a non-recurring basis during the three and nine months ended September 30, 2008.

(In thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	\$12,561	\$ --	\$ --	\$12,561

Impaired loans are the only material instruments valued on a nonrecurring basis which are held by the Company at fair value. Loan impairment is reported 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 collateral if the loan is collateral dependent. 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. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when Management believes the uncollectability of a loan is confirmed. Impaired loans, net of specific allowance, were \$13,801,000 as of September 30, 2008. This valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

NOTE 17: SUBSEQUENT EVENTS

On October 30, 2008, the Company received preliminary approval from the U.S. Treasury Department, subject to standard closing conditions, for the investment of \$40 million in Simmons First preferred stock. The investment is part of the U. S. Treasury's Capital Purchase Program, designed to provide additional capital to healthy financial institutions, thereby increasing confidence in our banking industry and encouraging increased lending. The Company will pay the Treasury a 5% dividend, or \$2 million annually, for each of the first five years of the investment, and 9% thereafter unless the Company redeems the shares. The Treasury will also receive 10-year warrants for common stock. The Company has begun the corporate procedures to authorize and issue the preferred stock and warrants. The issuance of the preferred stock and warrants is not expected to impact the regular dividend paid by the Company, on its common stock, and will have a minimal dilutive impact on earnings per share. The issuance of the preferred stock, if approved by the shareholders, is expected to be complete in the first quarter of 2009.

On October 27, 2008, Visa, Inc. ("Visa") and MasterCard, Inc. announced they had reached an agreement in principal to settle antitrust litigation with Discover Financial Services for approximately \$2.8 billion. The Company's management has estimated its additional obligation for this settlement under Visa's retrospective responsibility plan to be approximately \$500,000. Management expects this obligation to be satisfied in future periods as Visa issues additional Class A shares to provide funds for its litigation escrow account.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
Simmons First National Corporation
Pine Bluff, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of SIMMONS FIRST NATIONAL CORPORATION as of September 30, 2008 and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and 2007 and statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 21, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

BKD, LLP

/s/ BKD, LLP

Pine Bluff, Arkansas
November 7, 2008

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Simmons First National Corporation recorded net income of \$6,474,000 for the three-months ended September 30, 2008, a \$1,026,000 decrease from the same period in 2007. Diluted earnings per share decreased \$0.07 or 13.21%, to \$0.46 for the three-months ended September 30, 2008. The Company's annualized return on average assets and return on average stockholders' equity for the three-month period ended September 30, 2008, were 0.89% and 9.11%, compared to 1.11% and 11.16%, respectively, for the same period in 2007. The decrease in earnings was primarily attributable to an increase in the provision for loan losses and a decrease in the premiums from the sale of student loans.

Net income for the nine-month period ended September 30, 2008 was \$21,284,000, an increase of \$116,000 from the same period in 2007. Diluted earnings per share increased \$0.03, or 2.03%, to \$1.51 for the nine-months ended September 30, 2008. Annualized return on average assets and return on average stockholders' equity for the nine-month period ended September 30, 2008 were 1.00% and 10.11%, compared to 1.06% and 11.16%, respectively, for the same period in 2007.

During the first quarter of 2008, the Company recorded a nonrecurring \$0.05 increase in diluted earnings per share related to the reversal of a \$1.2 million pre-tax contingent liability established during the fourth quarter of 2007. That contingent liability represented the Company's pro-rata portion of Visa, Inc.'s, and its related subsidiary Visa U.S.A.'s (collectively "Visa"), litigation liabilities, which was satisfied in conjunction with Visa's initial public offering ("IPO"). Also as a result of Visa's IPO, the Company received cash proceeds from the mandatory partial redemption of its equity interest in Visa, resulting in a nonrecurring \$3.0 million pre-tax gain in the first quarter 2008, or \$0.13 per diluted common share.

Core earnings (non-GAAP) (net income excluding nonrecurring items {Visa litigation expense reversal and gain from the cash proceeds on mandatory Visa stock redemption}) for the nine-months ended September 30, 2008 and 2007, were \$18,726,000 and \$21,168,000, respectively. Diluted core earnings per share (non-GAAP) for these same periods were \$1.33 and \$1.48, respectively, a decrease of \$0.15 per share, or 10.14%.

The allowance for loan losses as a percent of total loans was 1.32% as of September 30, 2008. Non-performing loans equaled 0.72% of total loans, up 12 basis points from year end. Non-performing assets were 0.63% of total assets, up 12 basis points from year end. The allowance for loan losses was 182% of non-performing loans. The Company's annualized net charge-offs for the third quarter of 2008 were 0.50% of total loans. Excluding credit cards, annualized net charge-offs for the third quarter were 0.38% of total loans. Annualized net credit card charge-offs for the third quarter were 1.80%, more than 400 basis points below the most recently published credit card charge-off industry average. The Company does not own any securities backed by subprime mortgage assets, and has no mortgage loan products that target subprime borrowers.

Total assets for the Company at September 30, 2008, were \$2.860 billion, an increase of \$167.7 million, or 6.2%, from December 31, 2007. Stockholders' equity as of September 30, 2008 was \$280.8 million, an increase of \$8.4 million, or approximately 3.1%, from December 31, 2007.

Simmons First National Corporation is an Arkansas based financial holding company with eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. The Company's eight banks conduct financial operations from 88 offices, of which 84 are financial centers, located in 48 communities.

CRITICAL ACCOUNTING POLICIES

Overview

The accounting and reporting policies followed by the Company conform, in all material respects, to generally accepted accounting principles and to general practices within the financial services industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

The Company considers accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the Company's financial statements.

The accounting policies that we view as critical to us are those relating to estimates and judgments regarding (a) the determination of the adequacy of the allowance for loan losses, (b) the valuation of goodwill and the useful lives applied to intangible assets, (c) the valuation of employee benefit plans, and (d) income taxes.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is maintained at a level considered adequate to provide for potential loan losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio as of period end. This estimate is based on management's evaluation of the loan portfolio, as well as on prevailing and anticipated economic conditions and historical losses by loan category. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral. The unallocated reserve generally serves to compensate for the uncertainty in estimating loan losses, including the possibility of changes in risk ratings and specific reserve allocations in the loan portfolio as a result of the Company's ongoing risk management system.

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Specific allocations are applied when quantifiable factors are present requiring a greater allocation than that established using the classified asset approach, as defined by the Office of the Comptroller of the Currency. Accrual of interest is discontinued and interest accrued and unpaid is removed at the time such amounts are delinquent 90 days, unless management is aware of circumstances which warrant continuing the interest accrual. Interest is recognized for nonaccrual loans only upon receipt and only after all principal amounts are current according to the terms of the contract.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Company performs an annual goodwill impairment test in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, which requires that goodwill and intangible assets that have indefinite lives no longer be amortized but be reviewed for impairment annually, or more frequently if certain conditions occur. Prior to the adoption of SFAS 142, goodwill was being amortized using the straight-line method over a period of 15 years. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Employee Benefit Plans

The Company has adopted various stock-based compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, and bonus stock awards. Pursuant to the plans, shares are reserved for future issuance by the Company, upon exercise of stock options or awarding of bonus shares granted to directors, officers and other key employees.

In accordance with SFAS 123R, Share-Based Payment (Revised 2004), the fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses various assumptions. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. For additional information, see Note 11, Stock-Based Compensation, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

The Company is subject to the federal income tax laws of the United States, and the tax laws of the states and other jurisdictions where it conducts business. Due to the complexity of these laws, taxpayers and the taxing authorities may subject these laws to different interpretations. Management must make conclusions and estimates about the application of these innately intricate laws, related regulations and case law. When preparing the Company's tax returns, management attempts to make reasonable interpretations of the tax laws. Taxing authorities have the ability to challenge management's analysis of the tax law or any reinterpretation management makes in its ongoing assessment of facts and the developing case law. Management assesses the reasonableness of its effective tax rate quarterly based on its current estimate of net income and the applicable taxes expected for the full year. On a quarterly basis, management also reviews circumstances and developments in tax law affecting the reasonableness of deferred tax assets and liabilities and reserves for contingent tax liabilities.

NET INTEREST INCOME

Overview

Net interest income, the Company's principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 37.50%.

The Company's practice is to limit exposure to interest rate movements by maintaining a significant portion of earning assets and interest bearing liabilities in short-term repricing. Historically, approximately 70% of the Company's loan portfolio and approximately 80% of the Company's time deposits have repriced in one year or less. These historical percentages are consistent with the Company's current interest rate sensitivity.

Net Interest Income Quarter-to-Date Analysis

For the three-month period ended September 30, 2008, net interest income on a fully taxable equivalent basis was \$25.4 million, an increase of \$937,000 or 3.8%, over the same period in 2007. The increase in net interest income was the result of a \$4.9 million decrease in interest expense offset by a \$3.9 million decrease in interest income.

The \$4.9 million decrease in interest expense is the result of a 115 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, partially offset by a \$182.5 million increase in average interest bearing liabilities. The growth in average interest bearing liabilities was primarily due to the Company's initiatives to enhance liquidity during 2008 through (1) the introduction of a new high yield investment deposit account and (2) securing additional long-term FHLB advances. The lower interest rates accounted for a \$5.0 million decrease in interest expense. The most significant component of this decrease was the \$3.2 million decrease associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 123 basis points from 4.70% to 3.47%. Lower rates on federal funds purchased and other debt resulted in an additional \$1.4 million decrease in interest expense, with the average rate paid on debt decreasing by 194 basis points from 5.30% to 3.36%. The higher level of average interest bearing liabilities resulted in a \$130,000 increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately \$147.3 million from internal deposit growth and \$35.2 million in federal funds purchased and other debt.

The \$3.9 million decrease in interest income primarily is the result of a 115 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a \$207.2 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a \$6.4 million decrease in interest income. The most significant component of this decrease was the \$6.2 million decrease associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio decreased 127 basis points from 7.87% to 6.60%. The growth in average interest earning assets resulted in a \$2.5 million improvement in interest income. The growth in average loans accounted for \$1.1 million of this increase, while the growth in investment securities resulted in \$1.0 million of the increase.

Net Interest Income Year-to-Date Analysis

For the nine-month period ended September 30, 2008, net interest income on a fully taxable equivalent basis was \$73.3 million, an increase of \$2.1 million, or 3.0%, over the same period in 2007. The increase in net interest income was the result of a \$9.0 million decrease in interest expense offset by a \$6.9 million decrease in interest income.

The \$9.0 million decrease in interest expense is the result of a 81 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, partially offset by a \$162.0 million increase in average interest bearing liabilities. The growth in average interest bearing liabilities was primarily due to the Company's initiatives to enhance liquidity during 2008 through (1) the introduction of a new high yield investment deposit account and (2) securing additional long-term FHLB advances. The lower interest rates accounted for a \$10.5 million decrease in interest expense. The most significant component of this decrease was the \$6.0 million decrease associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 76 basis points from 4.68% to 3.92%. Lower rates on federal funds purchased and other debt resulted in an additional \$3.4 million decrease in interest expense, with the average rate paid on debt decreasing by 182 basis points from 5.33% to 3.52%. The higher level of average interest bearing liabilities resulted in a \$1.5 million increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately \$109.1 million from internal deposit growth and \$52.9 million in federal funds purchased and other debt.

The \$6.9 million decrease in interest income primarily is the result of an 87 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a \$184.9 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a \$14.5 million decrease in interest income. The most significant component of this decrease was the \$13.5 million decrease associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio decreased 97 basis points from 7.82% to 6.85%. The growth in average interest earning assets resulted in a \$7.6 million improvement in interest income. The growth in average loans accounted for \$3.5 million of this increase, while the growth in investment securities resulted in \$2.9 million of the increase.

Net Interest Margin

The Company's net interest margin decreased 17 basis points to 3.84% for the three-month period ended September 30, 2008, when compared to 4.01% for the same period in 2007. This decrease in the net interest margin was primarily due to significant repricing of earning assets due to declining interest rates during the first half of 2008, along with the Company's concentrated effort to grow core deposits. Based on its current pricing model, and considering recent rate reductions, the Company anticipates additional margin compression into 2009.

Net Interest Income Tables

Table 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and nine-month periods ended September 30, 2008 and 2007, respectively, as well as changes in fully taxable equivalent net interest margin for the three-month and nine-month periods ended September 30, 2008 versus September 30, 2007.

Table 1: Analysis of Net Interest Margin
(FTE =Fully Taxable Equivalent)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income	\$ 39,208	\$ 43,301	\$ 118,779	\$ 126,155
FTE adjustment	1,031	871	3,017	2,554
Interest income – FTE	40,239	44,172	121,796	128,709
Interest expense	14,861	19,731	48,543	57,561
Net interest income – FTE	\$ 25,378	\$ 24,441	\$ 73,253	\$ 71,148
Yield on earning assets – FTE	6.09%	7.24%	6.27%	7.14%
Cost of interest bearing liabilities	2.61%	3.76%	2.91%	3.72%
Net interest spread – FTE	3.48%	3.48%	3.36%	3.42%
Net interest margin – FTE	3.84%	4.01%	3.77%	3.95%

Table 2: Changes in Fully Taxable Equivalent Net Interest Income

(In thousands)	Three Months Ended September 30, 2008 vs. 2007		Nine Months Ended September 30, 2008 vs. 2007	
	Increase due to change in earning assets	\$ 2,480	\$ 7,607	
Decrease due to change in earning asset yields	(6,413)	(14,521)		
Decrease due to change in interest bearing liabilities	(130)	(1,483)		
Increase due to change in interest rates paid on interest bearing liabilities	5,000	10,502		
Increase in net interest income	\$ 937	\$ 2,105		

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Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three-month and nine-month periods ended September 30, 2008 and 2007. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

(\$ in thousands)	Three Months Ended September 30, 2008			2007		
	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning Assets						
Interest bearing balances						
due from banks	\$ 65,819	\$ 309	1.87	\$ 9,382	\$ 131	5.54
Federal funds sold	32,910	176	2.13	21,083	302	5.68
Investment securities - taxable	482,495	5,451	4.49	395,038	4,709	4.73
Investment securities - non-taxable	133,454	2,579	7.69	132,663	2,139	6.40
Mortgage loans held for sale	6,759	112	6.59	8,747	147	6.67
Assets held in trading accounts	727	--	0.00	4,930	71	5.71
Loans	1,905,979	31,612	6.60	1,849,091	36,673	7.87
Total interest earning assets	2,628,143	40,239	6.09	2,420,934	44,172	7.24
Non-earning assets	259,800			255,655		
Total assets	\$ 2,887,943			\$ 2,676,589		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest bearing liabilities						
Interest bearing transaction and savings accounts						
	\$ 1,021,519	\$ 4,116	1.60	\$ 724,782	\$ 3,328	1.82
Time deposits	974,553	8,491	3.47	1,123,967	13,307	4.70
Total interest bearing deposits	1,996,072	12,607	2.51	1,848,749	16,635	3.57
Federal funds purchased and securities sold under agreement to repurchase	102,704	429	1.66	113,060	1,404	4.93
Other borrowed funds						
Short-term debt	9,668	62	2.55	38,710	519	5.32
Long-term debt	154,676	1,763	4.53	80,123	1,173	5.81
Total interest bearing liabilities	2,263,120	14,861	2.61	2,080,642	19,731	3.76
Non-interest bearing liabilities						
Non-interest bearing deposits	320,160			305,453		
Other liabilities	21,948			23,943		
Total liabilities	2,605,228			2,410,038		
Stockholders' equity	282,715			266,551		
Total liabilities and stockholders' equity	\$ 2,887,943			\$ 2,676,589		

Net interest spread		3.48		3.48
Net interest margin	\$ 25,378	3.84	\$ 24,441	4.01

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Nine Months Ended September 30

(In thousands)	2008			2007		
	Average Balance	Income/Expense	Yield/Rate(%)	Average Balance	Income/Expense	Yield/Rate(%)
ASSETS						
Earning Assets						
Interest bearing balances						
due from banks	\$ 69,248	\$ 1,184	2.28	\$ 23,325	\$ 938	5.38
Federal funds sold	41,304	716	2.32	32,576	1,303	5.35
Investment securities - taxable	443,403	15,962	4.81	401,105	13,776	4.59
Investment securities - non-taxable	156,405	7,560	6.46	128,268	6,208	6.47
Mortgage loans held for sale	7,658	338	5.90	8,116	383	6.31
Assets held in trading accounts	4,068	42	1.38	4,748	124	3.49
Loans	1,872,370	95,994	6.85	1,811,378	105,977	7.82
Total interest earning assets	2,594,456	121,796	6.27	2,409,516	128,709	7.14
Non-earning assets	255,356			252,766		
Total assets	\$ 2,849,812			\$ 2,662,282		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest bearing liabilities						
Interest bearing transaction and savings accounts						
	\$ 932,549	\$ 11,280	1.62	\$ 731,989	\$ 9,832	1.80
Time deposits	1,037,242	30,420	3.92	1,128,660	39,467	4.68
Total interest bearing deposits	1,969,791	41,700	2.83	1,860,649	49,299	3.54
Federal funds purchased and securities sold under agreement to repurchase	113,269	1,813	2.14	110,293	4,057	4.92
Other borrowed funds						
Short-term debt	4,725	101	2.86	15,276	637	5.58
Long-term debt	141,948	4,929	4.64	81,495	3,568	5.85
Total interest bearing liabilities	2,229,733	48,543	2.91	2,067,713	57,561	3.72
Non-interest bearing liabilities						
Non-interest bearing deposits	316,182			307,075		
Other liabilities	22,684			22,804		
Total liabilities	2,568,599			2,397,592		
Stockholders' equity	281,213			264,690		
Total liabilities and stockholders' equity	\$ 2,849,812			\$ 2,662,282		
Net interest spread			3.36			3.42
Net interest margin		\$ 73,253	3.77		\$ 71,148	3.95

Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for the three-month and nine-month periods ended September 30, 2008, as compared to the same period of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

(In thousands, on a fully taxable equivalent basis)	Three Months Ended September 30, 2008 over 2007			Nine Months Ended September 30, 2008 over 2007		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Increase (decrease) in						
Interest income						
Interest bearing balances						
due from banks	\$ 317	\$ (139)	\$ 178	\$ 1,025	\$ (779)	\$ 246
Federal funds sold	119	(245)	(126)	285	(872)	(587)
Investment securities - taxable	998	(256)	742	1,501	685	2,186
Investment securities - non-taxable	13	427	440	1,360	(8)	1,352
Mortgage loans held for sale	(33)	(2)	(35)	(22)	(24)	(46)
Assets held in trading accounts	(33)	(38)	(71)	(16)	(66)	(82)
Loans	1,099	(6,160)	(5,061)	3,474	(13,457)	(9,983)
Total	2,480	(6,413)	(3,933)	7,607	(14,521)	(6,914)
Interest expense						
Interest bearing transaction and savings accounts						
	1,234	(446)	788	2,497	(1,049)	1,448
Time deposits	(1,613)	(3,203)	(4,816)	(3,024)	(6,023)	(9,047)
Federal funds purchased and securities sold under agreements to repurchase	(119)	(856)	(975)	106	(2,351)	(2,245)
Other borrowed funds						
Short-term debt	(269)	(188)	(457)	(314)	(222)	(536)
Long-term debt	897	(307)	590	2,218	(857)	1,361
Total	130	(5,000)	(4,870)	1,483	(10,502)	(9,019)
Increase (decrease) in net interest income	\$ 2,350	\$ (1,413)	\$ 937	\$ 6,124	\$ (4,019)	\$ 2,105

PROVISION FOR LOAN LOSSES

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level considered adequate in relation to the estimated risk inherent in the loan portfolio. The level of provision to the allowance is based on management's judgment, with consideration given to the composition, maturity and other qualitative characteristics of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on at least a quarterly basis, but generally on a monthly basis, and after considering the factors previously noted, to determine the level of provision made to the allowance.

The provision for loan losses for the three-month period ended September 30, 2008, was \$2.2 million, compared to \$850,000 for the three-month period ended September 30, 2007, an increase of \$1.4 million. The provision for loan losses for the nine-month period ended September 30, 2008, was \$5.9 million, compared to \$2.4 million for the nine-month period ended September 30, 2007, an increase of \$3.5 million. The provision increase was primarily due to an increase in net loan charge-offs, an increase in non-performing loans and deterioration in the real estate market in the Northwest Arkansas region. See Allowance for Loan Losses section for additional information.

NON-INTEREST INCOME

Total non-interest income was \$11.3 million for the three-month period ended September 30, 2008, compared to \$11.4 million for the same period in 2007. For the nine-months ended September 30, 2008, non-interest income was \$38.0 million compared to the \$34.2 million reported for the same period ended September 30, 2007. The increase in non-interest income for the nine-months ended September 30 was primarily due to the nonrecurring \$3.0 million gain from cash proceeds received on the mandatory partial redemption of its equity interest in Visa. Excluding the gain on Visa shares, non-interest income increased \$860,000, or 2.5%, in the first nine-months of 2008 over the comparable period in 2007.

Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance and gains (losses) from sales of securities.

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Table 5 shows non-interest income for the three-month and nine-month periods ended September 30, 2008 and 2007, respectively, as well as changes in 2008 from 2007.

Table 5: Non-Interest Income

(In thousands)	Three Months Ended September 30		2008 Change from 2007		Nine Months Ended September 30		2008 Change from 2007	
	2008	2007			2008	2007		
Trust income	\$ 1,608	\$ 1,528	\$ 80	5.24%	\$ 4,707	\$ 4,639	\$ 68	1.47%
Service charges on deposit accounts	4,009	3,759	250	6.65	11,134	10,912	222	2.03
Other service charges and fees	648	698	(50)	-7.16	2,021	2,198	(177)	-8.05
Income on sale of mortgage loans, net of commissions	595	715	(120)	-16.78	2,077	2,121	(44)	-2.07
Income on investment banking, net of commissions	131	90	41	45.56	779	393	386	98.22
Credit card fees	3,491	3,115	376	12.07	10,144	8,789	1,355	15.42
Premiums on sale of student loans	3	419	(416)	-99.28	1,135	2,042	(907)	-44.42
Bank owned life insurance income	370	367	3	0.82	1,157	1,090	67	6.15
Gain on mandatory partial redemption of Visa shares	--	--	--	--	2,973	--	2,973	--
Other income	433	682	(249)	-36.51	1,870	1,980	(110)	-5.56
Total non-interest income	\$ 11,288	\$ 11,373	\$ (85)	-0.75%	\$ 37,997	\$ 34,164	\$ 3,833	11.22%

Recurring fee income for the three-month period ended September 30, 2008, was \$9.8 million, an increase of \$656,000, or 7.2% from the three-month period ended September 30, 2007. Recurring fee income for the nine-month period ended September 30, 2008, was \$28.0 million, an increase of \$1,468,000, or 5.5% from the same period in 2007. The improvement in recurring fee income primarily resulted from increases in credit card fees of \$376,000 and \$1,355,000, respectively, for the three-months and nine-months ended September 30. The increase in credit card fees is primarily due to a higher volume of credit and debit card transactions, with the credit card volume increase a direct result of the addition of new credit card accounts in 2007 and 2008. See Loan Portfolio section for additional information regarding credit card accounts.

Service charges on deposit accounts increased \$250,000, or 6.7%, for the three-months ended September 30, 2008, compared to the same period in 2007, due to an improvement in fee structure and core deposit growth.

Income on investment banking increased by \$386,000, or 98.2%, for the nine-months ended September 30, 2008, compared to the same period in 2007. This improvement was due to additional sales volume driven by the interest rate environment, called securities and customer liquidity.

Premiums on sale of student loans decreased by \$416,000 and \$907,000, respectively, for the three and nine-months ended September 30, 2008, compared to the same periods in 2007. The decrease was primarily due to a reduction in sales of student loans during 2008. The student loan industry is going through major challenges related to secondary market liquidity. The current liquidity of the secondary market has effectively disappeared; therefore, the Company is currently unable to sell student loans at a premium. For the immediate future, it is the Company's intention, and we have the liquidity, to continue to fund new loans and hold those loans that we normally would sell into the secondary market through the 2008-2009 school year. In July 2008, the United States Department of Education announced a one-year program to create temporary stability and liquidity in the student loan market. During the third quarter of 2009, the Company expects to sell into the government program all student loans originated and fully funded during the 2008-2009 school year. Under the terms of the government program, the loans will be sold at par, plus reimbursement of the 1% lender fee and a premium of \$75 per loan. The Company expects to increase the student loan portfolio by approximately \$50 million during the carrying period; however, we have the option of creating liquidity by selling participation loans into the government program.

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Since the Company is not likely to sell loans in the secondary market during the fourth quarter of 2008, we estimate a reduction of \$300,000 in premiums on sale of student loans compared to the same period of 2007. That reduction will be partially offset by an estimated \$120,000 increase in net interest income, resulting from the expected increase in outstanding student loan balances.

For 2009, we anticipate the entire premium on sale of student loans, currently estimated at \$1.6 million, to be recorded in the third quarter of 2009, when the loans are sold. We will continue to evaluate the profitability and viability of this strategic business unit going forward.

During the first quarter of 2008, the Company recorded a nonrecurring \$3.0 million gain from the cash proceeds received on the mandatory partial redemption of the Company's equity interest in Visa, which was the result of Visa's IPO completed in March, 2008.

There were no gains or losses on sale of securities during the three-months or nine-months ended September 30, 2008 or 2007.

NON-INTEREST EXPENSE

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense, through the continued use of expense control measures that have been installed. The Company utilizes an extensive profit planning and reporting system involving all affiliates. Based on a needs assessment of the business plan for the upcoming year, monthly and annual profit plans are developed, including manpower and capital expenditure budgets. These profit plans are subject to extensive initial reviews and monitored by management on a monthly basis. Variances from the plan are reviewed monthly and, when required, management takes corrective action intended to ensure financial goals are met. Management also regularly monitors staffing levels at each affiliate to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for the three-month and nine-month periods ended September 30, 2008, was \$24.4 million and \$71.8 million, an increase of \$1.2 million, or 5.2%, and \$2.3 million, or 3.4%, respectively, from the same period in 2007. Included in non-interest expense for the three and nine-months ended September 30, 2008 are the incremental expenses associated with the operation of the five new financial centers opened in 2007 and 2008.

Also included in non-interest expense for the nine-months ended September 30, 2008 is the \$1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities that was established during the fourth quarter of 2007. This liability represented the Company's share of legal judgments and settlements related to Visa's litigation, which was satisfied by the \$3 billion escrow account funded by the proceeds from Visa's IPO, which was completed during the quarter ended March 31, 2008.

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Credit card expense increased for the three-month and nine-month periods ended September 30, 2008, over the same periods in 2007 by \$151,000, or 14.2%, and \$523,000, or 17.6%, respectively. These increases were primarily due to the increased card usage, interchange fees and other related expenses resulting from initiatives the Company has taken to grow its credit card portfolio. See Loan Portfolio section for additional information.

FDIC deposit insurance expense increased by \$182,000, or 214%, and \$248,000, or 113%, respectively, for the three-month and nine-month periods ended September 30, 2008, over the same periods in 2007. During 2007, the FDIC issued credits based on historical deposit levels to be used in offsetting deposit insurance assessments; the Company received approximately \$1.8 million of these credits. As these credits are used up, FDIC insurance expense increases. Because the majority of the credits were exhausted during the third quarter of 2008, we estimate the Company's FDIC insurance to increase by approximately \$350,000 in the fourth quarter of 2008 over the same period of 2007. Based on the recent FDIC insurance assessment projections, we estimate the Company's annual deposit insurance expense to increase by approximately \$1.8 million in 2009 over 2008 projections.

Table 6 below shows non-interest expense for the three-month and nine-month periods ended September 30, 2008 and 2007, respectively, as well as changes in 2008 from 2007.

Table 6: Non-Interest Expense

(In thousands)	Three Months Ended September 30		2008 Change from 2007		Nine Months Ended September 30		2008 Change from 2007	
	2008	2007			2008	2007		
Salaries and employee benefits	\$ 14,056	\$ 13,778	\$ 278	2.02%	\$ 42,697	\$ 41,406	\$ 1,291	3.12%
Occupancy expense, net	1,912	1,671	241	14.42	5,526	4,945	581	11.75
Furniture and equipment expense	1,543	1,455	88	6.05	4,505	4,428	77	1.74
Loss on foreclosed assets	57	77	(20)	-25.97	185	137	48	35.04
Other operating expenses								
Professional services	661	741	(80)	-10.80	1,990	2,032	(42)	-2.07
Postage	407	597	(190)	-31.83	1,319	1,780	(461)	-25.90
Telephone	468	462	6	1.30	1,300	1,331	(31)	-2.33
Credit card expenses	1,215	1,064	151	14.19	3,497	2,974	523	17.59
Operating supplies	373	374	(1)	-0.27	1,248	1,264	(16)	-1.27
FDIC insurance	267	85	182	214.12	468	220	248	112.73
Amortization of intangibles	201	203	(2)	-0.99	605	616	(11)	-1.79
Visa litigation liability reversal	--	--	--	--	(1,220)	--	(1,220)	--
Other expense	3,281	2,716	565	20.80	9,656	8,315	1,341	16.13
Total non-interest expense	\$ 24,441	\$ 23,223	\$ 1,218	5.24%	\$ 71,776	\$ 69,448	\$ 2,328	3.35%

LOAN PORTFOLIO

The Company's loan portfolio averaged \$1.872 billion and \$1.811 billion during the first nine months of 2008 and 2007, respectively. As of September 30, 2008, total loans were \$1.936 billion, an increase of \$85.8 million from December 31, 2007. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

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The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an adequate allowance for loan losses and regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. The Company seeks to use diversification within the loan portfolio to reduce credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. The Company uses the allowance for loan losses as a method to value the loan portfolio at its estimated collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were \$403.0 million at September 30, 2008, or 20.8% of total loans, compared to \$379.9 million, or 20.5% of total loans at December 31, 2007. The consumer loan increase from December 31, 2007 to September 30, 2008 is primarily due to the increase in the loans held in the student loan portfolio resulting from the current lack of a secondary market. See Non-Interest Income section for additional information.

As a general rule, the Company's credit card portfolio experiences seasonal fluctuations, reaching its highest level during the fourth quarter and dropping off with paydowns to its lowest level during the first quarter. Therefore, management believes it is useful to compare credit card balances with the balances from the same period of the prior year. The credit card portfolio balance at September 30, 2008 increased by \$13.7 million, or 9.2%, when compared to the same period in 2007.

The growth in outstanding credit card balances is primarily the result of an increase in net new accounts. Management believes the increase in outstanding balances and the addition of new accounts are the result of the introduction of several initiatives over the past two years to make the Company's credit card products more competitive. The Company added approximately 15,000 net new accounts in 2007. Although the account growth is slowing, the positive trend has continued with the addition of nearly 4,000 net new accounts during the nine-months ended September 30, 2008.

The student loan portfolio balance at September 30, 2008 was \$102.3 million, an increase of \$26.1 million, or 34.2%, from December 31, 2007. Management expects a significant increase in student loan balances until the third quarter of 2009 due to the departure of competitors from the market, the Company's decision to hold loans normally sold in the secondary market, and other issues and challenges facing the student loan industry. See Non-Interest Income section for additional information.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were \$1.205 billion at September 30, 2008, or 62.2% of total loans, compared to the \$1.186 billion, or 64.1% of total loans at December 31, 2007. Commercial real estate loans increased by \$34.8 million from December 31, 2007 to September 30, 2008, primarily due to the permanent financing of completed projects previously included in the construction loan category. Construction and development loans represent only 11.7% of the total loan portfolio.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were \$318.3 million at September 30, 2008, or 16.5% of total loans, compared to \$274.0 million, or 14.8% of total loans at December 31, 2007. The commercial loan increase is primarily due to a seasonal increase in agricultural loans.

The balances of loans outstanding at the indicated dates are reflected in Table 7, according to type of loan.

Table 7: Loan Portfolio

(In thousands)	September 30, 2008	December 31, 2007
Consumer		
Credit cards	\$ 162,862	\$ 166,044
Student loans	102,346	76,277
Other consumer	137,763	137,624
Real Estate		
Construction	227,071	260,924
Single family residential	400,845	382,676
Other commercial	576,958	542,184
Commercial		
Commercial	184,690	193,091
Agricultural	130,988	73,470
Financial institutions	2,581	7,440
Other	10,175	10,724
Total loans before allowance for loan losses	\$ 1,936,279	\$ 1,850,454

ASSET QUALITY

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and nonaccrual loans) and certain other loans identified by management that are still performing.

Non-performing loans are comprised of (a) nonaccrual loans, (b) loans that are contractually past due 90 days and (c) other loans for which terms have been restructured to provide a reduction or deferral of interest or principal, because of deterioration in the financial position of the borrower. The subsidiary banks recognize income principally on the accrual basis of accounting. When loans are classified as nonaccrual, generally, the accrued interest is charged off and no further interest is accrued. Loans, excluding credit card loans, are placed on a nonaccrual basis either: (1) when there are serious doubts regarding the collectability of principal or interest, or (2) when payment of interest or principal is 90 days or more past due and either (i) not fully secured or (ii) not in the process of collection. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Credit card loans are classified as impaired when payment of interest or principal is 90 days past due. Litigation accounts are placed on nonaccrual until such time as deemed uncollectible. Credit card loans are generally charged off when payment of interest or principal exceeds 180 days past due, but are turned over to the credit card recovery department, to be pursued until such time as they are determined, on a case-by-case basis, to be uncollectible.

At September 30, 2008, impaired loans were \$16.6 million compared to \$12.5 million at December 31, 2007.

Table 8 presents information concerning non-performing assets, including nonaccrual and other real estate owned.

Table 8: Non-performing Assets

(\$ in thousands)	September 30, 2008	December 31, 2007
Nonaccrual loans	\$ 12,446	\$ 9,909
Loans past due 90 days or more (principal or interest payments)	1,572	1,282
Total non-performing loans	14,018	11,191
Other non-performing assets		
Foreclosed assets held for sale	4,044	2,629
Other non-performing assets	--	17
Total other non-performing assets	4,044	2,646
Total non-performing assets	\$ 18,062	\$ 13,837
Allowance for loan losses to non-performing loans	182.25%	226.10%
Non-performing loans to total loans	0.72%	0.60%
Non-performing assets to total assets	0.63%	0.51%

There was no interest income on the nonaccrual loans recorded for the nine-month periods ended September 30, 2008 and 2007.

ALLOWANCE FOR LOAN LOSSES

Overview

The Company maintains an allowance for loan losses. This allowance is created through charges to income and maintained at a sufficient level to absorb expected losses in the Company's loan portfolio. The allowance for loan losses is determined monthly based on management's assessment of several factors such as 1) historical loss experience based on volumes and types, 2) reviews or evaluations of the loan portfolio and allowance for loan losses, 3) trends in volume, maturity and composition, 4) off balance sheet credit risk, 5) volume and trends in delinquencies and non-accruals, 6) lending policies and procedures including those for loan losses, collections and recoveries, 7) national, state and local economic trends and conditions, 8) concentrations of credit that might affect loss experience across one or more components of the loan portfolio, 9) the experience, ability and depth of lending management and staff and 10) other factors and trends, which will affect specific loans and categories of loans.

As the Company evaluates the allowance for loan losses, it is categorized as follows: 1) specific allocations, 2) allocations for classified assets with no specific allocation, 3) general allocations for each major loan category and 4) unallocated portion.

Specific Allocations

Specific allocations are made when factors are present requiring a greater reserve than would be required when using the assigned risk rating allocation. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. The evaluation process in specific allocations for the Company includes a review of appraisals or other collateral analysis. These values are compared to the remaining outstanding principal balance. If a loss is determined to be reasonably possible, the possible loss is identified as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the expected future cash flows of the loan.

Allocations for Classified Assets with no Specific Allocation

The Company establishes allocations for loans rated “watch” through “doubtful” based upon analysis of historical loss experience by category. A percentage rate is applied to each category of these loan categories to determine the level of dollar allocation.

General Allocations

The Company establishes general allocations for each major loan category. This section also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. The Company gives consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

Unallocated Portion

Allowance allocations other than specific, classified and general for the Company are included in unallocated.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, the Company has established a reserve for unfunded commitments, classified in other liabilities. This reserve is maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to the Company’s methodology for determining the allowance for loan losses. Net adjustments to the reserve for unfunded commitments are included in other non-interest expense.

An analysis of the allowance for loan losses is shown in Table 9.

Table 9: Allowance for Loan Losses

(In thousands)	2008	2007
Balance, beginning of year	\$ 25,303	\$ 25,385
Loans charged off		
Credit card	2,727	1,993
Other consumer	1,408	1,126
Real estate	2,470	1,247
Commercial	633	504
Total loans charged off	7,238	4,870
Recoveries of loans previously charged off		
Credit card	681	793
Other consumer	422	379
Real estate	172	610
Commercial	313	378
Total recoveries	1,588	2,160
Net loans charged off	5,650	2,710
Provision for loan losses	5,895	2,432
Balance, September 30	\$ 25,548	\$ 25,107
Loans charged off		
Credit card		670
Other consumer		412
Real estate		669
Commercial		211
Total loans charged off		1,962
Recoveries of loans previously charged off		
Credit card		231
Other consumer		104
Real estate		38
Commercial		36
Total recoveries		409
Net loans charged off		1,553
Provision for loan losses		1,749
Balance, end of year		\$ 25,303

Provision for Loan Losses

The amount of provision to the allowance during the nine-month periods ended September 30, 2008 and 2007, and for the year ended December 31, 2007, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on at least a quarterly basis, but generally on a monthly basis, and after considering the factors previously noted, to determine the

level of provision made to the allowance.

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Allocated Allowance for Loan Losses

The Company utilizes a consistent methodology in the calculation and application of its allowance for loan losses. Because there are portions of the portfolio that have not matured to the degree necessary to obtain reliable loss statistics from which to calculate estimated losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent when estimating credit losses.

Several factors in the national economy, including interest rate volatility predicated by the Federal Reserve's interest rate adjustments, the effect of fuel prices on the commercial and consumer markets, and uncertainty in the residential housing market and other loan sectors which may be exhibiting weaknesses, further justify the need for unallocated reserves.

As of September 30, 2008, the allowance for loan losses reflects an increase of approximately \$245,000 from December 31, 2007. The Company's allocation of the allowance for loans losses at September 30, 2008 remained relatively consistent with the allocation at December 31, 2007. The unallocated portion of the allowance decreased approximately \$1.2 million during the nine-months ended September 30, 2008. This decrease in the unallocated portion of the allowance is primarily related to increases in general and specific allocations for loans secured by assets located in the Northwest Arkansas region. In late 2006 the economy in Northwest Arkansas, particularly in the residential real estate market, started showing signs of deterioration, which caused concerns over the full recoverability of this portion of the Company's loan portfolio. Management began assessing the impact of these economic conditions on this portion of the loan portfolio; however, the economic downturn had not yet negatively impacted specific credit relationships by December 31, 2006. Therefore, given this uncertainty, management deemed it necessary to provide a higher level of unallocated allowance. As the Company continued to monitor the Northwest Arkansas economy, beginning in the third quarter of 2007, specific credit relationships deteriorated to a level requiring increased general and specific reserves. The identification of these specific credit relationships and the increase in general and specific allocations allowed management to reduce the unallocated portion of the allowance related to the Company's Northwest Arkansas region at December 31, 2007, and again at September 30, 2008.

The remaining unallocated allowance for loan losses is based on the Company's continuing concerns over the uncertainty of the economy and the impact of market pricing in the poultry, timber and catfish industries in Arkansas. The Company is also cautious regarding the continued softening of the real estate market in Arkansas, specifically in the Northwest Arkansas region. Management actively monitors the status of these industries as they relate to the Company's loan portfolio and makes changes to the allowance for loan losses as necessary. Based on its analysis of loans within these business sectors, the Company believes the allowance for loan losses is adequate for the period ended September 30, 2008.

The Company allocates the allowance for loan losses according to the amount deemed to be reasonably necessary to provide for losses incurred within the categories of loans set forth in Table 10.

Table 10: Allocation of Allowance for Loan Losses

(\$ in thousands)	September 30, 2008		December 31, 2007	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
Credit cards	\$ 3,957	8.4%	\$ 3,841	9.0%
Other consumer	1,309	12.4%	1,501	11.5%
Real estate	10,878	62.2%	10,157	64.1%
Commercial	3,280	16.5%	2,528	14.8%
Other	216	0.5%	187	0.6%
Unallocated	5,908		7,089	
Total	\$ 25,548	100%	\$ 25,303	100.0%

(1) Percentage of loans in each category to total loans

DEPOSITS

Deposits are the Company's primary source of funding for earning assets and are primarily developed through the Company's network of 84 financial centers as of September 30, 2008. The Company offers a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. The Company's core deposits consist of all deposits excluding time deposits of \$100,000 or more and brokered deposits. As of September 30, 2008, core deposits comprised 81.4% of the Company's total deposits.

The Company continually monitors the funding requirements at each affiliate bank along with competitive interest rates in the markets it serves. Because the Company has a community banking philosophy, managers in the local markets establish the interest rates being offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet each affiliate bank's respective funding requirements. The Company believes it is paying a competitive rate, when compared with pricing in those markets.

The Company manages its interest expense through deposit pricing and does not anticipate a significant change in total deposits. The Company believes that additional funds can be attracted and deposit growth can be accelerated through promotion and deposit pricing if it experiences accelerated loan demand or other liquidity needs beyond its current projections. The Company also utilizes brokered deposits as an additional source of funding to meet liquidity needs.

The Company introduced a new high yield investment deposit account during the first quarter of 2008 as part of its strategy to enhance liquidity. Through September 30, 2008, the new account generated approximately \$130 million in new core deposits. Total internal deposit growth for the nine-month period was \$112 million, or 5.1%. More specifically, total deposits as of September 30, 2008 were \$2.294 billion versus \$2.183 billion on December 31, 2007.

Total time deposits decreased approximately \$160 million to \$951.6 million at September 30, 2008, from \$1.111 billion at December 31, 2007. Non-interest bearing transaction accounts increased \$8.5 million to \$318.7 million at September 30, 2008, compared to \$310.2 million at December 31, 2007. Interest bearing transaction and savings accounts were \$1.024 billion at September 30, 2008, a \$262.9 million increase compared to \$761.2 million on December 31, 2007. The Company had \$32.0 million and \$39.2 million of brokered deposits at September 30, 2008 and December 31, 2007, respectively.

LONG-TERM DEBT

During the nine-month period ended September 30, 2008, the Company increased long-term debt by \$74.7 million, or 90.8% from December 31, 2007. This increase resulted from the strategic decision to secure additional long-term funding from FHLB advances in order to enhance the liquidity of the Company.

CAPITAL

Overview

At September 30, 2008, total capital reached \$280.8 million. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At September 30, 2008, the Company's equity to asset ratio was 9.82% compared to 10.12% at year-end 2007.

Capital Stock

At the Company's annual shareholder meeting held on April 10, 2007, the shareholders approved an amendment to the Articles of Incorporation increasing the number of authorized shares of Class A, \$0.01 par value, Common Stock from 30,000,000 to 60,000,000. Class A Common Stock is the Company's only outstanding class of stock.

Stock Repurchase

On November 28, 2007, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 700,000 shares of Class A common stock, or approximately 5% of the outstanding common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the nine-month period ended September 30, 2008, the Company repurchased 45,180 shares of stock under the repurchase plan with a weighted average repurchase price of \$28.38 per share. Under the current stock repurchase plan, the Company can repurchase an additional 645,672 shares.

Effective July 1, 2008, the Company made a strategic decision to temporarily suspend stock repurchases. This decision was made to preserve capital and cash at the parent company, both of which may be needed in potential future acquisitions.

Cash Dividends

The Company declared cash dividends on its common stock of \$0.57 per share for the first nine months of 2008 compared to \$0.54 per share for the first nine months of 2007. In recent years, the Company increased dividends no less than annually and presently plans to continue with this practice.

Parent Company Liquidity

The primary sources for payment of dividends by the Company to its shareholders and the share repurchase plan are the current cash on hand at the parent company plus the future dividends received from the eight affiliate banks. Payment of dividends by the eight affiliate banks is subject to various regulatory limitations. Reference is made to the Liquidity and Market Risk Management discussions of Item 3 – Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

Risk Based Capital

The Company's subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of September 30, 2008, the Company meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized, the Company's subsidiaries must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. As of the most recent notification from regulatory agencies, the subsidiaries were well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institutions' categories.

The Company's risk-based capital ratios at September 30, 2008 and December 31, 2007, are presented in table 11.

Table 11: Risk-Based Capital

(\$ in thousands)	September 30, 2008	December 31, 2007
Tier 1 capital		
Stockholders' equity	\$ 280,817	\$ 272,406
Trust preferred securities	30,000	30,000
Intangible assets	(63,125)	(63,706)
Unrealized loss (gain) on available-for-sale securities, net of taxes	1,749	(1,728)
Total Tier 1 capital	249,441	236,972
Tier 2 capital		
Qualifying unrealized gain on available-for-sale equity securities	3	52
Qualifying allowance for loan losses	24,888	23,866
Total Tier 2 capital	24,891	23,918
Total risk-based capital	\$ 274,332	\$ 260,890
Risk weighted assets	\$ 1,988,879	\$ 1,906,321
Assets for leverage ratio	\$ 2,825,844	\$ 2,615,915
Ratios at end of period		
Leverage ratio	8.83%	9.06%
Tier 1 capital	12.54%	12.43%
Total risk-based capital	13.79%	13.69%
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 capital	4.00%	4.00%
Total risk-based capital	8.00%	8.00%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Emerging Issues Task Force (“EITF”) Issue No. 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in Statement of Financial Accounting Standards (“SFAS”) No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. The Company adopted EITF 06-4 on January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings totaling \$1,174,000. The Company does not expect the adoption of EITF 06-4 to have a material impact on the Company's ongoing financial position or results of operations.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. For additional information, see Note 16 – Fair Value Measurements, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. While SFAS 159 is effective for the Company beginning January 1, 2008, the Company has not elected the fair value option that is offered by this statement.

In December, 2007, FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements and SFAS 141R, Business Combinations. Both are effective for annual periods beginning after December 15, 2008. The Company is currently evaluating the impact of these Statements, but does not expect either to have a material effect on the Company's financial position or results of operations.

FORWARD-LOOKING STATEMENTS

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

We caution the reader not to place undue reliance on the forward-looking statements contained in this report in that actual results could differ materially from those indicated in such forward-looking statements, due to a variety of factors. These factors include, but are not limited to, changes in the Company's operating or expansion strategy, availability of and costs associated with obtaining adequate and timely sources of liquidity, the ability to maintain credit quality, possible adverse rulings, judgments, settlements and other outcomes of pending litigation, the ability of the Company to collect amounts due under loan agreements, changes in consumer preferences, effectiveness of the Company's interest rate risk management strategies, laws and regulations affecting financial institutions in general or relating to taxes, the effect of pending or future legislation, the ability of the Company to repurchase its common stock on favorable terms and other risk factors. Other relevant risk factors may be detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

RECONCILIATION OF NON-GAAP MEASURES

The table below presents computations of core earnings (net income excluding nonrecurring items { Visa litigation expense reversal and gain from the cash proceeds on mandatory Visa stock redemption}) and diluted core earnings per share (non-GAAP). Nonrecurring items are included in financial results presented in accordance with generally accepted accounting principles (GAAP).

The Company believes the exclusion of these nonrecurring items in expressing earnings and certain other financial measures, including "core earnings", provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. This non-GAAP financial measure is also used by management to assess the performance of the Company's business, because management does not consider these nonrecurring items to be relevant to ongoing financial performance. Management and the Board of Directors utilize "core earnings" (non-GAAP) for the following purposes:

- Preparation of the Company's operating budgets
- Monthly financial performance reporting
- Monthly "flash" reporting of consolidated results (management only)
- Investor presentations of Company performance

The Company believes the presentation of “core earnings” on a diluted per share basis, “diluted core earnings per share” (non-GAAP), provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. This non-GAAP financial measure is also used by management to assess the performance of the Company’s business, because management does not consider these nonrecurring items to be relevant to ongoing financial performance on a per share basis. Management and the Board of Directors utilize “diluted core earnings per share” (non-GAAP) for the following purposes:

- Calculation of annual performance-based incentives for certain executives
- Calculation of long-term performance-based incentives for certain executives
- Investor presentations of Company performance

The Company believes that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

“Core earnings” and “diluted core earnings per share” (non-GAAP) have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to identify and approve each item that qualifies as nonrecurring to ensure that the Company’s “core” results are properly reflected for period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a Company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes nonrecurring items does not represent the amount that effectively accrues directly to stockholders (i.e., nonrecurring items are included in earnings and stockholders’ equity).

See Table 12 below for the reconciliation of non-GAAP financial measures, which exclude nonrecurring items for the periods presented.

Table 12: Reconciliation of Core Earnings (non-GAAP)

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net Income	\$ 6,474	\$ 7,500	\$ 21,284	\$ 21,168
Nonrecurring items				
Mandatory stock redemption gain (Visa)	--	--	(2,973)	--
Litigation liability reversal (Visa)	--	--	(1,220)	--
Tax effect (39%)	--	--	1,635	--
Net nonrecurring items	--	--	(2,558)	--
Core earnings (non-GAAP)	\$ 6,474	\$ 7,500	\$ 18,726	\$ 21,168
Diluted earnings per share	\$ 0.46	\$ 0.53	\$ 1.51	\$ 1.48
Nonrecurring items				
Mandatory stock redemption gain (Visa)	--	--	(0.21)	--
Litigation liability reversal (Visa)	--	--	(0.09)	--
Tax effect (39%)	--	--	0.12	--
Net nonrecurring items	--	--	(0.18)	--

Diluted core earnings per share (non-GAAP)	\$	0.46	\$	0.53	\$	1.33	\$	1.48
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Item 3. Quantitative and Qualitative Disclosure About Market Risk

Parent Company

The Company has leveraged its investment in subsidiary banks and depends upon the dividends paid to it, as the sole shareholder of the subsidiary banks, as a principal source of funds for dividends to shareholders, stock repurchase and debt service requirements. At September 30, 2008, undivided profits of the Company's subsidiaries were approximately \$157.1 million, of which approximately \$16.3 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

Banking Subsidiaries

Generally speaking, the Company's banking subsidiaries rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash used in investing activities. Typical of most banking companies, significant financing activities include: deposit gathering; use of short-term borrowing facilities, such as federal funds purchased and repurchase agreements; and the issuance of long-term debt. The banks' primary investing activities include loan originations and purchases of investment securities, offset by loan payoffs and investment maturities.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers, by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets, as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of each bank subsidiary monitor these same indicators and make adjustments as needed. At September 30, 2008, each subsidiary bank was within established guidelines and total corporate liquidity remains strong. At September 30, 2008, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 19.2% of total assets, as compared to 17.4% at December 31, 2007.

Liquidity Management

The objective of the Company's liquidity management is to access adequate sources of funding to ensure that cash flow requirements of depositors and borrowers are met in an orderly and timely manner. Sources of liquidity are managed so that reliance on any one funding source is kept to a minimum. The Company's liquidity sources are prioritized for both availability and time to activation.

The Company's liquidity is a primary consideration in determining funding needs and is an integral part of asset/liability management. Pricing of the liability side is a major component of interest margin and spread management. Adequate liquidity is a necessity in addressing this critical task. There are five primary and secondary sources of liquidity available to the Company. The particular liquidity need and timeframe determine the use of these sources.

The first source of liquidity available to the Company is Federal funds. Federal funds, primarily from downstream correspondent banks, are available on a daily basis and are used to meet the normal fluctuations of a dynamic balance sheet. In addition, the Company and its affiliates have approximately \$104 million in Federal funds lines of credit from upstream correspondent banks that can be accessed, when needed. In order to ensure availability of these upstream funds, the Company has a plan for rotating the usage of the funds among the upstream correspondent banks, thereby providing approximately \$40 million in funds on a given day. Historical monitoring of these funds has made it possible for the Company to project seasonal fluctuations and structure its funding requirements on month-to-month basis.

A second source of liquidity is the retail deposits available through the Company's network of affiliate banks throughout Arkansas. Although this method can be somewhat of a more expensive alternative to supplying liquidity, this source can be used to meet intermediate term liquidity needs.

Third, the Company's affiliate banks have lines of credits available with the FHLB. While the Company uses portions of those lines to match off longer-term mortgage loans, the Company also uses those lines to meet liquidity needs. Approximately \$433 million of these lines of credit are currently available, if needed.

Fourth, the Company uses a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 70% of the investment portfolio is classified as available-for-sale. The Company also uses securities held in the securities portfolio to pledge when obtaining public funds.

Finally, the Company has the ability to access large deposits from both the public and private sector to fund short-term liquidity needs.

The Company believes the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

Market Risk Management

Market risk arises from changes in interest rates. The Company has risk management policies to monitor and limit exposure to market risk. In asset and liability management activities, policies are in place designed to minimize structural interest rate risk. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

Interest Rate Sensitivity

Interest rate risk represents the potential impact of interest rate changes on net income and capital resulting from mismatches in repricing opportunities of assets and liabilities over a period of time. A number of tools are used to monitor and manage interest rate risk, including simulation models and interest sensitivity gap analysis. Management uses simulation models to estimate the effects of changing interest rates and various balance sheet strategies on the level of the Company's net income and capital. As a means of limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed-rate assets and liabilities, change pricing schedules and manage investment maturities during future security purchases.

The simulation models incorporate management's assumptions regarding the level of interest rates or balance changes for indeterminate maturity deposits for a given level of market rate changes. These assumptions have been developed through anticipated pricing behavior. Key assumptions in the simulation models include the relative timing of prepayments, cash flows and maturities. In addition, the impact of planned growth and anticipated new business is factored into the simulation models. These assumptions are inherently uncertain and, as a result, the models cannot precisely estimate net interest income or precisely predict the impact of a change in interest rates on net income or capital. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

Table A below presents the Company's interest rate sensitivity position at September 30, 2008. This analysis is based on a point in time and may not be meaningful because assets and liabilities are categorized according to contractual maturities, repricing periods and expected cash flows rather than estimating more realistic behaviors, as is done in the simulation models. Also, this analysis does not consider subsequent changes in interest rate level or spreads between asset and liability categories.

Table A: Interest Rate Sensitivity

(In thousands, except ratios)	Interest Rate Sensitivity Period							Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	
E a r n i n g assets								
Short-term investments	\$ 79,147	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 79,147
Assets held in trading accounts	890	--	--	--	--	--	--	890
Investment securities	102,623	23,044	78,016	108,078	115,990	104,371	43,951	576,073
Mortgage loans held for sale	4,377	--	--	--	--	--	--	4,377
Loans	645,068	213,707	155,135	346,094	239,436	294,433	42,406	1,936,279
T o t a l e a r n i n g assets	832,105	236,751	233,151	454,172	355,426	398,804	86,357	2,596,766
I n t e r e s t b e a r i n g liabilities								
I n t e r e s t b e a r i n g transaction and savings deposits								
	693,016	--	--	--	66,232	198,696	66,232	1,024,176
	103,584	183,836	265,939	270,495	103,641	24,051	10	951,556

T i m e deposits								
Short-term debt	105,482	--	--	--	--	--	--	105,482
Long-term debt	499	13,306	1,586	2,999	27,535	72,121	38,973	157,019
Total interest bearing liabilities	902,581	197,142	267,525	273,494	197,408	294,868	105,215	2,238,233
Interest rate sensitivity Gap	\$ (70,476)	\$ 39,609	\$ (34,374)	\$ 180,678	\$ 158,018	\$ 103,936	\$ (18,858)	\$ 358,533
Cumulative interest rate sensitivity Gap	\$ (70,476)	\$ (30,867)	\$ (65,241)	\$ 115,437	\$ 273,455	\$ 377,391	\$ 358,533	
Cumulative rate sensitive asset t o r a t e s e n s i t i v e liabilities	92.2%	97.2%	95.2%	107.0%	114.9%	117.7%	116.0%	
Cumulative Gap as a % of e a r n i n g assets	-2.8%	-1.2%	-2.5%	4.4%	10.5%	14.5%	13.8%	

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in 15 C.F.R. 240.13a-15(e) or 15 C.F.R. 240.15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

Part II: Other Information

Item 1A. Risk Factors

There has been no material change in the risk factors disclosure from that contained in the Company's 2007 Form 10-K for the fiscal year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities. The Company made no purchases of its common stock during the three months ended September 30, 2008.

Item 6. Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Simmons First National Corporation (incorporated by reference to Exhibit 3.1 to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2007 (File No. 0-6253)).
3.2	Amended By-Laws of Simmons First National Corporation (incorporated by reference to Exhibit 3.2 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2007 (File No. 0-6253)).
10.1	Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

- 10.2 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.3 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust II (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.4 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.5 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.6 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust III (incorporated by reference to Exhibit 10.6 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.7 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.7 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.8 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.8 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

- 10.9 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.9 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.10 Simmons First National Corporation Long Term Incentive Plan, adopted March 24, 2008, and Notice of Grant of Long Term Incentive Award to J. Thomas May, David L. Bartlett, Marty Casteel, and Robert A. Fehlman (incorporated by reference to Exhibits 10.1 through 10.5 to Simmons First National Corporation's Current Report on Form 8-K for March 24, 2008 (File No. 0-6253)).
- 14 Code of Ethics, dated December 2003, for CEO, CFO, controller and other accounting officers (incorporated by reference to Exhibit 14 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification – J. Thomas May, Chairman and Chief Executive Officer.*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification – Robert A. Fehlman, Chief Financial Officer.*
- 32.1 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – J. Thomas May, Chairman and Chief Executive Officer.*
- 32.2 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Robert A. Fehlman, Chief Financial Officer.*

* Filed herewith.

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.

SIMMONS FIRST NATIONAL CORPORATION
(Registrant)

Date: November 7, 2008

/s/ J. Thomas May
J. Thomas May
Chairman and
Chief Executive Officer

Date: November 7, 2008

/s/ Robert A. Fehlman
Robert A. Fehlman
Executive Vice President and
Chief Financial Officer