

SIMMONS FIRST NATIONAL CORP  
Form 10-Q  
August 10, 2009  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended June 30, 2009

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

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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 July 23, 2009, was 14,039,211.



Simmons First National Corporation  
Quarterly Report on Form 10-Q  
June 30, 2009

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Part I: Financial Information  
Item 1. Financial Statements

Simmons First National Corporation  
Consolidated Balance Sheets  
June 30, 2009 and December 31, 2008

## ASSETS

| (In thousands, except share data)                     | June 30,<br>2009<br>(Unaudited) | December<br>31,<br>2008 |
|---|---------------------------------|-------------------------|
| Cash and non-interest bearing balances due from banks | \$ 53,956                       | \$ 71,801               |
| Interest bearing balances due from banks              | 52,321                          | 61,085                  |
| Federal funds sold                                    | 8,300                           | 6,650                   |
| Cash and cash equivalents                             | 114,577                         | 139,536                 |
| Investment securities                                 | 630,869                         | 646,134                 |
| Mortgage loans held for sale                          | 14,868                          | 10,336                  |
| Assets held in trading accounts                       | 6,051                           | 5,754                   |
| Loans   | 1,943,460                       | 1,933,074               |
| Allowance for loan losses                             | (25,032)                        | (25,841)                |
| Net loans   | 1,918,428                       | 1,907,233               |
| Premises and equipment                                | 78,649                          | 78,904                  |
| Foreclosed assets held for sale, net                  | 5,147                           | 2,995                   |
| Interest receivable                                   | 18,131                          | 20,930                  |
| Bank owned life insurance                             | 40,319                          | 39,617                  |
| Goodwill  | 60,605                          | 60,605                  |
| Core deposit premiums                                 | 2,172                           | 2,575                   |
| Other assets  | 8,015                           | 8,490                   |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 2,897,831</b>             | <b>\$ 2,923,109</b>     |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation  
Consolidated Balance Sheets  
June 30, 2009 and December 31, 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

| (In thousands, except share data)  | June 30,<br>2009<br>(Unaudited) | December<br>31,<br>2008 |
|--|---------------------------------|-------------------------|
| <b>LIABILITIES</b>   |                                 |                         |
| Non-interest bearing transaction accounts  | \$ 324,686                      | \$ 334,998              |
| Interest bearing transaction accounts and savings deposits   | 1,065,646                       | 1,026,824               |
| Time deposits  | 928,812                         | 974,511                 |
| Total deposits   | 2,319,144                       | 2,336,333               |
| Federal funds purchased and securities sold<br>under agreements to repurchase  | 98,146                          | 115,449                 |
| Short-term debt  | 2,647                           | 1,112                   |
| Long-term debt   | 162,726                         | 158,671                 |
| Accrued interest and other liabilities   | 22,953                          | 22,752                  |
| Total liabilities  | 2,605,616                       | 2,634,317               |
| <b>STOCKHOLDERS' EQUITY</b>  |                                 |                         |
| Preferred stock, \$0.01 par value; 40,040,000 shares authorized<br>and unissued at 2009; no shares authorized at 2008  | --                              | --                      |
| Common stock, Class A, \$0.01 par value; 60,000,000 shares authorized;<br>14,036,274 and 13,960,680 shares issued and outstanding<br>at June 30, 2009, and December 31, 2008, respectively | 140                             | 140                     |
| Surplus  | 40,824                          | 40,807                  |
| Undivided profits  | 250,070                         | 244,655                 |
| Accumulated other comprehensive income   |                                 |                         |
| Unrealized appreciation on available-for-sale securities,<br>net of income taxes of \$709 at 2009 and \$1,913 at 2008  | 1,181                           | 3,190                   |
| Total stockholders' equity   | 292,215                         | 288,792                 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 2,897,831</b>             | <b>\$ 2,923,109</b>     |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Income  
Three and Six Months Ended June 30, 2009 and 2008

| (In thousands, except per share data)   | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
|   | 2009<br>(Unaudited)            | 2008          | 2009<br>(Unaudited)          | 2008          |
| <b>INTEREST INCOME</b>  |                                |               |                              |               |
| Loans   | \$ 28,017                      | \$ 31,159     | \$ 56,251                    | \$ 64,264     |
| Federal funds sold  | 14                             | 285           | 15                           | 540           |
| Investment securities   | 5,256                          | 7,055         | 11,673                       | 13,624        |
| Mortgage loans held for sale  | 195                            | 113           | 353                          | 226           |
| Assets held in trading accounts   | 5                              | 41            | 10                           | 42            |
| Interest bearing balances due from banks                                      | 70                             | 487           | 148                          | 875           |
| <b>TOTAL INTEREST INCOME</b>  | <b>33,557</b>                  | <b>39,140</b> | <b>68,450</b>                | <b>79,571</b> |
| <b>INTEREST EXPENSE</b>   |                                |               |                              |               |
| Deposits  | 7,901                          | 13,905        | 17,404                       | 29,092        |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 182                            | 463           | 425                          | 1,385         |
| Short-term debt   | 6                              | 19            | 12                           | 38            |
| Long-term debt  | 1,748                          | 1,655         | 3,496                        | 3,166         |
| <b>TOTAL INTEREST EXPENSE</b>   | <b>9,837</b>                   | <b>16,042</b> | <b>21,337</b>                | <b>33,681</b> |
| <b>NET INTEREST INCOME</b>  | <b>23,720</b>                  | <b>23,098</b> | <b>47,113</b>                | <b>45,890</b> |
| Provision for loan losses   | 2,622                          | 2,214         | 4,760                        | 3,681         |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR LOAN LOSSES</b>                | <b>21,098</b>                  | <b>20,884</b> | <b>42,353</b>                | <b>42,209</b> |
| <b>NON-INTEREST INCOME</b>  |                                |               |                              |               |
| Trust income  | 1,223                          | 1,450         | 2,549                        | 3,098         |
| Service charges on deposit accounts   | 4,571                          | 3,691         | 8,298                        | 7,125         |
| Other service charges and fees  | 646                            | 621           | 1,392                        | 1,374         |
| Income on sale of mortgage loans, net of commissions                          | 1,361                          | 760           | 2,400                        | 1,482         |
| Income on investment banking, net of commissions                              | 675                            | 199           | 1,086                        | 648           |
| Credit card fees  | 3,597                          | 3,480         | 6,750                        | 6,653         |
| Premiums on sale of student loans   | 286                            | 507           | 286                          | 1,132         |
| Bank owned life insurance income  | 299                            | 425           | 677                          | 787           |
| Gain on mandatory partial redemption of Visa shares                           | --                             | --            | --                           | 2,973         |
| Other income  | 556                            | 587           | 1,235                        | 1,440         |
| Gain on sale of securities, net of taxes                                      | 90                             | --            | 90                           | --            |
| <b>TOTAL NON-INTEREST INCOME</b>  | <b>13,304</b>                  | <b>11,720</b> | <b>24,763</b>                | <b>26,712</b> |
| <b>NON-INTEREST EXPENSE</b>   |                                |               |                              |               |
| Salaries and employee benefits  | 14,674                         | 14,433        | 29,257                       | 28,641        |
| Occupancy expense, net  | 1,824                          | 1,804         | 3,713                        | 3,615         |
| Furniture and equipment expense   | 1,527                          | 1,472         | 3,070                        | 2,962         |
| Other real estate and foreclosure expense                                     | 90                             | 87            | 160                          | 129           |
| Deposit insurance   | 2,557                          | 113           | 3,090                        | 201           |

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|                            |          |          |           |           |
|----------------------------|----------|----------|-----------|-----------|
| Other operating expenses   | 6,279    | 6,300    | 13,319    | 11,791    |
| TOTAL NON-INTEREST EXPENSE | 26,951   | 24,209   | 52,609    | 47,339    |
| INCOME BEFORE INCOME TAXES | 7,451    | 8,395    | 14,507    | 21,582    |
| Provision for income taxes | 1,942    | 2,401    | 3,762     | 6,772     |
| NET INCOME                 | \$ 5,509 | \$ 5,994 | \$ 10,745 | \$ 14,810 |
| BASIC EARNINGS PER SHARE   | \$ 0.40  | \$ 0.43  | \$ 0.77   | \$ 1.06   |
| DILUTED EARNINGS PER SHARE | \$ 0.39  | \$ 0.42  | \$ 0.76   | \$ 1.05   |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Cash Flows  
Six Months Ended June 30, 2009 and 2008

| (In thousands)   | June 30,<br>2009<br>(Unaudited) | June 30,<br>2008 |
|--|---------------------------------|------------------|
| <b>OPERATING ACTIVITIES</b>  |                                 |                  |
| Net income   | \$ 10,745                       | \$ 14,810        |
| Items not requiring (providing) cash   |                                 |                  |
| Depreciation and amortization  | 2,943                           | 2,810            |
| Provision for loan losses  | 4,760                           | 3,681            |
| Gain on mandatory partial redemption of Visa shares                                      | --                              | (2,973)          |
| Gain on sale of investment securities  | (144)                           | --               |
| Net (amortization) accretion of investment securities                                    | (101)                           | 141              |
| Stock-based compensation expense   | 344                             | 382              |
| Deferred income taxes  | 861                             | 233              |
| Bank owned life insurance income   | (677)                           | (787)            |
| Changes in   |                                 |                  |
| Interest receivable  | 2,799                           | 482              |
| Mortgage loans held for sale   | (4,532)                         | (484)            |
| Assets held in trading accounts  | (297)                           | 4,654            |
| Other assets   | (1,151)                         | (1,280)          |
| Accrued interest and other liabilities   | (1,424)                         | (3,104)          |
| Income taxes payable   | 764                             | 683              |
| Net cash provided by operating activities  | 14,890                          | 19,248           |
| <b>INVESTING ACTIVITIES</b>  |                                 |                  |
| Net collections of loans   | (20,437)                        | (65,586)         |
| Purchases of premises and equipment, net   | (2,285)                         | (5,232)          |
| Proceeds from sale of foreclosed assets  | 2,330                           | 3,669            |
| Proceeds from mandatory partial redemption of Visa shares                                | --                              | 2,973            |
| Sales (purchases) of short-term investment securities                                    | 23,879                          | (48,525)         |
| Proceeds from sale of available-for-sale securities                                      | 194                             | --               |
| Proceeds from maturities of available-for-sale securities                                | 537,302                         | 209,200          |
| Purchases of available-for-sale securities   | (382,136)                       | (262,017)        |
| Proceeds from maturities of held-to-maturity securities                                  | 72,994                          | 24,325           |
| Purchases of held-to-maturity securities   | (238,732)                       | (20,468)         |
| Purchases of bank owned life insurance   | (25)                            | (25)             |
| Net cash used in investing activities  | (6,916)                         | (161,686)        |
| <b>FINANCING ACTIVITIES</b>  |                                 |                  |
| Net (decrease) increase in deposits  | (17,189)                        | 180,126          |
| Net change in short-term debt  | 1,535                           | 2,772            |
| Dividends paid   | (5,330)                         | (5,297)          |
| Proceeds from issuance of long-term debt   | 7,266                           | 78,047           |
| Repayment of long-term debt  | (3,211)                         | (9,429)          |
| Net change in federal funds purchased and securities sold under agreements to repurchase | (17,303)                        | (13,252)         |
| Shares issued (exchanged) under stock compensation plans, net                            | 1,299                           | 773              |
| Repurchase of common stock   | --                              | (1,280)          |



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|   |            |            |
|---|------------|------------|
| Net cash (used in) provided by financing activities | (32,933)   | 232,460    |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS    | (24,959)   | 90,022     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD      | 139,536    | 110,230    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD            | \$ 114,577 | \$ 200,252 |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2009 and 2008

| (In thousands, except share data)  | Common<br>Stock | Surplus   | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Undivided<br>Profits | Total      |
|--|-----------------|-----------|--|----------------------|------------|
| Balance, December 31, 2007   | \$ 139          | \$ 41,019 | \$ 1,728   | \$ 229,520           | \$ 272,406 |
| Cumulative effect of adoption of a new<br>accounting principle on January 1, 2008 (Note 12)                    | --              | --        | --   | (1,174)              | (1,174)    |
| Comprehensive income   |                 |           |  |                      |            |
| Net income   | --              | --        | --   | 14,810               | 14,810     |
| Change in unrealized appreciation on<br>available-for-sale securities, net of<br>income tax credits of \$1,349 | --              | --        | (2,249)  | --                   | (2,249)    |
| Comprehensive income   |                 |           |  |                      | 12,561     |
| Stock issued as bonus shares – 14,640<br>shares  | --              | 444       | --   | --                   | 444        |
| Stock issued for employee stock<br>purchase plan – 5,359 shares  | --              | 135       | --   | --                   | 135        |
| Exercise of stock options – 80,577 shares  | 1               | 1,005     | --   | --                   | 1,006      |
| Stock granted under<br>stock-based compensation plans  | --              | 162       | --   | --                   | 162        |
| Securities exchanged under stock option<br>plan  | (1)             | (811)     | --   | --                   | (812)      |
| Repurchase of common stock – 45,180<br>shares  | --              | (1,280)   | --   | --                   | (1,280)    |
| Cash dividends declared – \$0.38 per share   | --              | --        | --   | (5,297)              | (5,297)    |
| Balance, June 30, 2008 (Unaudited)   | 139             | 40,674    | (521)  | 237,859              | 278,151    |
| Comprehensive income   |                 |           |  |                      |            |
| Net income   | --              | --        | --   | 12,100               | 12,100     |
| Change in unrealized appreciation on<br>available-for-sale securities, net of<br>income taxes of \$2,226       | --              | --        | 3,711  | --                   | 3,711      |
| Comprehensive income   |                 |           |  |                      | 15,811     |
| Stock issued as bonus shares – 2,850<br>shares   | --              | 86        | --   | --                   | 86         |
| Exercise of stock options – 16,920 shares  | --              | 202       | --   | --                   | 202        |
| Stock granted under<br>stock-based compensation plans  | --              | 7         | --   | --                   | 7          |
| Securities exchanged under stock option<br>plan  | 1               | (162)     | --   | --                   | (161)      |
| Cash dividends declared – \$0.38 per share   | --              | --        | --   | (5,304)              | (5,304)    |
| Balance, December 31, 2008   | 140             | 40,807    | 3,190  | 244,655              | 288,792    |
| Comprehensive income   |                 |           |  |                      |            |
| Net income   | --              | --        | --   | 10,745               | 10,745     |

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|  |        |           |          |            |            |
|--|--------|-----------|----------|------------|------------|
| Change in unrealized appreciation on available-for-sale securities, net of income tax credits of \$1,205 | --     | --        | (2,009)  | --         | (2,009)    |
| Comprehensive income   |        |           |          |            | 8,736      |
| Stock issued as bonus shares – 27,915 shares   | --     | 702       | --       | --         | 702        |
| Non-vested bonus shares  | --     | (1,374)   | --       | --         | (1,374)    |
| Stock issued for employee stock purchase plan – 5,823 shares   | --     | 141       | --       | --         | 141        |
| Exercise of stock options – 45,200 shares  | --     | 551       | --       | --         | 551        |
| Stock granted under stock-based compensation plans   | --     | 92        | --       | --         | 92         |
| Securities exchanged under stock option plan   | --     | (95)      | --       | --         | (95)       |
| Cash dividends declared – \$0.38 per share   | --     | --        | --       | (5,330)    | (5,330)    |
| Balance, June 30, 2009 (Unaudited)   | \$ 140 | \$ 40,824 | \$ 1,181 | \$ 250,070 | \$ 292,215 |

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, 2008, 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 2008 filed with the Securities and Exchange Commission.

Subsequent events have been evaluated through August 10, 2009, which is the date the financial statements were issued.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 5. SFAS 160 amends Accounting Research Bulletin ("ARB") No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 was effective on January 1, 2009, and did not have a material impact on the Company's ongoing financial position or results of operations.

In March 2008, FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS 161 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to amend and enhance the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair values of derivative instruments and their gains and losses and disclosures about credit-risk-related contingent features of the derivative instruments and their potential impact on an entity's

liquidity. SFAS 161 was effective on January 1, 2009, and did not have a material impact on the Company's ongoing financial position or results of operations.

In May 2009, FASB issued SFAS No. 165, Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for the Company's financial statements for periods ending after June 15, 2009, and did not have a significant impact on the Company's ongoing financial position or results of operations.

In April 2009, the FASB finalized four FASB Staff Positions ("FSPs") regarding the accounting treatment for investments, including mortgage-backed securities. These FSPs changed the method for determining if an other-than-temporary impairment ("OTTI") exists and the amount of OTTI to be recorded through an entity's income statement. The changes brought about by the FSPs are intended to provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The four FSPs are as follows:

- FSP SFAS 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active clarifies the application of SFAS 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.
- FSP SFAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157.
- FSP SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-temporary impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.
- FSP SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

These staff positions were effective for financial statements issued for periods ending after June 15, 2009, and did not have a material impact on the Company's ongoing financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2008 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 six months ended June 30, 2009 and 2008.

| (In thousands, except per share data)    | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--|--------------------------------|----------|------------------------------|-----------|
|  | 2009                           | 2008     | 2009                         | 2008      |
| Net income                               | \$ 5,509                       | \$ 5,994 | \$ 10,745                    | \$ 14,810 |
| Average common shares outstanding        | 14,022                         | 13,940   | 14,007                       | 13,935    |
| Average potential dilutive common shares | 86                             | \$ 153   | 86                           | 153       |
| Average diluted common shares            | 14,108                         | 14,093   | 14,093                       | 14,088    |
| Basic earnings per share                 | \$ 0.40                        | \$ 0.43  | \$ 0.77                      | \$ 1.06   |
| Diluted earnings per share               | \$ 0.39                        | \$ 0.42  | \$ 0.76                      | \$ 1.05   |

Stock options to purchase 158,150 and 49,190 shares for the three and six months ended June 30, 2009 and 2008, respectively, were not included in the earnings per share calculation because the exercise price exceeded the average market price.

## 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)                   | June 30,<br>2009  |                              |                                 |                            | December 31,<br>2008 |                              |                                 |                            |
|----------------------------------|-------------------|------------------------------|---------------------------------|----------------------------|----------------------|------------------------------|---------------------------------|----------------------------|
|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Estimated<br>Fair<br>Value | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Estimated<br>Fair<br>Value |
| <b>Held-to-Maturity</b>          |                   |                              |                                 |                            |                      |                              |                                 |                            |
| U.S. Government agencies         | \$ 149,698        | \$ 367                       | \$ (549)                        | \$ 149,516                 | \$ 18,000            | \$ 629                       | \$ --                           | \$ 18,629                  |
| Mortgage-backed securities       | 98                | 2                            | --                              | 100                        | 109                  | 2                            | --                              | 111                        |
| State and political subdivisions | 202,195           | 1,778                        | (1,498)                         | 202,475                    | 168,262              | 1,264                        | (1,876)                         | 167,650                    |
| Other securities                 | 930               | 1                            | (1)                             | 930                        | 930                  | --                           | --                              | 930                        |
|                                  | \$ 352,921        | \$ 2,148                     | \$ (2,048)                      | \$ 353,021                 | \$ 187,301           | \$ 1,895                     | \$ (1,876)                      | \$ 187,320                 |
| <b>Available-for-Sale</b>        |                   |                              |                                 |                            |                      |                              |                                 |                            |
| U.S. Treasury                    | \$ 4,992          | \$ 66                        | \$ --                           | \$ 5,058                   | \$ 5,976             | \$ 113                       | \$ --                           | \$ 6,089                   |
| U.S. Government agencies         | 193,806           | 1,718                        | (288)                           | 195,236                    | 346,585              | 5,444                        | (868)                           | 351,161                    |
| Mortgage-backed securities       | 2,903             | 43                           | (10)                            | 2,936                      | 2,909                | 37                           | (67)                            | 2,879                      |
| State and political subdivisions | 485               | 1                            | --                              | 486                        | 635                  | 2                            | --                              | 637                        |
| Other securities                 | 73,872            | 363                          | (3)                             | 74,232                     | 97,625               | 448                          | (6)                             | 98,067                     |
|                                  | \$ 276,058        | \$ 2,191                     | \$ (301)                        | \$ 277,948                 | \$ 453,730           | \$ 6,044                     | \$ (941)                        | \$ 458,833                 |

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. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses. 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.



As of June 30, 2009, securities with unrealized losses, segregated by length of impairment, were as follows:

| (In thousands)                   | Less Than 12 Months        |                               | 12 Months or More          |                               | Total                      |                               |
|----------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
|                                  | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses |
| <b>Held-to-Maturity</b>          |                            |                               |                            |                               |                            |                               |
| U.S. Government agencies         | \$ 125,149                 | \$ 549                        | \$ --                      | \$ --                         | \$ 125,149                 | \$ 549                        |
| State and political subdivisions | 54,825                     | 1,150                         | 5,829                      | 349                           | 60,654                     | 1,499                         |
| <b>Total</b>                     | <b>\$ 179,974</b>          | <b>\$ 1,699</b>               | <b>\$ 5,829</b>            | <b>\$ 349</b>                 | <b>\$ 185,803</b>          | <b>\$ 2,048</b>               |
| <b>Available-for-Sale</b>        |                            |                               |                            |                               |                            |                               |
| U.S. Government agencies         | \$ 46,249                  | \$ 288                        | \$ --                      | \$ --                         | \$ 46,249                  | \$ 288                        |
| Mortgage-backed securities       | 74                         | 1                             | 500                        | 9                             | 574                        | 10                            |
| Other securities                 | --                         | --                            | 2                          | 3                             | 2                          | 3                             |
| <b>Total</b>                     | <b>\$ 46,323</b>           | <b>\$ 289</b>                 | <b>\$ 502</b>              | <b>\$ 12</b>                  | <b>\$ 46,825</b>           | <b>\$ 301</b>                 |

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of June 30, 2009, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2009, management believes the impairments detailed in the table above are temporary.

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$429,843,000 at June 30, 2009, and \$435,120,000 at December 31, 2008.

The book value of securities sold under agreements to repurchase amounted to \$78,816,000 and \$87,514,000 for June 30, 2009, and December 31, 2008, respectively.

Income earned on securities for the three months ended June 30, 2009 and 2008, is as follows:

| (In thousands)     | 2009      | 2008      |
|--------------------|-----------|-----------|
| Taxable            |           |           |
| Held-to-maturity   | \$ 828    | \$ 813    |
| Available-for-sale | 7,148     | 9,698     |
| Non-taxable        |           |           |
| Held-to-maturity   | 3,683     | 3,094     |
| Available-for-sale | 14        | 19        |
| Total              | \$ 11,673 | \$ 13,624 |

Maturities of investment securities at June 30, 2009, are as follows:

| (In thousands)               | Held-to-Maturity |            | Available-for-Sale |            |
|------------------------------|------------------|------------|--------------------|------------|
|                              | Amortized Cost   | Fair Value | Amortized Cost     | Fair Value |
| One year or less             | \$ 6,667         | \$ 6,687   | \$ 7,602           | \$ 7,671   |
| After one through five years | 182,018          | 182,569    | 39,093             | 39,301     |
| After five through ten years | 90,762           | 90,893     | 154,696            | 155,927    |
| After ten years              | 73,474           | 72,872     | 795                | 818        |
| Other securities             | --               | --         | 73,872             | 74,231     |
| Total                        | \$ 352,921       | \$ 353,021 | \$ 276,058         | \$ 277,948 |

Gross realized gains of \$144,000 were recognized from the sale of securities for the six-month period ended June 30, 2009, with no realized gains for the six-month period ended June 30, 2008. There were no realized losses over the same periods.

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)                                      | June 30,<br>2009    | December<br>31,<br>2008 |
|---|---------------------|-------------------------|
| Consumer  |                     |                         |
| Credit cards  | \$ 168,897          | \$ 169,615              |
| Student loans                                       | 139,928             | 111,584                 |
| Other consumer                                      | 142,040             | 138,145                 |
| Total consumer                                      | 450,865             | 419,344                 |
| Real Estate   |                     |                         |
| Construction  | 197,336             | 224,924                 |
| Single family residential                           | 401,447             | 409,540                 |
| Other commercial                                    | 601,217             | 584,843                 |
| Total real estate                                   | 1,200,000           | 1,219,307               |
| Commercial  |                     |                         |
| Commercial  | 182,064             | 192,496                 |
| Agricultural  | 96,526              | 88,233                  |
| Financial institutions                              | 3,598               | 3,471                   |
| Total commercial                                    | 282,188             | 284,200                 |
| Other   | 10,407              | 10,223                  |
| <b>Total loans before allowance for loan losses</b> | <b>\$ 1,943,460</b> | <b>\$ 1,933,074</b>     |

As of June 30, 2009, credit card loans, which are unsecured, were \$168,897,000 or 8.7% of total loans, versus \$169,615,000, or 8.8% of total loans at December 31, 2008. 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 June 30, 2009, and December 31, 2008, impaired loans, net of Government guarantees, totaled \$36,100,000 and \$15,689,000, respectively. Allocations of the allowance for loan losses relative to impaired loans were \$5,685,000 at June 30, 2009, and \$4,238,000 at December 31, 2008. During the second quarter of 2009, the Company made adjustments to its methodology in the evaluation of the collectability of loans, which added quantitative factors to the internal and external influences used in determining the credit quality of loans and the allocation of the allowance. This adjustment in methodology resulted in an addition to impaired loans from classified loans and a redistribution of allocated and unallocated reserves. Approximately \$242,000 and \$60,000 of interest income was recognized on average impaired loans of \$27,203,000 and \$14,264,000 as of June 30, 2009 and 2008, respectively. Interest recognized on impaired loans on a cash basis during the first six months of 2009 and 2008 was immaterial.

Transactions in the allowance for loan losses are as follows:

| (In thousands)  | 2009      | 2008      |
|---|-----------|-----------|
| Balance, beginning of year  | \$ 25,841 | \$ 25,303 |
| <b>Additions</b>  |           |           |
| Provision charged to expense  | 4,760     | 3,681     |
|   | 30,601    | 28,984    |
| <b>Deductions</b>   |           |           |
| Losses charged to allowance, net of recoveries of \$2,104 and \$923 for the first six months of 2009 and 2008, respectively | 5,569     | 3,232     |
| Balance, June 30  | \$ 25,032 | 25,752    |
| <b>Additions</b>  |           |           |
| Provision charged to expense  |           | 4,965     |
|   |           | 30,717    |
| <b>Deductions</b>   |           |           |
| Losses charged to allowance, net of recoveries of \$1,215 for the last six months of 2008                                   |           | 4,876     |
| Balance, end of year  |           | \$ 25,841 |

#### 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 June 30, 2009, and December 31, 2008, were as follows:

| (In thousands)            | June 30,<br>2009 | December<br>31,<br>2008 |
|---------------------------|------------------|-------------------------|
| Gross carrying amount     | \$ 6,822         | \$ 6,822                |
| Accumulated amortization  | (4,650)          | (4,247)                 |
| Net core deposit premiums | \$ 2,172         | \$ 2,575                |

Core deposit premium amortization expense recorded for the six months ended June 30, 2009 and 2008, was \$403,000 and \$404,000, respectively. The Company's estimated amortization expense for the remainder of 2009 is \$399,000, and for each of the following four years is: 2010 – \$702,000; 2011 – \$451,000; 2012 – \$321,000; and 2013 – \$268,000.

## NOTE 5: TIME DEPOSITS

Time deposits include approximately \$396,612,000 and \$418,394,000 of certificates of deposit of \$100,000 or more at June 30, 2009, and December 31, 2008, respectively.

## NOTE 6: INCOME TAXES

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

| (In thousands)                 | June 30,<br>2009 | June 30,<br>2008 |
|--------------------------------|------------------|------------------|
| Income taxes currently payable | \$ 2,901         | \$ 6,539         |
| Deferred income taxes          | 861              | 233              |
| Provision for income taxes     | \$ 3,762         | \$ 6,772         |

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

| (In thousands)   | June 30,<br>2009 | December<br>31,<br>2008 |
|--|------------------|-------------------------|
| Deferred tax assets  |                  |                         |
| Allowance for loan losses  | \$ 8,826         | \$ 9,057                |
| Valuation of foreclosed assets   | 63               | 63                      |
| Deferred compensation payable  | 1,497            | 1,451                   |
| FHLB advances  | 10               | 14                      |
| Vacation compensation  | 877              | 866                     |
| Loan interest  | 88               | 88                      |
| Other  | 328              | 276                     |
| Total deferred tax assets  | 11,689           | 11,815                  |
| Deferred tax liabilities   |                  |                         |
| Accumulated depreciation   | (359)            | (406)                   |
| Deferred loan fee income and expenses, net                                   | (1,406)          | (1,229)                 |
| FHLB stock dividends   | (591)            | (586)                   |
| Goodwill and core deposit premium amortization                               | (9,243)          | (8,643)                 |
| Available-for-sale securities  | (709)            | (1,913)                 |
| Other  | (1,019)          | (1,019)                 |
| Total deferred tax liabilities   | (13,327)         | (13,796)                |
| Net deferred tax liabilities included in other liabilities on balance sheets | \$ (1,638)       | \$ (1,981)              |

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

| (In thousands)                                  | June 30,<br>2009 | June 30,<br>2008 |
|---|------------------|------------------|
| Computed at the statutory rate (35%)            | \$ 5,046         | \$ 7,554         |
| (less gain on sale of securities, net of taxes) |                  |                  |
| Increase (decrease) in taxes resulting from:    |                  |                  |
| State income taxes, net of federal tax benefit  | 116              | 339              |
| Tax exempt interest income                      | (1,359)          | (1,158)          |
| Tax exempt earnings on BOLI                     | (232)            | (276)            |
| Other differences, net                          | 191              | 313              |
| Actual tax provision                            | \$ 3,762         | \$ 6,772         |

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 2005 tax year and forward. The Company's various state income tax returns are generally open from the 2005 and later tax return years based on individual state statute of limitations.

## NOTE 7: SHORT-TERM AND LONG-TERM DEBT

Long-term debt at June 30, 2009, and December 31, 2008, consisted of the following components:

| (In thousands)  | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| FHLB advances, due 2009 to 2033, 2.02% to 8.41%<br>secured by residential real estate loans   | \$ 131,796       | \$ 127,741              |
| Trust preferred securities, due 12/30/2033,<br>fixed at 8.25%, callable without penalty   | 10,310           | 10,310                  |
| Trust preferred securities, due 12/30/2033,<br>floating rate of 2.80% above the three-month LIBOR<br>reset quarterly, callable without penalty  | 10,310           | 10,310                  |
| Trust preferred securities, due 12/30/2033,<br>fixed rate of 6.97% through 2010, thereafter,<br>at a floating rate of 2.80% above the three-month<br>LIBOR rate, reset quarterly, callable<br>in 2010 without penalty | 10,310           | 10,310                  |
|   | \$ 162,726       | \$ 158,671              |

At June 30, 2009, 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 June 30, 2009, are:

| (In thousands) | Year       | Annual<br>Maturities |
|----------------|------------|----------------------|
|                | 2009       | \$ 4,310             |
|                | 2010       | 28,908               |
|                | 2011       | 43,653               |
|                | 2012       | 6,220                |
|                | 2013       | 11,575               |
|                | Thereafter | 68,060               |
|                | Total      | \$ 162,726           |





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 the following 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. A pretrial was conducted on July 24, 2008. Several dispositive motions previously filed were heard on April 9, 2009, and arguments were presented on June 22, 2009. On July 10, 2009, the Court issued its Order dismissing five claims, leaving only a single claim for further pursuit in this matter. Jury trial is set for two weeks beginning on November 2, 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

At a special shareholders' meeting held on February 27, 2009, the Company's shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of Preferred Stock, \$0.01 par value, of the Company. The shareholders also approved the issuance of common stock warrants for the purchase of up to 500,000 shares of the Company's Class A common stock with the exercise price and number of shares subject to final computation in accordance with the rules of the U.S. Department of the Treasury ("Treasury") Troubled Asset Relief Program – Capital Purchase Program ("CPP").

The Company notified the Treasury on July 7, 2009, that it will not participate in the CPP; therefore, the Company will not issue preferred stock or common stock warrants to the Treasury. For further discussion on the CPP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Overview – U.S. Treasury's Capital Purchase Program" included elsewhere in this report.

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.

Effective July 1, 2008, the Company made a strategic decision to temporarily suspend stock repurchases. This decision was made to preserve capital at the parent company due to the lack of liquidity in the credit markets and the uncertainties in the overall economy.

#### 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 June 30, 2009, the bank subsidiaries had approximately \$10.7 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 June 30, 2009, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's "total risk-based capital" ratio was 14.84% at June 30, 2009.

#### 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 the 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 six months ended June, 2009:

|                            | Stock Options<br>Outstanding |  | Non-Vested Stock<br>Awards Outstanding |   |
|----------------------------|------------------------------|--|--|---|
|                            | Number<br>of<br>Shares       | Weighted<br>Average<br>Exercise<br>Price | Number<br>of<br>Shares                 | Weighted<br>Average<br>Grant-Date<br>Fair-Value |
| Balance, January 1, 2009   | 451,673                      | \$ 20.46                                 | 36,925                                 | \$ 28.28  |
| Granted                    | --                           | --                                       | 27,915                                 | 25.15   |
| Stock Options Exercised    | (45,200)                     | 12.20                                    | --                                     | --  |
| Stock Awards Vested        | --                           | --                                       | (11,952)                               | 26.97   |
| Forfeited/Expired          | (15,190)                     | 17.06                                    | --                                     | --  |
| Balance, June 30, 2009     | 391,283                      | \$ 21.54                                 | 52,888                                 | \$ 26.92  |
| Exercisable, June 30, 2009 | 305,811                      | \$ 19.44                                 |  |   |

The following table summarizes information about stock options under the plans outstanding at June 30, 2009:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |  |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|--|
|                          | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |  |
| \$10.56 to \$12.13       | 132,080             | 1.8 years                                   | \$ 12.10                        | 132,080             | \$ 12.10                        |  |
| \$15.35 to \$16.32       | 7,153               | 2.4 years                                   | \$ 15.99                        | 7,153               | \$ 15.99                        |  |
| \$23.78 to \$24.50       | 93,900              | 5.4 years                                   | \$ 24.05                        | 93,900              | \$ 24.05                        |  |
| \$26.19 to \$27.67       | 56,940              | 6.8 years                                   | \$ 26.20                        | 36,140              | \$ 26.21                        |  |
| \$28.42 to \$28.42       | 53,060              | 7.9 years                                   | \$ 28.42                        | 26,780              | \$ 28.42                        |  |
| \$30.31 to \$30.31       | 48,150              | 8.9 years                                   | \$ 30.31                        | 9,758               | \$ 30.31                        |  |

Stock-based compensation expense totaled \$343,909 and \$381,708 during the six months ended June 30, 2009 and 2008, 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 \$509,143 at June 30, 2009. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.63 years. Unrecognized stock-based compensation expense related to non-vested stock awards was \$1,374,365 at June 30, 2009. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.80 years.

Aggregate intrinsic values of outstanding stock options and exercisable stock options at June 30, 2009, were \$2.0 million and \$2.2 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 \$26.72 as of June 30, 2009, and the exercise price multiplied by the number of options outstanding. The total intrinsic values of stock options exercised during the six months ended June 30, 2009 and 2008, were \$656,000 and \$1.2 million, respectively.

#### NOTE 12: ADDITIONAL CASH FLOW INFORMATION

| (In thousands)   | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2009                      | 2008      |
| Interest paid  | \$ 22,411                 | \$ 34,734 |
| Income taxes paid  | 2,191                     | 6,526     |
| Transfers of loans to other real estate                                  | 4,482                     | 4,480     |
| Post-retirement benefit liability established upon adoption of EITF 06-4 | --                        | 1,174     |

## NOTE 13: OTHER OPERATING EXPENSE

Other operating expenses consist of the following:

| (In thousands)                        | Three Months Ended |          | Six Months Ended |           |
|---------------------------------------|--------------------|----------|------------------|-----------|
|                                       | June 30,<br>2009   | 2008     | June 30,<br>2009 | 2008      |
| Professional services                 | \$ 598             | \$ 570   | \$ 1,535         | \$ 1,329  |
| Postage                               | 556                | 581      | 1,179            | 1,181     |
| Telephone                             | 522                | 412      | 1,051            | 892       |
| Credit card expense                   | 1,225              | 1,143    | 2,498            | 2,282     |
| Operating supplies                    | 351                | 415      | 747              | 875       |
| Amortization of core deposit premiums | 202                | 202      | 403              | 404       |
| Visa litigation liability reversal    | --                 | --       | --               | (1,220)   |
| Other expense                         | 2,825              | 2,977    | 5,906            | 6,048     |
| Total other operating expenses        | \$ 6,279           | \$ 6,300 | \$ 13,319        | \$ 11,791 |

## 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 June 30, 2009, the Company had outstanding commitments to extend credit aggregating approximately \$313,311,000 and \$438,814,000 for credit card commitments and other loan commitments, respectively. At December 31, 2008, the Company had outstanding commitments to extend credit aggregating approximately \$247,969,000 and \$422,127,000 for credit card commitments and other loan commitments, respectively.

Standby 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 \$10,081,000 and \$10,186,000 at June 30, 2009, and December 31,

2008, respectively, with terms ranging from 90 days to three years. At June 30, 2009, the Company had no deferred revenue under standby letter of credit agreements. At December 31, 2008, the Company's deferred revenue under standby letter of credit agreements was approximately \$52,000.

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 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 that 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.

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-sale securities – 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. The Company's investment in a Government money market mutual fund (the "AIM Fund") is reported at fair value utilizing Level 1 inputs. The remainder of the Company's available-for-sale securities are reported at fair value utilizing Level 2 inputs.

Assets held in trading accounts – The Company's trading account investment in the AIM Fund is reported at fair value utilizing Level 1 inputs. The remainder of the Company's assets held in trading accounts are reported at fair value utilizing Level 2 inputs.

The following table sets forth the Company's financial assets and liabilities by level within the fair value hierarchy that were measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008.

| (In thousands)                  | Fair Value Measurements Using |  |  |  |
|---------------------------------|-------------------------------|--|--|--|
|                                 | Fair Value                    | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| June 30, 2009                   |                               |  |  |  |
| Available-for-sale securities   | \$ 277,948                    | \$ 61,657  | \$ 216,291   | \$ --  |
| Assets held in trading accounts | 6,051                         | 5,115  | 936  | --   |
| December 31, 2008               |                               |  |  |  |
| Available-for-sale securities   | 458,833                       | 85,536   | 373,297  | --   |
| Assets held in trading accounts | 5,754                         | 4,850  | 904  | --   |

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and liabilities measured at fair value on a nonrecurring basis include the following:

**Impaired loans** – 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 Government guarantees and specific allowance, were \$30,415,000 as of June 30, 2009. This valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

**Mortgage loans held for sale** – Mortgage loans held for sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analyses with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held for sale are classified as Level 3. At June 30, 2009, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

The following table sets forth the Company's financial assets and liabilities by level within the fair value hierarchy that were measured at fair value on a non-recurring basis as of June 30, 2009 and December 31, 2008.

| (In thousands)    | Fair Value | Fair Value Measurements Using  |   |  |
|-------------------|------------|--|---|--|
|                   |            | Quoted Prices<br>in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| June 30, 2009     |            |  |   |  |
| Impaired loans    | \$ 30,415  | \$ --  | \$ --   | \$ 30,415  |
| December 31, 2008 |            |  |   |  |
| Impaired loans    | 11,451     | --   | --  | 11,451   |

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure in annual financial statements of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, posted April 9, 2009, amends SFAS 107 to require disclosures about fair value of financial instruments for interim reporting periods. The FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents – The carrying amount for cash and cash equivalents approximates fair value.

Held-to-maturity securities – Fair values for held-to-maturity securities equal quoted market prices, if available. If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities.

Loans – The fair value of loans is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits – The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Federal Funds purchased, securities sold under agreement to repurchase and short-term debt – The carrying amount for Federal funds purchased, securities sold under agreement to repurchase and short-term debt are a reasonable estimate of fair value.

Long-term debt – Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.





Commitments to Extend Credit, Letters of Credit and Lines of Credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The following table represents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows. This method involves significant judgments by management considering the uncertainties of economic conditions and other factors inherent in the risk management of financial instruments. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

| (In thousands)   | Carrying<br>Amount | 30-Jun-09     | Carrying<br>Amount | 31-Dec-08     |
|--|--------------------|---------------|--------------------|---------------|
|  |                    | Fair<br>Value |                    | Fair<br>Value |
| <b>Financial assets</b>  |                    |               |                    |               |
| Cash and cash equivalents  | \$ 114,577         | \$ 114,577    | \$ 139,536         | \$ 139,356    |
| Held-to-maturity securities  | 352,921            | 353,021       | 187,301            | 187,320       |
| Mortgage loans held for sale   | 14,868             | 14,868        | 10,336             | 10,336        |
| Interest receivable  | 18,131             | 18,131        | 20,930             | 20,930        |
| Loans, net   | 1,918,428          | 1,914,080     | 1,907,233          | 1,904,421     |
| <b>Financial liabilities</b>   |                    |               |                    |               |
| Non-interest bearing transaction accounts                                  | 324,686            | 324,686       | 334,998            | 334,998       |
| Interest bearing transaction accounts and savings deposits                 | 1,065,646          | 1,065,646     | 1,026,824          | 1,026,824     |
| Time deposits  | 928,812            | 932,650       | 974,511            | 977,789       |
| Federal funds purchased and securities sold under agreements to repurchase | 98,146             | 98,146        | 115,449            | 115,449       |
| Short-term debt  | 2,647              | 2,647         | 1,112              | 1,112         |
| Long-term debt   | 162,726            | 176,983       | 158,671            | 173,046       |
| Interest payable   | 3,505              | 3,505         | 4,579              | 4,579         |

The fair value of commitments to extend credit and letters of credit is not presented since management believes the fair value to be insignificant.

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 June 30, 2009, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2009 and 2008 and statements of stockholders' equity and cash flows for the six-month periods ended June 30, 2009 and 2008. 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, 2008, 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 23, 2009, 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, 2008, 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  
August 10, 2009

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

OVERVIEW

Simmons First National Corporation recorded net income of \$5,509,000 for the three-months ended June 30, 2009, a \$485,000 decrease from the same period in 2008. Diluted earnings per share decreased \$0.03, or 7.1%, to \$0.39 for the three-months ended June 30, 2009. The decrease in earnings is primarily attributable to \$2.4 million increase in deposit insurance as a result of the FDIC's industry-wide special assessment and increases in its general assessment. The after-tax impact to quarterly earnings from the deposit insurance increases was \$1.5 million, or \$0.11 diluted earnings per share. See Non-Interest Expense section for additional information on deposit insurance.

Net income for the six-month period ended June 30, 2009, was \$10,745,000, or \$0.76 diluted earnings per share, compared to \$14,810,000, or \$1.05 per share for the same period in 2008. 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 six-months ended June 30, 2009 and 2008, were \$10,745,000 and \$12,252,000, respectively. Diluted core earnings per share for these same periods were \$0.76 and \$0.87, respectively, a decrease of \$0.11 per share, or 12.64%.

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.

The allowance for loan losses as a percent of total loans was 1.29% as of June 30, 2009. Non-performing loans equaled 1.02% of total loans. Non-performing assets were 0.86% of total assets, up 22 basis points from year end. The allowance for loan losses was 126% of non-performing loans. The Company's annualized net charge-offs to total loans for the second quarter of 2009 was 0.44%. Excluding credit cards, the annualized net charge-offs to total loans for the second quarter was 0.22%. Annualized net credit card charge-offs to total credit card loans for the second quarter were 2.83%, an increase of 19 basis points from the previous quarter, yet more than 750 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 June 30, 2009, were \$2.898 billion, a decrease of \$25.3 million, or 0.9%, from December 31, 2008. Stockholders' equity as of June 30, 2008 was \$292.2 million, an increase of \$3.4 million, or approximately 1.2%, from December 31, 2008.

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 47 communities.

## U.S. Treasury's Capital Purchase Program

On October 29, 2008, the U.S. Department of the Treasury ("Treasury") gave the Company approval to participate in the Troubled Asset Relief Program – Capital Purchase Program ("CPP"), designed to provide additional capital to healthy financial institutions, thereby increasing confidence in our banking industry and encouraging increased lending. On January 6, 2009, the Treasury amended its approval to allow the Company to participate in the CPP at a level up to \$59.7 million. At a Special Meeting of Shareholders held on February 27, 2009, the Company's shareholders voted to amend the Articles of Incorporation to authorize the issuance of preferred shares and common stock warrants required for participation in the CPP.

Approximately 600 banks nationwide have participated in the CPP. The Company was the thirty-second bank in the country to be approved. The Company's original plans were to issue the shares under the CPP on March 27, 2009. However, due to the continued ambiguity resulting from changes being proposed by Congress, the Company requested and was granted an extension by the Treasury due to the ambiguity and uncertainty regarding the ability to repay the funds at the time of its choosing.

On July 7, 2009, management notified the Treasury that the Company would not participate in the CPP. After careful consideration and analysis, the Company believes there has been considerable improvement in the economic indicators since October 2008. The Arkansas economy is doing well relative to many other geographic regions of the country, and the Company continues to have strong asset quality, liquidity and capital. Accordingly, the Company does not believe its participation in the CPP is necessary nor in the best interest of the Company's shareholders. While the Company has chosen not to participate, the Company believes the CPP has served the original purpose of the Treasury.

## 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 by the Company based on its analysis of historical losses for each loan category. 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, and more than annually if circumstances warrant, 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. However, due to the extremely low interest rate environment, approximately 89% of the Company's time deposits as of June 30, 2009, are scheduled to reprice within one year.

### Net Interest Income Quarter-to-Date Analysis

For the three-month period ended June 30, 2009, net interest income on a fully taxable equivalent basis was \$24.9 million, an increase of \$816,000, or 3.4%, over the same period in 2008. The increase in net interest income was the result of a \$6.2 million decrease in interest expense offset by a \$5.4 million decrease in interest income.

The \$6.2 million decrease in interest expense is the result of a 112 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, coupled with a shift in the Company's mix of interest bearing deposits. The lower interest rates accounted for a \$5.9 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 134 basis points from 3.88% to 2.54%. Lower rates on interest bearing transaction and savings accounts resulted in an additional \$2.4 million decrease in interest expense, with the average rate decreasing by 90 basis points from 1.61% to 0.71%. Although the level of average interest bearing liabilities increased by slightly by \$21.5 million due to internal growth, interest expense due to volume decreased as a result of a change in deposit mix (higher costing time deposits declined while lower costing transaction accounts increased).

The \$5.4 million decrease in interest income primarily is the result of a 93 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a \$52 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a \$7.1 million decrease in interest income. The most significant component of this decrease was the \$4.0 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 87 basis points from 6.72% to 5.85%. The growth in average interest earning assets resulted in a \$1.7 million improvement in interest income. The growth in average loans accounted for \$887,000 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 six-month period ended June 30, 2009, net interest income on a fully taxable equivalent basis was \$49.4 million, an increase of \$1.6 million, or 3.3%, over the same period in 2008. The increase in net interest income was the result of a \$12.3 million decrease in interest expense offset by a \$10.8 million decrease in interest income.

The \$12.3 million decrease in interest expense is the result of a 119 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, coupled with a shift in the Company's mix of interest bearing deposits. The lower interest rates accounted for a \$12.0 million decrease in interest expense. The most significant component of this decrease was the \$6.9 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 141 basis points from 4.13% to 2.72%. Lower rates on interest bearing transaction and savings accounts resulted in an additional \$3.9 million decrease in interest expense, with the average rate decreasing by 77 basis points from 1.62% to 0.85%. Lower rates on federal funds purchased and other debt resulted in an additional \$1.1 million decrease in interest expense, with the average rate paid on debt decreasing by 72 basis points from 3.60% to 2.88%. Although the level of average interest bearing liabilities increased by \$87.4 million, primarily due to \$68.2 million of internal deposit growth, interest expense due to volume decreased as a result of a change in deposit mix (higher costing time deposits declined while lower costing transaction accounts increased).



The \$10.8 million decrease in interest income primarily is the result of a 107 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a \$118.9 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a \$15.3 million decrease in interest income. The most significant component of this decrease was the \$10.2 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 106 basis points from 6.98% to 5.92%. The growth in average interest earning assets resulted in a \$4.5 million improvement in interest income. The growth in average loans accounted for \$2.2 million of this increase, the growth in investment securities resulted in \$2.6 million of the increase, offset slightly by a decline in short-term investments.

#### Net Interest Margin

The Company's net interest margin increased 4 basis points to 3.71% for the three-month period ended June 30, 2009, when compared to 3.67% for the same period in 2008. For the six-month period ended June 30, 2009, net interest margin decreased 4 basis points to 3.70%, when compared to 3.74% for the same period in 2008. Based on its current pricing model, considering investment portfolio maturities and call projections, the Company continues to anticipate flat to slight margin compression for the remainder of 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 six-month periods ended June 30, 2009 and 2008, respectively, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2009 versus June 30, 2008.

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

| (In thousands)                       | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                      | 2009                           | 2008      | 2009                         | 2008      |
| Interest income                      | \$ 33,557                      | \$ 39,140 | \$ 68,450                    | \$ 79,571 |
| FTE adjustment                       | 1,203                          | 1,009     | 2,329                        | 1,986     |
| Interest income – FTE                | 34,760                         | 40,149    | 70,779                       | 81,557    |
| Interest expense                     | 9,837                          | 16,042    | 21,337                       | 33,681    |
| Net interest income – FTE            | \$ 24,923                      | \$ 24,107 | \$ 49,442                    | \$ 47,876 |
| Yield on earning assets – FTE        | 5.18%                          | 6.11%     | 5.29%                        | 6.36%     |
| Cost of interest bearing liabilities | 1.72%                          | 2.84%     | 1.87%                        | 2.98%     |
| Net interest spread – FTE            | 3.46%                          | 3.27%     | 3.42%                        | 3.38%     |
| Net interest margin – FTE            | 3.71%                          | 3.67%     | 3.70%                        | 3.74%     |

Table 2: Changes in Fully Taxable Equivalent Net Interest Income

| (In thousands)  | Three Months Ended<br>June 30, | Six Months Ended<br>June 30, |
|---|--------------------------------|------------------------------|
|   | 2009 vs. 2008                  | 2009 vs. 2008                |
| Increase due to change in earning assets                                      | \$ 1,693                       | \$ 4,494                     |
| Decrease due to change in earning asset yields                                | (7,082)                        | (15,272)                     |
| Increase due to change in interest bearing liabilities                        | 334                            | 362                          |
| Increase due to change in interest rates paid on interest bearing liabilities | 5,871                          | 11,982                       |
| Increase in net interest income   | \$ 816                         | \$ 1,566                     |

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 six-month periods ended June 30, 2009 and 2008. 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 June 30 |                |               | 2008            |                |               |
|---|----------------------------|----------------|---------------|-----------------|----------------|---------------|
|   | Average Balance            | Income/Expense | Yield/Rate(%) | Average Balance | Income/Expense | Yield/Rate(%) |
| <b>ASSETS</b>   |                            |                |               |                 |                |               |
| Earning Assets  |                            |                |               |                 |                |               |
| Interest bearing balances   |                            |                |               |                 |                |               |
| due from banks  | \$ 44,946                  | \$ 70          | 0.62          | \$ 85,578       | \$ 487         | 2.29          |
| Federal funds sold  | 9,355                      | 14             | 0.60          | 55,543          | 285            | 2.06          |
| Investment securities - taxable   | 499,475                    | 3,313          | 2.66          | 458,555         | 5,469          | 4.80          |
| Investment securities - non-taxable                                       | 193,725                    | 3,093          | 6.40          | 157,917         | 2,538          | 6.46          |
| Mortgage loans held for sale  | 16,316                     | 195            | 4.79          | 8,740           | 113            | 5.20          |
| Assets held in trading accounts   | 5,981                      | 5              | 0.34          | 5,747           | 41             | 2.87          |
| Loans   | 1,923,787                  | 28,070         | 5.85          | 1,869,369       | 31,216         | 6.72          |
| Total interest earning assets   | 2,693,585                  | 34,760         | 5.18          | 2,641,449       | 40,149         | 6.11          |
| Non-earning assets  | 244,960                    |                |               | 253,724         |                |               |
| Total assets  | \$ 2,938,545               |                |               | \$ 2,895,173    |                |               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                               |                            |                |               |                 |                |               |
| Liabilities   |                            |                |               |                 |                |               |
| Interest bearing liabilities  |                            |                |               |                 |                |               |
| Interest bearing transaction and savings accounts                         |                            |                |               |                 |                |               |
|   | \$ 1,081,416               | \$ 1,926       | 0.71          | \$ 972,687      | \$ 3,899       | 1.61          |
| Time deposits   | 942,104                    | 5,975          | 2.54          | 1,037,151       | 10,006         | 3.88          |
| Total interest bearing deposits   | 2,023,520                  | 7,901          | 1.57          | 2,009,838       | 13,905         | 2.78          |
| Federal funds purchased and securities sold under agreement to repurchase |                            |                |               |                 |                |               |
|   | 106,288                    | 182            | 0.69          | 110,646         | 463            | 1.68          |
| Other borrowed funds  |                            |                |               |                 |                |               |
| Short-term debt   | 1,802                      | 6              | 1.34          | 2,791           | 19             | 2.74          |
| Long-term debt  | 161,065                    | 1,748          | 4.35          | 147,948         | 1,655          | 4.50          |
|   | 2,292,675                  | 9,837          | 1.72          | 2,271,223       | 16,042         | 2.84          |

|  |              |      |              |      |
|--|--------------|------|--------------|------|
| Total interest bearing liabilities         |              |      |              |      |
| Non-interest bearing liabilities           |              |      |              |      |
| Non-interest bearing deposits              | 328,036      |      | 318,978      |      |
| Other liabilities                          | 22,566       |      | 21,935       |      |
| Total liabilities                          | 2,643,277    |      | 2,612,136    |      |
| Stockholders' equity                       | 295,268      |      | 283,037      |      |
| Total liabilities and stockholders' equity | \$ 2,938,545 |      | \$ 2,895,173 |      |
| Net interest spread                        |              | 3.46 |              | 3.27 |
| Net interest margin                        | \$ 24,923    | 3.71 | \$ 24,107    | 3.67 |

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| (In thousands)  | Six Months Ended June 30 |                |               | 2008            |                |               |
|---|--------------------------|----------------|---------------|-----------------|----------------|---------------|
|   | Average Balance          | Income/Expense | Yield/Rate(%) | Average Balance | Income/Expense | Yield/Rate(%) |
| <b>ASSETS</b>   |                          |                |               |                 |                |               |
| Earning Assets  |                          |                |               |                 |                |               |
| Interest bearing balances due from banks                                  | \$ 49,502                | \$ 148         | 0.60          | \$ 70,981       | \$ 875         | 2.48          |
| Federal funds sold  | 4,920                    | 15             | 0.61          | 45,502          | 540            | 2.39          |
| Investment securities - taxable   | 518,195                  | 7,975          | 3.10          | 437,030         | 10,512         | 4.84          |
| Investment securities - non-taxable                                       | 183,279                  | 5,917          | 6.51          | 154,707         | 4,980          | 6.47          |
| Mortgage loans held for sale  | 15,023                   | 353            | 4.74          | 8,107           | 226            | 5.61          |
| Assets held in trading accounts   | 5,097                    | 10             | 0.40          | 5,739           | 42             | 1.47          |
| Loans   | 1,920,519                | 56,361         | 5.92          | 1,855,566       | 64,382         | 6.98          |
| Total interest earning assets   | 2,696,535                | 70,779         | 5.29          | 2,577,632       | 81,557         | 6.36          |
| Non-earning assets  | 247,420                  |                |               | 253,113         |                |               |
| Total assets  | \$ 2,943,955             |                |               | \$ 2,830,745    |                |               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                               |                          |                |               |                 |                |               |
| Liabilities   |                          |                |               |                 |                |               |
| Interest bearing liabilities  |                          |                |               |                 |                |               |
| Interest bearing transaction and savings accounts                         | \$ 1,067,025             | \$ 4,495       | 0.85          | \$ 888,064      | \$ 7,163       | 1.62          |
| Time deposits   | 957,745                  | 12,909         | 2.72          | 1,068,586       | 21,929         | 4.13          |
| Total interest bearing deposits   | 2,024,770                | 17,404         | 1.73          | 1,956,650       | 29,092         | 2.99          |
| Federal funds purchased and securities sold under agreement to repurchase | 113,067                  | 425            | 0.76          | 118,552         | 1,385          | 2.35          |
| Other borrowed funds  |                          |                |               |                 |                |               |
| Short-term debt   | 1,748                    | 12             | 1.38          | 2,253           | 38             | 3.39          |
| Long-term debt  | 160,879                  | 3,496          | 4.38          | 135,584         | 3,166          | 4.70          |
| Total interest bearing liabilities  | 2,300,464                | 21,337         | 1.87          | 2,213,039       | 33,681         | 3.06          |
| Non-interest bearing liabilities  |                          |                |               |                 |                |               |
| Non-interest bearing deposits   | 327,643                  |                |               | 314,193         |                |               |
| Other liabilities   | 21,835                   |                |               | 23,052          |                |               |
| Total liabilities   | 2,649,942                |                |               | 2,550,284       |                |               |
| Stockholders' equity  | 294,013                  |                |               | 280,461         |                |               |
| Total liabilities and   |                          |                |               |                 |                |               |

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|                      |              |      |              |      |
|----------------------|--------------|------|--------------|------|
| stockholders' equity | \$ 2,943,955 |      | \$ 2,830,745 |      |
| Net interest spread  |              | 3.42 |              | 3.30 |
| Net interest margin  | \$ 49,442    | 3.70 | \$ 47,876    | 3.74 |

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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 six-month period ended June 30, 2009, 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 June 30,<br>2009 over 2008 |                |                | Six Months Ended June 30,<br>2009 over 2008 |                 |                 |
|--|---|----------------|----------------|---|-----------------|-----------------|
|  | Volume  | Yield/<br>Rate | Total          | Volume                                      | Yield/<br>Rate  | Total           |
| Increase (decrease) in   |   |                |                |   |                 |                 |
| Interest income  |   |                |                |   |                 |                 |
| Interest bearing balances  |   |                |                |   |                 |                 |
| due from banks   | \$ (165)                                      | \$ (252)       | \$ (417)       | \$ (208)                                    | \$ (519)        | \$ (727)        |
| Federal funds sold   | (146)   | (125)          | (271)          | (287)                                       | (238)           | (525)           |
| Investment securities - taxable  | 452   | (2,608)        | (2,156)        | 1,713                                       | (4,250)         | (2,537)         |
| Investment securities - non-taxable  | 571   | (16)           | 555            | 922   | 15              | 937             |
| Mortgage loans held for sale   | 92  | (10)           | 82             | 168   | (41)            | 127             |
| Assets held in trading accounts  | 2   | (38)           | (36)           | (4)   | (28)            | (32)            |
| Loans  | 887   | (4,033)        | (3,146)        | 2,190                                       | (10,211)        | (8,021)         |
| <b>Total</b>   | <b>1,693</b>                                  | <b>(7,082)</b> | <b>(5,389)</b> | <b>4,494</b>                                | <b>(15,272)</b> | <b>(10,778)</b> |
| Interest expense   |   |                |                |   |                 |                 |
| Interest bearing transaction and savings accounts                          | 395   | (2,368)        | (1,973)        | 1,239                                       | (3,907)         | (2,668)         |
| Time deposits  | (851)   | (3,180)        | (4,031)        | (2,094)                                     | (6,926)         | (9,020)         |
| Federal funds purchased and securities sold under agreements to repurchase | (17)  | (264)          | (281)          | (61)  | (899)           | (960)           |
| Other borrowed funds   |   |                |                |   |                 |                 |
| Short-term debt  | (6)   | (7)            | (13)           | (7)   | (19)            | (26)            |
| Long-term debt   | 145   | (52)           | 93             | 561   | (231)           | 330             |
| <b>Total</b>   | <b>(334)</b>                                  | <b>(5,871)</b> | <b>(6,205)</b> | <b>(362)</b>                                | <b>(11,982)</b> | <b>(12,344)</b> |
| Increase (decrease) in net interest income                                 | \$ 2,027                                      | \$ (1,211)     | \$ (816)       | \$ 4,856                                    | \$ (3,290)      | \$ 1,566        |

## 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 June 30, 2009, was \$2.6 million, compared to \$2.2 million for the three-month period ended June 30, 2008, an increase of \$408,000. The provision for loan losses for the six-month period ended June 30, 2009, was \$4.8 million, compared to \$3.7 million for the six-month period ended June 30, 2008, an increase of \$1.1 million. The provision increase was primarily due to an increase in net loan charge-offs, an increase in non-performing loans and a continued 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 \$13.3 million for the three-month period ended June 30, 2009, an increase of \$1.6 million, or 13.5%, compared to \$11.7 million for the same period in 2008. For the six-months ended June 30, 2009, non-interest income was \$24.8 million compared to \$26.7 million reported for the same period ended June 30, 2008. The decrease in non-interest income for the six-months ended June 30 was due to the nonrecurring \$3.0 million gain in the first quarter of 2008 from cash proceeds received on the mandatory partial redemption of the Company's equity interest in Visa. Excluding the gain on Visa shares, non-interest income increased \$1.0 million, or 4.3%, in the first six-months of 2009 from the comparable period in 2008.

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.



Table 5 shows non-interest income for the three-month and six-month periods ended June 30, 2009 and 2008, respectively, as well as changes in 2009 from 2008.

Table 5: Non-Interest Income

| (In thousands)   | Three Months<br>Ended June 30 |           | 2009<br>Change from |         | Six Months<br>Ended June 30 |           | 2009<br>Change from |         |
|--|-------------------------------|-----------|---------------------|---------|-----------------------------|-----------|---------------------|---------|
|  | 2009                          | 2008      | 2008                |         | 2009                        | 2008      | 2008                |         |
| Trust income   | \$ 1,223                      | \$ 1,450  | \$ (227)            | -15.66% | \$ 2,549                    | \$ 3,098  | \$ (549)            | -17.72% |
| Service charges on<br>deposit accounts                       | 4,571                         | 3,691     | 880                 | 23.84   | 8,298                       | 7,125     | 1,173               | 16.46   |
| Other service charges<br>and fees                            | 646                           | 621       | 25                  | 4.03    | 1,392                       | 1,374     | 18                  | 1.31    |
| Income on sale of<br>mortgage loans,<br>net of commissions   | 1,361                         | 760       | 601                 | 79.08   | 2,400                       | 1,482     | 918                 | 61.94   |
| Income on<br>investment banking,<br>net of commissions       | 675                           | 199       | 476                 | 239.2   | 1,086                       | 648       | 438                 | 67.59   |
| Credit card fees   | 3,597                         | 3,480     | 117                 | 3.36    | 6,750                       | 6,653     | 97                  | 1.46    |
| Premiums on sale of<br>student loans                         | 286                           | 507       | (221)               | -43.59  | 286                         | 1,132     | (846)               | -74.73  |
| Bank owned life<br>insurance income                          | 299                           | 425       | (126)               | -29.65  | 677                         | 787       | (110)               | -13.98  |
| Gain on mandatory<br>partial<br>redemption of Visa<br>shares | --                            | --        | --                  | --      | --                          | 2,973     | (2,973)             | -100    |
| Other income   | 556                           | 587       | (31)                | -5.28   | 1,235                       | 1,440     | (205)               | -14.24  |
| Gain on sale of<br>securities, net                           | 90                            | --        | 90                  | --      | 90                          | --        | 90                  | --      |
| Total<br>non-interest income                                 | \$ 13,304                     | \$ 11,720 | \$ 1,584            | 13.52%  | \$ 24,763                   | \$ 26,712 | \$ (1,949)          | -7.30%  |

Recurring fee income for the three-month period ended June 30, 2009, was \$10.0 million, an increase of \$795,000 from the three-month period ended June 30, 2008. Recurring fee income for the six-month period ended June 30, 2009, was \$19.0 million, an increase of \$739,000 from the six-month period ended June 30, 2008. The improvement in recurring fee income primarily resulted from increases in service charges on deposit accounts, partially offset by decreases in trust income. Trust income decreased by \$227,000 and \$549,000, respectively, for the three-months and six-months ended June 30, due primarily to depressed market values and declines in the overall stock market, since trust fees are generally based on the market value of customer accounts. Service charges on deposit accounts increased by \$880,000 and \$1.2 million, respectively, for the three-months and six-months ended June 30, due primarily to improvements in fee structure and core deposit growth.

Income on sale of mortgage loans increased by \$601,000 and \$918,000, respectively, for the three and six-months ended June 30, 2009, compared to the same periods in 2008. This improvement was primarily due to lower mortgage rates leading to a significant increase in residential refinancing volume.

Premiums on sale of student loans decreased by \$221,000 and \$846,000, respectively, for the three and six-months ended June 30, 2009, compared to the same periods in 2008. The decrease was due to a lack of sales of student loans during the first six-months of 2009. 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 normally would be sold 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. The Company sold one package of student loans into the Government program during the second quarter of 2009, generating \$286,000 of non-interest income. During the third quarter of 2009, the Company expects to sell into the Government program all remaining student loans originated and fully funded during the 2008-2009 school year. Under the terms of the Government program, the loans are sold at par plus reimbursement of the 1% lender fee and a premium of \$75 per loan. The Company expects to record approximately \$1.8 million in premiums on sale of student loans during the third quarter of 2009 when the loans are sold.

The Company realized gross gains of \$144,000 on the sale of securities during the three and six-months ended June 30, 2009, with no realized gains for the three and six-month periods ended June 30, 2008. There were no realized losses over the same periods.

#### 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 six-month periods ended June 30, 2009, was \$27.0 million and \$52.6 million, an increase of \$2.7 million, or 11.3%, and \$5.3 million, or 11.1%, from the same periods in 2008. Included in non-interest expense for the first quarter of 2008 was a \$1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities that was originally recorded in 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.

Deposit insurance expense for the three-month and six-month periods ended June 30, 2009, increased by \$2.4 million and \$2.9 million, respectively, from the same periods in 2008. Deposit insurance expense during the second quarter of 2009 increased \$2.0 million compared to the first quarter of 2009. The increases in deposit insurance expense were due to increases in the fee assessment rates during 2009 and a special assessment applied to all insured institutions as of June 30, 2009. The increase in deposit insurance expense during the six-months ended June 30, 2009, compared to the same period a year ago was also partly related to the Company's utilization of available credits to offset assessments during the first six months of 2008.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's efforts to rebuild the Deposit Insurance Fund ("DIF"). Deposit insurance expense during the three and six-months ended June 30, 2009, included a \$1.4 million accrual related to the special assessment. The final rule also allows the FDIC to impose additional special assessments of 5 basis points for the third and fourth quarters of 2009, if the FDIC estimates that the DIF reserve ratio will fall to a level that would adversely affect public confidence in federal deposit insurance or to a level that would be close to or below zero. Any additional special assessment would also be capped at 10 basis points of domestic deposits. The Company cannot provide any assurance as to the ultimate amount or timing of any such special assessments, should such special assessments occur, as such special assessments depend upon a variety of factors which are beyond the Company's control.

When normalized for both the nonrecurring Visa litigation liability reversal and the increase in deposit insurance expense, non-interest expense for the six-month period ended June 30, 2009, increased by 2.4% over the same period in 2008.

In January 2009, the Company received notice from Visa and MasterCard of a large nationwide breach in security at Heartland Payment Systems, a major payment transaction processing center, in which approximately 57,000 of our debit and credit cards were potentially compromised. Included in other non-interest expense is approximately \$125,000 of fraud losses resulting from the compromised cards. In an abundance of caution, we initiated significant card replacements at an additional cost of approximately \$100,000. Some recovery from insurance is anticipated for the card replacements.

Table 6 below shows non-interest expense for the three-month and six-month periods ended June 30, 2009 and 2008, respectively, as well as changes in 2009 from 2008.

Table 6: Non-Interest Expense

| (In thousands)                            | Three Months     |                  | Change from     | 2009          | Six Months       |                  | Change from     | 2009          |
|---|------------------|------------------|-----------------|---------------|------------------|------------------|-----------------|---------------|
|   | Ended June 30    | 2008             |                 | 2008          | Ended June 30    | 2008             |                 | 2008          |
| Salaries and employee benefits            | \$ 14,674        | \$ 14,433        | \$ 241          | 1.67%         | \$ 29,257        | \$ 28,641        | \$ 616          | 2.15%         |
| Occupancy expense, net                    | 1,824            | 1,804            | 20              | 1.11          | 3,713            | 3,615            | 98              | 2.71          |
| Furniture and equipment expense           | 1,527            | 1,472            | 55              | 3.74          | 3,070            | 2,962            | 108             | 3.65          |
| Other real estate and foreclosure expense | 90               | 87               | 3               | 3.45          | 160              | 129              | 31              | 24.03         |
| Deposit insurance                         | 2,557            | 113              | 2,444           | 2162.83       | 3,090            | 201              | 2,889           | 1437.31       |
| Other operating expenses                  |                  |                  |                 |               |                  |                  |                 |               |
| Professional services                     | 598              | 570              | 28              | 4.91          | 1,535            | 1,329            | 206             | 15.5          |
| Postage                                   | 556              | 581              | (25)            | -4.3          | 1,179            | 1,181            | (2)             | -0.17         |
| Telephone                                 | 522              | 412              | 110             | 26.7          | 1,051            | 892              | 159             | 17.83         |
| Credit card expenses                      | 1,225            | 1,143            | 82              | 7.17          | 2,498            | 2,282            | 216             | 9.47          |
| Operating supplies                        | 351              | 415              | (64)            | -15.42        | 747              | 875              | (128)           | -14.63        |
| Amortization of intangibles               | 202              | 202              | --              | --            | 403              | 404              | (1)             | -0.25         |
| Visa litigation liability reversal        | --               | --               | --              | --            | --               | (1,220)          | 1,220           | -100          |
| Other expense                             | 2,825            | 2,977            | (152)           | -5.11         | 5,906            | 6,048            | (142)           | -2.35         |
| <b>Total non-interest expense</b>         | <b>\$ 26,951</b> | <b>\$ 24,209</b> | <b>\$ 2,742</b> | <b>11.33%</b> | <b>\$ 52,609</b> | <b>\$ 47,339</b> | <b>\$ 5,270</b> | <b>11.13%</b> |

## LOAN PORTFOLIO

The Company's loan portfolio averaged \$1.924 billion and \$1.869 billion during the first six months of 2009 and 2008, respectively. As of June 30, 2009, total loans were \$1.943 billion, an increase of \$10.4 million from December

31, 2008. 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 \$450.9 million at June 30, 2009, or 23.2% of total loans, compared to \$419.3 million, or 21.7% of total loans at December 31, 2008. The consumer loan increase from December 31, 2008, to June 30, 2009, is primarily due to the increase in the loans held in the student loan portfolio resulting from the current lack of a secondary market.

The student loan portfolio balance at June 30, 2009, was \$139.9 million, compared to \$111.6 million at December 31, 2008, an increase of \$28.3 million, or 25.4%, from December 31, 2008. The Company expects to sell approximately \$60 million of student loans to the Government during the third quarter of 2009 (the remainder of the student loans made during the 2008-2009 school year). See Non-Interest Income section for additional information. The Company also expects to fund an additional \$30 million through our normal student loan funding process during the third quarter of 2009.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were \$1.200 billion at June 30, 2009, or 61.8% of total loans, compared to the \$1.219 billion, or 63.1% of total loans at December 31, 2008. Commercial real estate loans increased by \$16.4 million, or 2.7%, from December 31, 2008, to June 30, 2009, primarily due to the permanent financing of completed projects previously included in the construction and development loan category. Construction and development loans decreased by \$27.6 million, or 12.2%, from December 31, 2008 to June 30, 2009. Construction and development loans represent only 10.1% of the total loan portfolio.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were \$282.2 million at June 30, 2009, or 14.5% of total loans, compared to \$284.2 million, or 14.7% of total loans at December 31, 2008. The commercial loan decrease is primarily due to softening commercial loan demand, offset by an increase in agricultural loans due to seasonality in the agricultural loan portfolio.

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)                               | June 30,<br>2009 | December<br>31,<br>2008 |
|--|------------------|-------------------------|
| Consumer                                     |                  |                         |
| Credit cards                                 | \$ 168,897       | \$ 169,615              |
| Student loans                                | 139,928          | 111,584                 |
| Other consumer                               | 142,040          | 138,145                 |
| Total consumer                               | 450,865          | 419,344                 |
| Real Estate                                  |                  |                         |
| Construction                                 | 197,336          | 224,924                 |
| Single family residential                    | 401,447          | 409,540                 |
| Other commercial                             | 601,217          | 584,843                 |
| Total real estate                            | 1,200,000        | 1,219,307               |
| Commercial                                   |                  |                         |
| Commercial                                   | 182,064          | 192,496                 |
| Agricultural                                 | 96,526           | 88,233                  |
| Financial institutions                       | 3,598            | 3,471                   |
| Total commercial                             | 282,188          | 284,200                 |
| Other  | 10,407           | 10,223                  |
| Total loans before allowance for loan losses | \$ 1,943,460     | \$ 1,933,074            |

## 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.

Historically, the Company has sold its student loans into the secondary market before they reached payout status, thus requiring no servicing by the Company. Currently, with the banking industry no longer able to access the secondary market, and because the Government program only purchases current year production, we are required to service loans that have converted to a payout basis. Student loans are classified as impaired when payment of interest of principal is 90 days past due. Approximately \$2.4 million of Government guaranteed student loans became over 90 days past due during the quarter ending June 30, 2009. Under existing rules, when these loans exceed 270 days past due, the Department of Education will purchase them at 97% of principal and accrued interest. Although these student loans remain Government guaranteed, because they are over 90 days past due they will impact the Company's non-performing asset ratios.

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

Table 8: Non-performing Assets

| (\$ in thousands)                                   | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| Nonaccrual loans                                    | \$ 16,345        | \$ 14,358               |
| Loans past due 90 days or more                      |                  |                         |
| (principal or interest payments):                   |                  |                         |
| Government guaranteed student loans (1)             | 2,371            | --                      |
| Other loans   | 1,147            | 1,292                   |
| Total loans past due 90 days or more                | 3,518            | 1,292                   |
| Total non-performing loans                          | 19,863           | 15,650                  |
| Other non-performing assets:                        |                  |                         |
| Foreclosed assets held for sale                     | 5,147            | 2,995                   |
| Other non-performing assets                         | 17               | 12                      |
| Total other non-performing assets                   | 5,164            | 3,007                   |
| Total non-performing assets                         | \$ 25,027        | \$ 18,657               |
| Allowance for loan losses to                        |                  |                         |
| non-performing loans                                | 126.02%          | 165.12%                 |
| Non-performing loans to total loans                 | 1.02%            | 0.81%                   |
| Non-performing loans to total loans                 |                  |                         |
| (excluding Government guaranteed student loans) (1) | 0.90%            | 0.81%                   |
| Non-performing assets to total assets               | 0.86%            | 0.64%                   |
| Non-performing assets to total assets               |                  |                         |
| (excluding Government guaranteed student loans) (1) | 0.78%            | 0.64%                   |

(1) Student loans past due 90 days or more are included in non-performing loans. Student loans are Government guaranteed and will be purchased at 97% of principal and accrued interest when they exceed 270 days past due; therefore, non-performing ratios have been calculated excluding these loans.



There was no interest income on the nonaccrual loans recorded for the six-month periods ended June 30, 2009 and 2008.

At June 30, 2009, impaired loans, net of Government guarantees, were \$36.1 million compared to \$15.7 million at December 31, 2008. Impaired loans at June 30, 2009, include \$2.4 million of Government guaranteed student loans. On an ongoing basis, management evaluates the underlying collateral on all impaired loans and allocates specific reserves, where appropriate, in order to absorb potential losses if the collateral were ultimately foreclosed.

## 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 of these loan categories to determine the level of dollar allocation. During the second quarter of 2009, the Company made adjustments to its methodology in the evaluation of the collectability of loans, which added quantitative factors to the internal and external influences used in determining the credit quality of loans and the allocation of the allowance. This adjustment in methodology resulted in an addition to impaired loans from classified loans and a redistribution of allocated and unallocated reserves.

It is likely that the methodology will continue to evolve over time. Allocated reserves are presented in Table 10 below detailing the components of the allowance for loan losses.

#### 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. While allocations are made for loans based upon historical loss analysis, the unallocated portion is designed to cover the uncertainty of how current economic conditions and other uncertainties may impact the existing loan portfolio. Factors to consider include national and state economic conditions such as increases in unemployment, the recent real estate lending crisis, the volatility in the stock market and the unknown impact of the Economic Stimulus package. The unallocated reserve addresses inherent probable losses not included elsewhere in the allowance for loan losses. The decrease in the unallocated portion of the reserve was due to allocations for higher historical losses and a higher percentage allocated to qualitative factors for internal and external influences. While calculating allocated reserve, the unallocated reserve supports uncertainties within the loan portfolio.

#### 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)                             | 2009      | 2008      |
|--|-----------|-----------|
| Balance, beginning of year                 | \$ 25,841 | \$ 25,303 |
| Loans charged off                          |           |           |
| Credit card                                | 2,620     | 1,756     |
| Other consumer                             | 1,058     | 949       |
| Real estate                                | 3,086     | 1,196     |
| Commercial                                 | 909       | 254       |
| Total loans charged off                    | 7,673     | 4,155     |
| Recoveries of loans previously charged off |           |           |
| Credit card                                | 415       | 444       |
| Other consumer                             | 404       | 285       |
| Real estate                                | 845       | 99        |
| Commercial                                 | 440       | 95        |
| Total recoveries                           | 2,104     | 923       |
| Net loans charged off                      | 5,569     | 3,232     |
| Provision for loan losses                  | 4,760     | 3,681     |
| Balance, June 30                           | \$ 25,032 | \$ 25,752 |
| Loans charged off                          |           |           |
| Credit card                                |           | 2,004     |
| Other consumer                             |           | 1,156     |
| Real estate                                |           | 1,791     |
| Commercial                                 |           | 1,140     |
| Total loans charged off                    |           | 6,091     |
| Recoveries of loans previously charged off |           |           |
| Credit card                                |           | 439       |
| Other consumer                             |           | 234       |
| Real estate                                |           | 108       |
| Commercial                                 |           | 434       |
| Total recoveries                           |           | 1,215     |
| Net loans charged off                      |           | 4,876     |
| Provision for loan losses                  |           | 4,965     |
| Balance, end of year                       |           | \$ 25,841 |

### Provision for Loan Losses

The amount of provision to the allowance during the three and six-month periods ended June 30, 2009 and 2008, and for the year ended December 31, 2008, 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, to determine the level of provision made to the allowance after considering the factors noted above.

### 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 uncertainty and imprecision inherent when estimating credit losses, especially when trying to determine the impact the current and unprecedented economic crisis will have on the existing loan portfolios.

Several factors in the national economy, including the increase of unemployment rates, the continuing credit crisis, the mortgage crisis, the uncertainty in the residential housing market and other loan sectors which may be exhibiting weaknesses and the unknown impact of the Economic Stimulus package further justify the need for unallocated reserves.

As of June 30, 2009, the allowance for loan losses reflects a decrease of approximately \$809,000 from December 31, 2008. This decrease in the allowance is primarily related to decreases in specific allocations for loans secured by assets located in the Northwest Arkansas region, which is also reflected by the decrease in the allocation to real estate loans. 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. The Company continues to monitor the Northwest Arkansas economy and, beginning in the third quarter of 2007, specific credit relationships deteriorated to a level requiring increased general and specific reserves. These credit relationships continued to deteriorate, and others were identified, prompting special loan loss provisions each quarter, beginning with the second quarter of 2008, consequently increasing the allowance allocation to real estate loans through December 31, 2008. During the first quarter of 2009, several of these non-performing loans with large specific allocations were charged off, resulting in the decrease in specific allocations to real estate loans as of June 30, 2009.

As of June 30, 2009, the allocation of the allowance for loan losses to credit card loans increased by approximately \$1.1 million from December 31, 2008, although credit card loan balances decreased by approximately \$718,000 during the period. Annualized net credit card charge-offs to credit card loans increased from 2.02% at December 31, 2008, to 2.83% at June 30, 2009. Due to this increase in charge-offs, along with an increase in past due levels, the Company increased the allocation to credit cards.

The unallocated allowance for loan losses is based on the Company's concerns over the uncertainty of the national economy and the economy in Arkansas. The impact of market pricing in the poultry, timber and catfish industries in Arkansas remains uncertain. The Company is also cautious regarding the continued softening of the real estate market in Arkansas, specifically in the Northwest Arkansas region. Although Arkansas's unemployment rate is lagging behind the national average, it has continued to rise. Management actively monitors the status of these industries and economic factors 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 and external uncertainties, the Company believes the allowance for loan

losses is adequate for the period ended June 30, 2009.

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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) | June 30, 2009       |                   | December 31, 2008   |                   |
|-------------------|---------------------|-------------------|---------------------|-------------------|
|                   | Allowance<br>Amount | % of<br>loans (1) | Allowance<br>Amount | % of<br>loans (1) |
| Credit cards      | \$ 5,011            | 8.7%              | \$ 3,957            | 8.8%              |
| Other consumer    | 1,643               | 14.5%             | 1,325               | 12.9%             |
| Real estate       | 9,866               | 61.8%             | 11,695              | 63.1%             |
| Commercial        | 2,610               | 14.5%             | 2,255               | 14.7%             |
| Other             | 273                 | 0.5%              | 209                 | 0.5%              |
| Unallocated       | 5,629               |                   | 6,400               |                   |
| Total             | \$ 25,032           | 100.0%            | \$ 25,841           | 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 June 30, 2009. 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 June 30, 2009, core deposits comprised 82.9% 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's total deposits as of June 30, 2009, were \$2.319 billion, a decrease of \$17 million from December 31, 2008. Non-interest bearing transaction accounts decreased \$10.3 million to \$324.7 million at June 30, 2009, compared to \$335 million at December 31, 2008.

The Company introduced a new high yield investment deposit account during the first quarter of 2008 as part of its strategy to enhance liquidity. While attracting new customers, the account has also resulted in existing customers moving more volatile, expensive time deposits to the high yield investment account. Interest bearing transaction and savings accounts were \$1.066 billion at June 30, 2009, a \$38.8 million increase compared to \$1.027 billion on December 31, 2008. Total time deposits decreased approximately \$46 million to \$929 million at June 30, 2009, from \$975 million at December 31, 2008.

The Company had \$27.3 million and \$33.2 million of brokered deposits at June 30, 2009, and December 31, 2008, respectively.

#### LONG-TERM DEBT

The Company's long-term debt was \$162.7 million and \$158.7 million at June 30, 2009, and December 31, 2008, respectively. The outstanding balance for June 30, 2009, includes \$131.8 million in FHLB long-term advances and \$30.9 million of trust preferred securities.

#### CAPITAL

##### Overview

At June 30, 2009, total capital reached \$292.2 million. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At June 30, 2009, the Company's equity to asset ratio was 10.1% compared to 9.89% at year-end 2008.

##### 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.

At a special shareholders' meeting held on February 27, 2009, the Company's shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of Preferred Stock, \$0.01 par value, of the Company. The shareholders also approved the issuance of common stock warrants for the purchase of up to 500,000 shares of the Company's Class A common stock with the exercise price and number of shares subject to final computation in accordance with the rules of the Treasury's CPP.

The Company notified the Treasury on July 7, 2009, that it will not participate in the CPP; therefore, the Company will not issue preferred stock or common stock warrants to the Treasury. For further discussion on the CPP, see Overview – U.S. Treasury's Capital Purchase Program.

##### 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.



Effective July 1, 2008, the Company made a strategic decision to temporarily suspend stock repurchases. This decision was made to preserve capital at the parent company due to the lack of liquidity in the credit markets and the uncertainties in the overall economy.

#### Cash Dividends

The Company declared cash dividends on its common stock of \$0.38 per share for the first six months of 2009 compared to \$0.38 per share for the first six months of 2008. In recent years the Company has increased dividends no less than annually, but was required to temporarily suspend dividend increases upon Treasury approval in order to participate in the CPP. Since the Company has decided not to participate in the CPP, any future decisions to reinstate dividend increases will not require the Treasury's consent.

#### 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 June 30, 2009, 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 June 30, 2009, and December 31, 2008, are presented in table 11.

Table 11: Risk-Based Capital

| (\$ in thousands)  | June 30,<br>2009    | December 31,<br>2008 |
|--|---------------------|----------------------|
| <b>Tier 1 capital</b>  |                     |                      |
| Stockholders' equity   | \$ 292,215          | \$ 288,792           |
| Trust preferred securities   | 30,000              | 30,000               |
| Intangible assets  | (51,958)            | (53,034)             |
| Unrealized gain on available-for-sale securities, net of taxes     | (1,181)             | (3,190)              |
| <b>Total Tier 1 capital</b>  | <b>269,076</b>      | <b>262,568</b>       |
| <b>Tier 2 capital</b>  |                     |                      |
| Qualifying unrealized gain on available-for-sale equity securities | 162                 | 198                  |
| Qualifying allowance for loan losses                               | 24,796              | 24,828               |
| <b>Total Tier 2 capital</b>  | <b>24,958</b>       | <b>25,026</b>        |
| <b>Total risk-based capital</b>                                    | <b>\$ 294,034</b>   | <b>\$ 287,594</b>    |
| <b>Risk weighted assets</b>  | <b>\$ 1,981,955</b> | <b>\$ 1,983,654</b>  |
| <b>Assets for leverage ratio</b>                                   | <b>\$ 2,883,021</b> | <b>\$ 2,870,882</b>  |
| <b>Ratios at end of period</b>                                     |                     |                      |
| Tier 1 leverage ratio  | 9.33%               | 9.15%                |
| Tier 1 risk-based capital ratio                                    | 13.58%              | 13.24%               |
| Total risk-based capital ratio                                     | 14.84%              | 14.50%               |
| <b>Minimum guidelines</b>  |                     |                      |
| Tier 1 leverage ratio  | 4.00%               | 4.00%                |
| Tier 1 risk-based capital ratio                                    | 4.00%               | 4.00%                |
| Total risk-based capital ratio                                     | 8.00%               | 8.00%                |

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See the section titled Recently Issued Accounting Pronouncements in Note 1, Basis of Presentation, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on the Company's ongoing financial position and results of operation.

## 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<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--|--------------------------------|----------|------------------------------|-----------|
|  | 2009                           | 2008     | 2009                         | 2008      |
| Net Income                                 | \$ 5,509                       | \$ 5,994 | \$ 10,745                    | \$ 14,810 |
| 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)                   | \$ 5,509                       | \$ 5,994 | \$ 10,745                    | \$ 12,252 |
| Diluted earnings per share                 | \$ 0.39                        | \$ 0.42  | \$ 0.76                      | \$ 1.05   |
| 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) | \$ 0.39                        | \$ 0.42  | \$ 0.76                      | \$ 0.87   |

### 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 June 30, 2009, undivided profits of the Company's subsidiaries were approximately \$159.3 million, of which approximately \$10.7 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 June 30, 2009, each subsidiary bank was within established guidelines and total corporate liquidity remains strong. At June 30, 2009, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 14.2% of total assets, as compared to 21.0% at December 31, 2008.

#### 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 a 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 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 \$439 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 44% 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 June 30, 2009. 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

|                                 | Interest Rate Sensitivity Period |         |         |         |         |         |         | Total     |
|---------------------------------|----------------------------------|---------|---------|---------|---------|---------|---------|-----------|
|                                 | 0-30                             | 31-90   | 91-180  | 181-365 | 1-2     | 2-5     | Over 5  |           |
| (In thousands, except ratios)   | Days                             | Days    | Days    | Days    | Years   | Years   | Years   |           |
| <b>E a r n i n g</b>            |                                  |         |         |         |         |         |         |           |
| assets                          |                                  |         |         |         |         |         |         |           |
| Short-term investments          | \$ 60,621                        | \$ --   | \$ --   | \$ --   | \$ --   | \$ --   | \$ --   | \$ 60,621 |
| Assets held in trading accounts | 6,051                            | --      | --      | --      | --      | --      | --      | 6,051     |
| Investment securities           | 167,197                          | 67,239  | 75,702  | 85,743  | 87,791  | 79,585  | 67,612  | 630,869   |
| Mortgage loans held for sale    | 14,868                           | --      | --      | --      | --      | --      | --      | 14,868    |
| Loans                           | 582,175                          | 246,490 | 157,963 | 377,450 | 245,613 | 292,045 | 41,724  | 1,943,460 |
| <b>T o t a l</b>                |                                  |         |         |         |         |         |         |           |
| <b>e a r n i n g</b>            |                                  |         |         |         |         |         |         |           |
| <b>assets</b>                   | 830,912                          | 313,729 | 233,665 | 463,193 | 333,404 | 371,630 | 109,336 | 2,655,869 |
| <b>I n t e r e s t</b>          |                                  |         |         |         |         |         |         |           |
| <b>b e a r i n g</b>            |                                  |         |         |         |         |         |         |           |
| <b>liabilities</b>              |                                  |         |         |         |         |         |         |           |
| <b>I n t e r e s t</b>          |                                  |         |         |         |         |         |         |           |
| <b>b e a r i n g</b>            |                                  |         |         |         |         |         |         |           |
| <b>transaction</b>              |                                  |         |         |         |         |         |         |           |
| <b>and savings</b>              |                                  |         |         |         |         |         |         |           |
| <b>deposits</b>                 | 706,207                          | --      | --      | --      | 71,888  | 215,663 | 71,888  | 1,065,646 |
|                                 | 111,000                          | 153,159 | 259,388 | 302,083 | 81,181  | 21,991  | 10      | 928,812   |

|                   |             |            |             |            |            |            |            |            |
|-------------------|-------------|------------|-------------|------------|------------|------------|------------|------------|
| T i m e           |             |            |             |            |            |            |            |            |
| deposits          |             |            |             |            |            |            |            |            |
| Short-term        |             |            |             |            |            |            |            |            |
| debt              | 100,793     | --         | --          | --         | --         | --         | --         | 100,793    |
| Long-term         |             |            |             |            |            |            |            |            |
| debt              | 624         | 11,569     | 2,886       | 24,087     | 54,029     | 29,640     | 39,891     | 162,726    |
| Total interest    |             |            |             |            |            |            |            |            |
| bearing           |             |            |             |            |            |            |            |            |
| liabilities       | 918,624     | 164,728    | 262,274     | 326,170    | 207,098    | 267,294    | 111,789    | 2,257,977  |
| Interest rate     |             |            |             |            |            |            |            |            |
| sensitivity       |             |            |             |            |            |            |            |            |
| Gap               | \$ (87,712) | \$ 149,001 | \$ (28,609) | \$ 137,023 | \$ 126,306 | \$ 104,336 | \$ (2,453) | \$ 397,892 |
| Cumulative        |             |            |             |            |            |            |            |            |
| interest rate     |             |            |             |            |            |            |            |            |
| sensitivity       |             |            |             |            |            |            |            |            |
| Gap               | \$ (87,712) | \$ 61,289  | \$ 32,680   | \$ 169,703 | \$ 296,009 | \$ 400,345 | \$ 397,892 |            |
| Cumulative        |             |            |             |            |            |            |            |            |
| rate sensitive    |             |            |             |            |            |            |            |            |
| asset             |             |            |             |            |            |            |            |            |
| t o r a t e       |             |            |             |            |            |            |            |            |
| s e n s i t i v e |             |            |             |            |            |            |            |            |
| liabilities       | 90.5%       | 105.7%     | 102.4%      | 110.2%     | 115.8%     | 118.7%     | 117.6%     |            |
| Cumulative        |             |            |             |            |            |            |            |            |
| Gap as a %        |             |            |             |            |            |            |            |            |
| of                |             |            |             |            |            |            |            |            |
| e a r n i n g     |             |            |             |            |            |            |            |            |
| assets            | -3.3%       | 2.3%       | 1.2%        | 6.4%       | 11.1%      | 15.1%      | 15.0%      |            |

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 2008 Form 10-K for the fiscal year ended December 31, 2008.

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 June 30, 2009.

## Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual shareholders meeting of the Company was held on April 21, 2009. The matters submitted to the security holders for approval included (1) setting the number of directors at nine (9), (2) the election of nine (9) directors, (3) providing advisory approval of the Company's executive compensation program and (4) ratification of the Audit and Security Committee's selection of the accounting firm of BKD, LLP as independent auditors of the Company and its subsidiaries for the year ending December 31, 2009.

(b) At the annual meeting, all nine (9) directors were elected by proxies solicited pursuant to Section 14 of the Securities Exchange Act of 1934, without any solicitation in opposition thereto.

The following table summarizes the required analysis of the voting by security holders at the annual meeting of shareholders held on April 21, 2009:

## Voting of Shares

| Action                              | For       | Against | Abstain | Broker Non-Votes |
|-------------------------------------|-----------|---------|---------|------------------|
| Set number of directors at nine (9) | 8,937,766 | 5,808   | 6,207   | 1,688,174        |

| Election of Directors: | For       | Against | Withhold Authority | Broker Non-Votes |
|------------------------|-----------|---------|--------------------|------------------|
| William E. Clark II    | 7,822,431 | --      | 1,127,350          | 1,688,174        |
| Steven A. Cossé        | 8,859,948 | --      | 89,833             | 1,688,174        |
| Edward Drilling        | 8,859,948 | --      | 89,833             | 1,688,174        |
| George A. Makris, Jr.  | 8,760,528 | --      | 189,252            | 1,688,275        |
| J. Thomas May          | 8,914,801 | --      | 34,980             | 1,688,174        |
| W. Scott McGeorge      | 8,859,791 | --      | 89,990             | 1,688,174        |
| Stanley E. Reed        | 8,859,948 | --      | 89,833             | 1,688,174        |
| Harry L. Ryburn        | 8,859,948 | --      | 89,833             | 1,688,174        |
| Robert L. Shoptaw      | 8,914,328 | --      | 35,453             | 1,688,174        |

| Action   | For       | Against   | Abstain | Broker Non-Votes |
|--|-----------|-----------|---------|------------------|
| Provide advisory approval of the Company's executive compensation program  | 6,686,080 | 2,152,735 | 110,965 | 1,688,175        |
| Ratify the Audit & Security Committee's selection of the accounting firm of BKD, LLP as independent auditors for the year ending December 31, 2009 | 8,824,761 | 116,556   | 8,463   | 1,688,175        |

Item 6. Exhibits

Exhibit Description  
No.

- 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 March 31, 2009 (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)).
- 10.10.1 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)).
- 10.10.2 Termination of Simmons First National Corporation Long Term Incentive Plan, adopted March 24, 2008, terminated and cancelled February 25, 2009, and Termination of Grant Under 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 February 25, 2009 (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: August 10, 2009

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

Date: August 10, 2009

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