

SIMMONS FIRST NATIONAL CORP
Form 10-K
March 02, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2009

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-6253

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

Arkansas	71-0407808
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification No.)

501 Main Street, Pine Bluff, Arkansas	71601
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value	The NASDAQ Global Select Market®
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or in information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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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 aggregate market value of the Registrant’s Common Stock, par value \$0.01 per share, held by non-affiliates on June 30, 2009, was \$338,095,535 based upon the last trade price as reported on the NASDAQ Global Select Market® of \$26.72.

The number of shares outstanding of the Registrant's Common Stock as of February 5, 2010, was 17,127,789.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 20, 2010.

Introduction

The Company has chosen to combine our Annual Report to Shareholders with our Form 10-K, which is a document that U.S. public companies file with the Securities and Exchange Commission every year. Many readers are familiar with “Part II” of the Form 10-K, as it contains the business information and financial statements that were included in the financial sections of our past Annual Reports. These portions include information about our business that we believe will be of interest to investors. We hope investors will find it useful to have all of this information available in a single document.

The Securities and Exchange Commission allows us to report information in the Form 10-K by “incorporated by reference” from another part of the Form 10-K, or from the proxy statement. You will see that information is “incorporated by reference” in various parts of our Form 10-K.

A more detailed table of contents for the entire Form 10-K follows:

FORM 10-K INDEX

Part I

<u>Item 1</u>	<u>Business</u>	1
<u>Item 1A</u>	<u>Risk Factors</u>	9
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	16
<u>Item 2</u>	<u>Properties</u>	16
<u>Item 3</u>	<u>Legal Proceedings</u>	16
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security-Holders</u>	17

Part II

<u>Item 5</u>	<u>Market for Registrant's Common Equity and Related Stockholder Matters</u>	17
<u>Item 6</u>	<u>Selected Consolidated Financial Data</u>	19
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 8</u>	<u>Consolidated Financial Statements and Supplementary Data</u>	51
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	88
<u>Item 9A</u>	<u>Controls and Procedures</u>	88
<u>Item 9B</u>	<u>Other Information</u>	88

Part III

<u>Item 10</u>	<u>Directors and Executive Officers of the Company</u>	88
<u>Item 11</u>	<u>Executive Compensation</u>	88
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management</u>	88
<u>Item 13</u>	<u>Certain Relationships and Related Transactions</u>	88
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u>	88

Part IV

<u>Item 15</u>	<u>Exhibits and Financial Statement Schedules</u>	89
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<u>Signatures</u>	91
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual 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,” “believe,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. These 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 statements, 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.

These forward-looking statements involve risks and uncertainties, and may not be realized due to a variety of factors, including, without limitation: the effects of future economic conditions, governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and their effects on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities; the costs of evaluating possible acquisitions and the risks inherent in integrating acquisitions; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet; the failure of assumptions underlying the establishment of reserves for possible loan losses; and those factors set forth under Item 1A. Risk-Factors of this report and other cautionary statements set forth elsewhere in this report. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied upon as an indication of future performance.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date hereof. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and all written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this section.

PART I

ITEM 1. BUSINESS

Company Overview

Simmons First National Corporation (the “Company”) is a multi-bank financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Arkansas with total assets of \$3.1 billion, loans of \$1.9 billion, deposits of \$2.4 billion and equity capital of \$371 million as of December 31, 2009. We own eight community banks that are strategically located throughout Arkansas. We conduct our operations through 88 offices, of which 84 are branches, or “financial centers,” located in 47 communities in Arkansas.

We seek to build shareholder value by (i) focusing on strong asset quality, (ii) maintaining strong capital and managing our liquidity position, (iii) improving our efficiency, and (iv) opportunistically growing our business, both

organically and through potential FDIC-assisted transactions and traditional private community bank acquisitions. We believe the depth and experience of our corporate executive management team and the management teams and directors of each of our community banks has allowed us to achieve excellent asset quality, a strong capital position and increased liquidity, even in the current challenging economic climate.

Community Bank Strategy

Our community banks feature locally based management and boards of directors, community-focused growth strategies, and flexibility in pricing of loans and deposits. Our community banks are supported by our main subsidiary bank, Simmons First National Bank (“SFNB” or “lead bank”), which allows our community banks to provide products and services, such as a bank-issued credit card, that are usually offered only by larger banks. We believe that our enterprise-wide support system enables us to “out-product” our smaller, Arkansas community bank competitors while our local focus allows us to “out-service” our larger interstate bank competitors.

Our community banking business model involves some additional administrative costs as a result of maintaining multiple bank charters, but has allowed us to maintain strong management at the local level to meet the needs of local customers while ensuring good asset quality. In addition we, along with our lead bank, provide efficiencies through consolidated back office support for information systems, loan review, compliance, human resources, accounting and internal audit. Likewise, through a standardizing initiative, our banks share a common name, signage and products that enable us to maximize our branding and overall marketing strategy.

Growth Strategy

Over the past 20 years, as we have expanded our markets and services, our growth strategy has evolved and diversified. From 1989 through 1991, in addition to our internal branching expansion, we acquired nine branches from the Resolution Trust Corporation, the federal agency that oversaw the sale or liquidation of assets of closed savings and loans institutions.

From 1995 to 2005, our strategic focus was on creating geographic diversification throughout Arkansas, driven primarily by acquisitions of other banking institutions. During this period we completed acquisitions of nine financial institutions and a total of 20 branches from five other banking institutions, some of which allowed us to enter key growth markets such as Conway, Hot Springs, Russellville, Searcy and Northwest Arkansas. In 2005, we initiated a de novo branching strategy to enter selected new Arkansas markets and to complement our presence in existing markets. From 2005 to 2008, we opened 12 new financial centers, a regional headquarters in Northwest Arkansas and a corporate office in Little Rock. We substantially completed our de novo branching strategy in 2008.

In late 2007, as we anticipated deteriorating economic conditions, we concentrated on maintaining our strong asset quality, building capital and improving our liquidity position. We intensified our focus on loan underwriting and on monitoring our loan portfolio in order to maintain asset quality, which is well above our peer group and the industry average. From late 2007 to December 31, 2009, our liquidity position (net overnight funds sold) improved by approximately \$150 million as a result of a strategic initiative to introduce deposit products that grew our core deposits in transaction and savings accounts and improved our deposit mix. Transaction and savings deposits increased from 48% of total deposits as of December 31, 2007, to 62% of total deposits as of December 31, 2009.

Our capital levels have remained strong during the current economic downturn. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008. Additionally, despite our strong capital position, in October 2008 we applied, and were one of the earliest banks approved, for funding of up to \$60 million under the U.S. Treasury’s Capital Purchase Program, referred to as the “CPP.” After careful consideration and analysis, we believed there had been considerable improvement in the economic indicators since October 2008 and we determined that participation in the CPP was not necessary nor in the best interest of our shareholders. We notified the Treasury in July 2009 that we did not intend to participate in the CPP.

On August 26, 2009, we filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). The shelf registration statement will allow us to raise capital from time to time, up to an aggregate of \$175 million, through the sale of common stock, preferred stock, or a combination thereof, subject to market

conditions. Specific terms and prices will be determined at the time of any offering under a separate prospectus supplement that we will be required to file with the SEC at the time of the specific offering.

In December 2009, we completed a secondary stock offering by issuing a total of 3,047,500 shares of common stock, including the over-allotment, at a price of \$24.50 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately \$70.5 million. Subsequent to the stock offering, we have approximately \$100 million available from our shelf registration for future offerings.

Acquisition Strategy

We believe we are strategically positioned to leverage our strong capital position to grow through acquisitions. In the near term, the disruptions in the financial markets continue to create opportunities for strong financial institutions to acquire selected assets and deposits of failed banks through FDIC-assisted transactions on attractive terms. We intend to focus our near term acquisition strategy on such transactions. We also believe that the challenging economic environment combined with more restrictive bank regulatory reform will cause many financial institutions to seek merger partners in the intermediate future. We believe our community bank model, strong capital and successful acquisition history position us as a purchaser of choice for community banks seeking a strong partner.

We expect that our primary geographic target area for acquisitions, both FDIC-assisted and negotiated, will fall within a 325 mile radius of central Arkansas. Our first priority will be to focus on acquisitions within Arkansas while also seeking acquisitions within our target area in states contiguous to Arkansas. The senior management teams of both our parent company and lead bank have had extensive experience during the past twenty years in acquiring banks, branches and deposits and post-acquisition integration of operations. We believe this experience positions us to successfully acquire and integrate banks on both an FDIC assisted and unassisted basis.

With respect to FDIC-assisted transactions:

- We believe one of our key strengths is our management depth at the community bank level that will enable us to redeploy our human resources to integrate and operate an acquired institution's business with minimal disruption to our existing operations. From our management pool we have assembled an in-house acquisition team to focus on evaluating and executing FDIC-assisted transactions.
- We have retained a consultant with FDIC-assisted transaction experience that has supplemented our management's acquisition experience with additional training focused on the unique aspects of acquiring, converting and integrating banks through FDIC-assisted transactions.

With respect to negotiated community bank acquisitions:

- We have historically retained the target institution's senior management and have provided them with an appealing level of autonomy post-integration. We intend to continue to pursue negotiated community bank acquisitions and we believe that our history with respect to such acquisitions has positioned us as an acquirer of choice for community banks.
- We encourage acquired community banks, their boards and associates to maintain their community involvement, while empowering the banks to offer a broader array of financial products and services. We believe this approach leads to enhanced profitability after the acquisition.

Efficiency Initiatives

In 2008, we began two significant initiatives to improve our operating performance by implementing cost efficiencies and selected revenue enhancements. These initiatives have led to cost savings and revenue enhancements in 2009 and are expected to lead to further improvements in 2010 and beyond.

Our first such initiative was an effort to leverage our corporate buying power to renegotiate our existing vendor contracts at lower prices and to maximize the return on our investment in technology. We have begun to benefit from operating expense savings as a result of more favorable contract terms with our vendors in 2009 with the full annualized benefits expected to be realized in 2010.

Our second initiative, which is larger in scope, is to identify and implement process improvements. We are reviewing our business processes in an effort to improve our profitability while preserving the quality of our customer

service. The scope of this initiative includes implementing revenue enhancements, further consolidating back office processes and refining our organizational structure. We intend to begin implementing this initiative in 2010 and to continue its implementation in 2011. We expect to experience significant savings and revenue enhancements as this initiative takes effect.

Subsidiary Banks

Our lead bank, SFNB, is a national bank which has been in operation since 1903. SFNB's primary market area, with the exception of its nationally provided credit card product, is southeastern, central and western Arkansas. As of December 31, 2009, SFNB had total assets of \$1.6 billion, total loans of \$945 million and total deposits of \$1.3 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of SFNB, performs the trust and fiduciary business operations for SFNB and for us. Simmons First Investment Group, Inc., a wholly owned subsidiary of SFNB, is a broker-dealer registered with the SEC and a member of the National Association of Securities Dealers and performs the broker-dealer operations for SFNB.

The following table shows our community subsidiary banks other than the lead bank:

	Year Acquired	Primary Market	As of December 31, 2009 Assets	Loans (In thousands)	Deposits
Simmons First Bank of Jonesboro	1984	Northeast Arkansas	\$312,835	\$258,807	\$263,327
Simmons First Bank of South Arkansas	1984	Southeast Arkansas	165,682	88,585	139,898
Simmons First Bank of Northwest Arkansas	1995	Northwest Arkansas	272,463	175,485	219,009
Simmons First Bank of Russellville	1997	Russellville, Arkansas	193,498	106,436	138,661
Simmons First Bank of Searcy	1997	Searcy, Arkansas	149,732	106,632	113,771
Simmons First Bank of El Dorado, N.A.	1999	South central Arkansas	289,326	116,675	249,118
Simmons First Bank of Hot Springs	2004	Hot Springs, Arkansas	172,256	77,477	122,857

Our subsidiary banks provide complete banking services to individuals and businesses throughout the market areas they serve. These banks offer consumer (credit card, student and other consumer), real estate (construction, single family residential and other commercial) and commercial (commercial, agriculture and financial institutions) loans, checking, savings and time deposits, trust and investment management services and securities and investment services.

Credit Cards

We held the 62nd largest credit card portfolio in the U.S. as of August 31, 2009, with a balance of \$175 million, which has grown to \$189 million at December 31, 2009. Since the 1960s, we have offered these products through our lead bank. Our portfolio had an all-in yield, net of any credit losses, of over 15% for the year ended December 31, 2009. Our number of accounts has grown 10.6% since December 31, 2008, to over 123,000 accounts as of December 31, 2009. This growth has been balanced by a lower approval rate for credit card applications of only 17% for the quarter ended December 31, 2009, which is down from an approval rate of approximately 34% during 2007. Our strong credit underwriting is reflected in our credit card charge-off ratio of 2.41% for the quarter ended December 31, 2009. This is 790 basis points better than the industry average charge-off ratio of 10.31% as reported by Moody's Investors Service for the same three month period. Our portfolio is geographically diversified, with approximately 41% of our credit card customers in Arkansas and no geographic concentration greater than 7% in any other state. Our credit card customers carry an average balance of approximately \$2,100. Their average credit limit is

approximately \$3,600 and their average FICO score is above 725. We believe these attributes contribute to the success of our credit card product offering in terms of both growth and credit quality.

Loan Risk Assessment

As part of our ongoing risk assessment, the Company has an Asset Quality Review Committee of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for all of its subsidiary banks. The allowance for loan losses is determined based upon the aforementioned performance factors, and adjustments are made accordingly. Also, an unallocated reserve is established to compensate for the uncertainty in estimating loan losses, including the possibility of improper risk ratings and specific reserve allocations.

The Board of Directors of each of our subsidiary banks reviews the adequacy of its allowance for loan losses on a monthly basis giving consideration to past due loans, non-performing loans, other impaired loans, and current economic conditions. Our loan review department monitors each of its subsidiary bank's loan information monthly. In addition, the loan review department prepares an analysis of the allowance for loan losses for each subsidiary bank twice a year, and reports the results to our Audit and Security Committee. In order to verify the accuracy of the monthly analysis of the allowance for loan losses, the loan review department performs an on-site detailed review of each subsidiary bank's loan files on a semi-annual basis. Additionally, we have instituted a Special Asset Committee for the purpose of reviewing criticized loans in regard to collateral adequacy, workout strategies and proper reserve allocations.

Competition

There is significant competition among commercial banks in our various market areas. In addition, we also compete with other providers of financial services, such as savings and loan associations, credit unions, finance companies, securities firms, insurance companies, full service brokerage firms and discount brokerage firms. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, the rates of interest charged on loans, the rates of interest paid for funds, and the availability and pricing of trust and brokerage services.

Principal Offices and Available Information

Our principal executive offices are located at 501 Main Street, Pine Bluff, Arkansas 71601, and our telephone number is (870) 541-1000. We also have corporate offices in Little Rock, Arkansas. We maintain a website at <http://www.simmonsfirst.com>. On this website under the section "Investor Relations", we make our filings with the Securities and Exchange Commission available free of charge, along with other Company news and announcements.

Employees

As of February 5, 2010, the Company and its subsidiaries had approximately 1,096 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good.

Executive Officers of the Company

The following is a list of all executive officers of the Company. The Board of Directors elects executive officers annually.

NAME	AGE	POSITION	YEARS SERVED
J. Thomas May	63	Chairman and Chief Executive Officer	23
David L. Bartlett	58	President and Chief Operating Officer	13
Robert A. Fehlman	45	Executive Vice President and Chief Financial Officer	21
Marty D. Casteel	58	Executive Vice President	21
Robert C. Dill	66	Executive Vice President, Marketing	43
David W. Garner	40	Senior Vice President and Controller	12
Kevin J. Archer	46	Senior Vice President/Credit Policy and Risk Assessment	14
Sharon K. Burdine	44	Senior Vice President and Human Resources Director	12
Tina M. Groves	40	Senior Vice President/Manager, Audit/Compliance	4
John L. Rush	75	Secretary	42

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2009, along with their principal occupation.

NAME	PRINCIPAL OCCUPATION
William E. Clark, II	Chief Executive Officer Clark Contractors LLC
Steven A. Cossé	Executive Vice President and General Counsel Murphy Oil Corporation
Edward Drilling	President AT&T Arkansas
Eugene Hunt	Attorney Hunt Law Firm
George A. Makris, Jr.	President M.K. Distributors, Inc.
J. Thomas May	Chairman and Chief Executive Officer Simmons First National Corporation
W. Scott McGeorge	President Pine Bluff Sand and Gravel Company
Stanley E. Reed	Farmer President (retired) Arkansas Farm Bureau
Harry L. Ryburn	Orthodontist (retired)
Robert L. Shoptaw	Chairman of the Board Arkansas Blue Cross and Blue Shield

SUPERVISION AND REGULATION

The Company

The Company, as a bank holding company, is subject to both federal and state regulation. Under federal law, a bank holding company generally must obtain approval from the Board of Governors of the Federal Reserve System ("FRB") before acquiring ownership or control of the assets or stock of a bank or a bank holding company. Prior to approval of any proposed acquisition, the FRB will review the effect on competition of the proposed acquisition, as well as other regulatory issues.

The federal law generally prohibits a bank holding company from directly or indirectly engaging in non-banking activities. This prohibition does not include loan servicing, liquidating activities or other activities so closely related to banking as to be a proper incident thereto. Bank holding companies, including Simmons First National

Corporation, which have elected to qualify as financial holding companies, are authorized to engage in financial activities. Financial activities include any activity that is financial in nature or any activity that is incidental or complimentary to a financial activity.

As a financial holding company, we are required to file with the FRB an annual report and such additional information as may be required by law. From time to time, the FRB examines the financial condition of the Company and its subsidiaries. The FRB, through civil and criminal sanctions, is authorized to exercise enforcement powers over bank holding companies (including financial holding companies) and non-banking subsidiaries, to limit activities that represent unsafe or unsound practices or constitute violations of law.

We are subject to certain laws and regulations of the state of Arkansas applicable to financial and bank holding companies, including examination and supervision by the Arkansas Bank Commissioner. Under Arkansas law, a financial or bank holding company is prohibited from owning more than one subsidiary bank, if any subsidiary bank owned by the holding company has been chartered for less than five years and, further, requires the approval of the Arkansas Bank Commissioner for any acquisition of more than 25% of the capital stock of any other bank located in Arkansas. No bank acquisition may be approved if, after such acquisition, the holding company would control, directly or indirectly, banks having 25% of the total bank deposits in the state of Arkansas, excluding deposits of other banks and public funds.

Legislation enacted in 1994 allows bank holding companies (including financial holding companies) from any state to acquire banks located in any state without regard to state law, provided that the holding company (1) is adequately capitalized, (2) is adequately managed, (3) would not control more than 10% of the insured deposits in the United States or more than 30% of the insured deposits in such state, and (4) such bank has been in existence at least five years if so required by the applicable state law.

Subsidiary Banks

SFNB, Simmons First Bank of El Dorado, N.A. and Simmons First Trust Company N.A., as national banking associations, are subject to regulation and supervision, of which regular bank examinations are a part, by the Office of the Comptroller of the Currency of the United States ("OCC"). Simmons First Bank of Jonesboro, Simmons First Bank of South Arkansas, Simmons First Bank of Northwest Arkansas and Simmons First Bank of Hot Springs, as state chartered banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Deposit Insurance Corporation ("FDIC") and the Arkansas State Bank Department. Simmons First Bank of Russellville and Simmons First Bank of Searcy, as state chartered member banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Reserve Board and the Arkansas State Bank Department. The lending powers of each of the subsidiary banks are generally subject to certain restrictions, including the amount, which may be lent to a single borrower.

All of our subsidiary banks are members of the FDIC, which provides insurance on deposits of each member bank up to applicable limits by the Deposit Insurance Fund. For this protection, each bank pays a statutory assessment to the FDIC each year.

Federal law substantially restricts transactions between banks and their affiliates. As a result, our subsidiary banks are limited in making extensions of credit to the Company, investing in the stock or other securities of the Company and engaging in other financial transactions with the Company. Those transactions that are permitted must generally be undertaken on terms at least as favorable to the bank as those prevailing in comparable transactions with independent third parties.

Potential Enforcement Action for Bank Holding Companies and Banks

Enforcement proceedings seeking civil or criminal sanctions may be instituted against any bank, any financial or bank holding company, any director, officer, employee or agent of the bank or holding company, which is believed by the federal banking agencies to be violating any administrative pronouncement or engaged in unsafe and unsound practices. In addition, the FDIC may terminate the insurance of accounts, upon determination that the insured institution has engaged in certain wrongful conduct or is in an unsound condition to continue operations.

Risk-Weighted Capital Requirements for the Company and the Subsidiary Banks

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution is one that has at least a 10% "total risk-based capital" ratio. For a tabular summary of our risk-weighted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital" and Note 18, Stockholders' Equity, of the Notes to Consolidated Financial Statements.

A banking organization's qualifying total capital consists of two components: Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is an amount equal to the sum of common shareholders' equity, hybrid capital instruments (instruments with characteristics of debt and equity) in an amount up to 25% of Tier 1 Capital, certain preferred stock and the minority interest in the equity accounts of consolidated subsidiaries. For bank holding companies and

financial holding companies, goodwill (net of any deferred tax liability associated with that goodwill) may not be included in Tier 1 Capital. Identifiable intangible assets may be included in Tier 1 Capital for banking organizations, in accordance with certain further requirements. At least 50% of the banking organization's total regulatory capital must consist of Tier 1 Capital.

Tier 2 Capital is an amount equal to the sum of the qualifying portion of the allowance for loan losses, certain preferred stock not included in Tier 1, hybrid capital instruments (instruments with characteristics of debt and equity), certain long-term debt securities and eligible term subordinated debt, in an amount up to 50% of Tier 1 Capital. The eligibility of these items for inclusion as Tier 2 Capital is subject to certain additional requirements and limitations of the federal banking agencies.

Under the risk-based capital guidelines, balance sheet assets and certain off-balance sheet items, such as standby letters of credit, are assigned to one of four-risk weight categories (0%, 20%, 50%, or 100%), according to the nature of the asset, its collateral or the identity of the obligor or guarantor. The aggregate amount in each risk category is adjusted by the risk weight assigned to that category to determine weighted values, which are then added to determine the total risk-weighted assets for the banking organization. For example, an asset, such as a commercial loan, assigned to a 100% risk category, is included in risk-weighted assets at its nominal face value, but a loan secured by a one-to-four family residence is included at only 50% of its nominal face value. The applicable ratios reflect capital, as so determined, divided by risk-weighted assets, as so determined.

Federal Deposit Insurance Corporation Improvement Act

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), enacted in 1991, requires the FDIC to increase assessment rates for insured banks and authorizes one or more "special assessments," as necessary for the repayment of funds borrowed by the FDIC or any other necessary purpose. As directed in FDICIA, the FDIC has adopted a transitional risk-based assessment system, under which the assessment rate for insured banks will vary according to the level of risk incurred in the bank's activities. The risk category and risk-based assessment for a bank is determined from its classification, pursuant to the regulation, as well capitalized, adequately capitalized or undercapitalized.

FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and other federal banking statutes, requiring federal banking agencies to establish capital measures and classifications. Pursuant to the regulations issued under FDICIA, a depository institution will be deemed to be well capitalized if it significantly exceeds the minimum level required for each relevant capital measure; adequately capitalized if it meets each such measure; undercapitalized if it fails to meet any such measure; significantly undercapitalized if it is significantly below any such measure; and critically undercapitalized if it fails to meet any critical capital level set forth in regulations. The federal banking agencies must promptly mandate corrective actions by banks that fail to meet the capital and related requirements in order to minimize losses to the FDIC. The FDIC and OCC advised the Company that the subsidiary banks have been classified as well capitalized under these regulations.

The federal banking agencies are required by FDICIA to prescribe standards for banks and bank holding companies (including financial holding companies) relating to operations and management, asset quality, earnings, stock valuation and compensation. A bank or bank holding company that fails to comply with such standards will be required to submit a plan designed to achieve compliance. If no plan is submitted or the plan is not implemented, the bank or holding company would become subject to additional regulatory action or enforcement proceedings.

A variety of other provisions included in FDICIA may affect the operations of the Company and the subsidiary banks, including new reporting requirements, revised regulatory standards for real estate lending, "truth in savings" provisions, and the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch.

Temporary Liquidity Guarantee Program

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program ("TLG Program"). The TLG Program was announced by the FDIC on October 14, 2008, preceded

by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President) as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009, and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts ("IOLTA") accounts held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is an annualized 10 basis points paid quarterly on amounts in covered accounts exceeding \$250,000. On December 5, 2008, we elected to participate in both guarantee programs. On February 10, 2009, the FDIC extended the date for issuing debt under the TLG Program from June 30 to October 31, 2009. On August 26, 2009, the FDIC extended the Transaction Account Guaranty ("TAG") portion of the TLG Program for six months, through June 30, 2010. The annual assessment rate that will apply during the extension period will be raised from the initial annualized 10 basis points on amounts in covered accounts exceeding \$250,000 to either 15, 20 or 25 basis points, depending on the Risk category assigned to the participating institution under the FDIC's risk-based premium system.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry

Our business may be adversely affected by conditions in the financial markets and general economic conditions.

Since December 2007, the United States has been in a recession, although there are some indicators of improvement. Business activity across a wide range of industries and regions has been greatly reduced and local governments and many businesses are having difficulty due to the lack of consumer spending, the lack of liquidity in the credit markets and high unemployment.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon on the business environment in the state of Arkansas and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

The business environment in Arkansas could continue to deteriorate. There can be no assurance that these business and economic conditions will improve in the near term. The continuation of these conditions could adversely affect the credit quality of our loans and our results of operations and financial condition.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system.

Under the Troubled Asset Relief Program, or "TARP," the U.S. Treasury is authorized to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies. The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury allocated \$250 billion toward TARP's Capital Purchase Program to fund the purchase of equity securities from participating institutions.

Numerous actions have been taken by the United States Congress, the Federal Reserve, the Treasury, the FDIC, the SEC and other governmental agencies to address the recent liquidity and credit crisis. These actions have included, among others:

- encouraging residential mortgage loan restructuring and modification to provide homeowners relief;
- establishing significant liquidity and credit facilities for financial institutions and investment banks;
 - lowering of the federal funds rate;
 - taking emergency action against short selling practices;
 - establishing a temporary guaranty program for money market funds;
- establishing a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and
 - coordinating international efforts to address illiquidity and other weaknesses in the banking sector.

A significant goal of these legislative and regulatory actions is to stabilize the U.S. banking system. The legislative and regulatory initiatives described above may not have their desired effects or may have unintended consequences. Should these or other legislative or regulatory initiatives fail to stabilize the financial markets, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Recent increases in deposit insurance coverage and the FDIC's efforts to restore the deposit insurance fund have increased our FDIC insurance assessments and resulted in higher noninterest expense. Additional increases in deposit insurance rates may occur and continue to negatively impact our operations.

The Emergency Economic Stabilization Act of 2008, referred to as "EESA," temporarily raised the limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The limits are scheduled to return to \$100,000 on January 1, 2014. The temporary increase in insured deposits has been accompanied by a higher assessment for our subsidiary banks and will adversely affect our results of operations as an increase in noninterest expense.

Separate from the EESA, in October 2008, the FDIC announced the Temporary Liquidity Guarantee Program (the "TLG Program"). Banks that participate in the TLG Program are subject to a coverage charge of ten basis points per annum for noninterest-bearing deposit accounts exceeding the existing deposit insurance limit of \$250,000. In August 2009, the FDIC issued a final rule regarding the extension of the deposit guarantee portion of the TLG Program. Under this rule, the expiration of the program is extended to June 30, 2010. In connection with the extension, the annual fees associated with the deposit guarantee portion of the TLG Program increase from ten basis points to 15 to 25 basis points after December 31, 2009. The particular rate to be assessed will be based upon the risk category to which an institution is assigned.

In addition, the large number of recent bank failures combined with the potential for significant numbers of additional bank failures has placed significant stress on the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions uniformly by seven cents for every \$100 of deposits beginning with the first quarter of 2009, with additional charges which began April 1, 2009.

In May 2009, the FDIC voted to amend the deposit insurance fund restoration plan and impose a special assessment of 5 basis points of each insured institution's assets less its Tier 1 capital as of June 30, 2009, which was collected on September 30, 2009. Based on our deposit levels at June 30, 2009, we accrued a special assessment amount approximately \$1.4 million. The amended rule also permits the FDIC to impose an additional emergency special assessment after June 30, 2009, of up to five basis points if necessary to maintain public confidence in federal deposit insurance. The imposed special assessment, as well as any future increases in assessments, will adversely affect our noninterest expense and results of operations.

In September 2009, the FDIC announced that it would require insured banks to prepay their estimated FDIC assessments for the fourth quarter of 2009 and for the next three years on December 30, 2009. The total amount of our prepaid assessment was approximately \$11.2 million.

Should more bank failures occur, the FDIC's premium assessments may continue to increase or accelerate. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. There is a significant possibility that the FDIC will further increase or accelerate the timing of payment of FDIC insurance premiums, whether or not there are more bank failures.

Current levels of market volatility are unprecedented.

The financial markets have continued to experience significant volatility. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If financial market volatility continues or worsens, or if there are more disruptions in the financial markets, including disruptions to the United States or international banking systems, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Risks Related to Our Business

Our concentration of banking activities in Arkansas, including our real estate loan portfolio, makes us more vulnerable to adverse conditions in the particular Arkansas markets in which we operate.

Our subsidiary banks operate exclusively within the state of Arkansas, where the majority of the buildings and properties securing our loans and the businesses of our customers are located. Our financial condition, results of operations and cash flows are subject to changes in the economic conditions in our home state, the ability of our borrowers to repay their loans, and the value of the collateral securing such loans. We largely depend on the continued growth and stability of the communities we serve for our continued success. Declines in the economies of these communities or the state of Arkansas in general could adversely affect our ability to generate new loans or to receive repayments of existing loans, and our ability to attract new deposits, thus adversely affecting our net income, profitability and financial condition.

The ability of our borrowers to repay their loans could also be adversely impacted by the significant changes in market conditions in the region or by changes in local real estate markets, including deflationary effects on collateral value caused by property foreclosures. This could result in an increase in our charge-offs and provision for loan losses. Either of these events would have an adverse impact on our results of operations.

Our loan portfolio in Northwest Arkansas has been more negatively impacted than our loan portfolio comprised from other regions in Arkansas. This fact results primarily from the acute contraction in that region's economy and its real estate markets as compared to Arkansas as a whole. In 2009 we have put an additional \$5 million in capital into our Northwest Arkansas bank. A continued deterioration of the Northwest Arkansas economy or its failure to fully participate in an economic recovery could require us to further tighten our local lending standards, inject more capital into our Northwest Arkansas bank and increase allowances for loan losses relative to loans made in the region.

A significant decline in general economic conditions caused by inflation, recession, unemployment, acts of terrorism or other factors beyond our control could also have an adverse effect on our financial condition and results of operations. In addition, because multi-family and commercial real estate loans represent the majority of our real estate loans outstanding, a decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of our borrowers to repay their loans on a timely basis, which could have a negative impact on our results of operations.

Deteriorating credit quality, particularly in our credit card portfolio, may adversely impact us.

We have a significant consumer credit card portfolio. We have experienced an increased amount of net charge-offs in our credit card portfolio in 2009, which could continue or worsen. While we continue to experience a better performance with respect to net charge-offs than the national average in our credit card portfolio, our net charge-offs nevertheless increased to 2.41% of our average outstanding credit card balances for the quarter ended December 31, 2009, from 2.02% of the average outstanding balances for the quarter ended on December 31, 2008. The current economic downturn could adversely affect consumers in a more delayed fashion compared to commercial businesses

in general. Increasing unemployment and diminished asset values may prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a material adverse effect on our unsecured credit card portfolio.

Changes to consumer protection laws may impede our origination or collection efforts with respect to credit card accounts, change account holder use patterns or reduce collections, any of which may result in decreased profitability of our credit card portfolio.

Credit card receivables that do not comply with consumer protection laws may not be valid or enforceable under their terms against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables. For instance, the federal Truth in Lending Act was recently amended by the “Credit Card Accountability, Responsibility and Disclosure Act of 2009,” or the “Credit CARD Act,” which, among other things:

- prevents any increases in interest rates and fees during the first year after a credit card account is opened, and increases at any time on interest rates on existing credit card balances, unless (i) the minimum payment on the related account is 60 or more days delinquent, (ii) the rate increase is due to the expiration of a promotional rate, (iii) the account holder fails to comply with a negotiated workout plan or (iv) the increase is due to an increase in the index rate for a variable rate credit card;
 - requires that any promotional rates for credit cards be effective for at least six months;
- requires 45 days notice for any change of an interest rate or any other significant changes to a credit card account;
- empowers federal bank regulators to promulgate rules to limit the amount of any penalty fees or charges for credit card accounts to amounts that are “reasonable and proportional to the related omission or violation;” and
- requires credit card companies to mail billing statements 21 calendar days before the due date for account holder payments.

As a result of the Credit CARD Act and other consumer protection laws and regulations, it may be more difficult for us to originate additional credit card accounts or to collect payments on credit card receivables, and the finance charges and other fees that we can charge on credit card account balances may be reduced. Furthermore, account holders may choose to use credit cards less as a result of these consumer protection laws. Each of these results, independently or collectively, could reduce the effective yield on revolving credit card accounts and could result in decreased profitability of our credit card portfolio.

Our growth and expansion strategy may not be successful, and our market value and profitability may suffer.

We have historically employed, as important parts of our business strategy, growth through acquisition of banks and, to a lesser extent, through branch acquisitions and de novo branching. Any future acquisitions, including any FDIC-assisted transactions, in which we might engage will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other risks:

- credit risk associated with the acquired bank’s loans and investments;
 - difficulty of integrating operations and personnel; and
 - potential disruption of our ongoing business.

In the current economic environment, we anticipate that in addition to opportunities to acquire other banks in privately negotiated transactions, we may also have opportunities to bid to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks. Because FDIC-assisted acquisitions are structured in a manner that would not allow us the time normally associated with due diligence investigations prior to committing to purchase the target bank or preparing for integration of an acquired bank, we may face additional risks in FDIC-assisted transactions. These risks include, among other things:

- loss of customers of the failed bank;
- strain on management resources related to collection and management of problem loans; and
 - problems related to integration of personnel and operating systems.

In addition to pursuing the acquisition of existing viable financial institutions or the acquisition of assets and liabilities of failed banks in FDIC-assisted transactions, as opportunities arise we may also continue to engage in de novo branching to further our growth strategy. De novo branching and growing through acquisition involve numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- the significant costs and potential operating losses associated with establishing a de novo branch or a new bank;
 - the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
 - the risk of encountering an economic downturn in the new market;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
 - the additional strain on management resources and internal systems and controls.

We expect that competition for suitable acquisition candidates, whether such candidates are viable banks or are the subject of an FDIC-assisted transaction, will be significant. We may compete with other banks or financial service companies that are seeking to acquire our acquisition candidates, many of which are larger competitors and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions. Further, we cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions and de novo branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business and growth strategy and maintain or increase our market value and profitability.

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We may not be able to sustain our historical rate of growth or be able to expand our business. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. We may also be unable to identify advantageous acquisition opportunities or, once identified, enter into transactions to make such acquisitions. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, fluctuations in interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits as we have a base of lower cost transaction deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs. Also, changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

We have been active in making student loans and this part of our business could decrease or terminate in the future.

Our subsidiary banks historically have been active in the student loan market and our student loan portfolio has been profitable in the past. Recent interruptions in the credit markets and certain changes in the federal government programs affecting student loans, however, have decreased the marketability of student loans and increased our holding period for such loans. These events have increased our expenses associated with making and holding student loans and have decreased the profitability of making such loans. The federal government is currently considering additional revisions to the student loan program which may either eliminate participation by banks or substantially reduce the profitability to banks of participating in student loan programs. Future regulatory and legislative changes

may further decrease the profitability of our student loan portfolio and may cause us to decrease the size of the student loan portfolio or eliminate it all together. Eliminating or decreasing that portfolio could adversely affect our profitability in the future.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our subsidiary banks to maintain adequate levels of capital to support our operations. Many circumstances could require us to seek additional capital, such as:

- faster than anticipated growth;
 - reduced earning levels;
 - operating losses;
- changes in economic conditions;
- revisions in regulatory requirements; or
- additional acquisition opportunities.

Our ability to raise additional capital will largely depend on our financial performance, and on conditions in the capital markets which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations or to engage in acquisitions could be materially impaired.

Accounting standards periodically change and the application of our accounting policies and methods may require management to make estimates about matters that are uncertain.

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board and the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our financial statements can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

In addition, our management must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require management to make difficult, subjective or complex judgments about matters that are uncertain.

The Federal Reserve Board's source of strength doctrine could require that we divert capital to our subsidiary banks instead of applying available capital towards planned uses, such as engaging in acquisitions or paying dividends to shareholders.

The Federal Reserve Board's policies and regulations require that a bank holding company, including a financial holding company, serve as a source of financial strength to its subsidiary banks, and further provide that a bank holding company may not conduct operations in an unsafe or unsound manner. It is the Federal Reserve Board's policy that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity, such as during periods of significant loan losses, and that such holding company should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks if such a need were to arise.

A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board's regulations, or both. Accordingly, if the financial condition of our subsidiary banks were to deteriorate, we could be compelled to provide financial support to our subsidiary banks at a time when, absent such Federal Reserve Board

policy, we may not deem it advisable to provide such assistance. Under such circumstances, there is a possibility that we may not either have adequate available capital or feel sufficiently confident regarding our financial condition, to enter into acquisitions, pay dividends, or engage in other corporate activities.

We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

Our management has broad discretion over the use of proceeds from our recent common stock offering.

Although we have indicated our intent to use the proceeds from our recent common stock offering for general corporate purposes, including funding internal growth and selected future acquisitions, our Board of Directors retains significant discretion with respect to the use of proceeds from this offering. If we use the funds to acquire other businesses, there can be no assurance that any business we acquire will be successfully integrated into our operations or otherwise perform as expected. Likewise, other uses of the proceeds from this offering may not generate favorable returns for us.

Risks Related to Owning Our Stock

The holders of our subordinated debentures have rights that are senior to those of our shareholders. If we defer payments of interest on our outstanding subordinated debentures or if certain defaults relating to those debentures occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to our common stock.

We have \$30.9 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may issue additional series of subordinated debt securities in the future with terms similar to those of our existing subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock.

We may be unable to, or choose not to, pay dividends on our common stock.

We cannot assure you of our ability to continue to pay dividends. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our subsidiary banks, is subject to federal and state laws that limit the ability of those banks to pay dividends;
- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition; and
- Our Board of Directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our subsidiary banks become unable to pay dividends to us, we may not be able to service our debt or pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our subsidiary banks could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the value of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of our articles of incorporation and by-laws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

The principal offices of the Company and the lead bank consist of an eleven-story office building and adjacent office space located in the central business district of the city of Pine Bluff, Arkansas. Additionally, we also have corporate offices located in Little Rock, Arkansas.

The Company and its subsidiaries own or lease additional offices throughout the state of Arkansas. The Company and its eight banks conduct financial operations from 88 offices, of which 84 are financial centers, in 47 communities throughout Arkansas.

ITEM 3. LEGAL PROCEEDINGS

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 were seeking \$2,000,000 in compensatory damages and \$10,000,000 in punitive damages. The Company and the banks filed Motions to Dismiss. The plaintiffs were granted additional time to discover any evidence for litigation, and 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 was 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. On August 18, 2009, Plaintiffs took a nonsuit on

their remaining claim of breach of good faith and fair dealing, thereby bringing all claims set forth in this action to a conclusion.

Plaintiffs subsequently filed their Notice of Appeal to the appellate court, have timely lodged the transcript with the Supreme Court Clerk, and a briefing schedule has been issued. The Company intends to contest the appeal and seek affirmance of the Court's dismissal of Plaintiffs' claims. At this time, no basis for any material liability has been identified.

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

No matters were submitted to a vote of security-holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the NASDAQ Global Select Market under the symbol "SFNC." Set forth below are the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for each quarter of the fiscal years ended December 31, 2009 and 2008. Also set forth below are dividends declared per share in each of these periods:

	Price Per		Quarterly
	Common Share		Dividends
	High	Low	Per
			Common
			Share
2009			
1st quarter	\$29.54	\$20.30	\$0.19
2nd quarter	30.02	23.90	0.19
3rd quarter	30.84	26.15	0.19
4th quarter	30.00	24.50	0.19
2008			
1st quarter	\$29.90	\$24.00	\$0.19
2nd quarter	32.99	27.82	0.19
3rd quarter	36.49	26.20	0.19
4th quarter	35.00	22.41	0.19

On February 5, 2010, the closing price for our common stock as reported on the NASDAQ was \$25.97. As of February 5, 2010, there were 1,337 shareholders of record of our common stock.

The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all.

Our principal source of funds for dividend payments to our stockholders is distributions, including dividends, from our subsidiary banks, which are subject to restrictions tied to such institution's earnings. Under applicable banking laws, the declaration of dividends by the lead bank and Simmons First Bank of El Dorado in any year, in excess of its net profits, as defined, for that year, combined with its retained net profits of the preceding two years, must be approved by the Office of the Comptroller of the Currency. Further, as to Simmons First Bank of Jonesboro, Simmons First Bank of Northwest Arkansas, Simmons First Bank of South Arkansas, Simmons First Bank of Hot Springs, Simmons First Bank of Russellville and Simmons First Bank of Searcy, regulators have specified that the maximum dividends state banks may pay to the parent company without prior approval is 75% of the current year

earnings plus 75% of the retained net earnings of the preceding year. At December 31, 2009, approximately \$15.2 million was available for the payment of dividends by the subsidiary banks without regulatory approval. For further discussion of restrictions on the payment of dividends, see "Quantitative and Qualitative Disclosures About Market Risk – Liquidity and Market Risk Management," and Note 18, Stockholders' Equity, of Notes to Consolidated Financial Statements.

Stock Repurchase

On November 28, 2007, we announced the substantial completion of the existing stock repurchase program and the adoption by the Board of Directors of a new 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 we intend to repurchase. 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. We intend to use the repurchased shares to satisfy stock option exercise, payment of future stock dividends and general corporate purposes. We may discontinue purchases at any time that management determines additional purchases are not warranted. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008. We made no purchases of our common stock during the three months or year ended December 31, 2009. Because of the recently completed stock offering and based on our strategy to retain capital, we do not anticipate resuming our stock repurchase during 2010.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Bank Stock Index and the S&P 500 Stock Index. The graph assumes an investment of \$100 on December 31, 2004 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future performance.

Index	Period Ending					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Simmons First National Corporation	100.00	97.93	113.63	98.55	112.44	109.17
NASDAQ Bank Index	100.00	95.67	106.20	82.76	62.96	51.31
S&P 500 Index	100.00	104.91	121.48	128.16	80.74	102.11

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Results from past periods are not necessarily indicative of results that may be expected for any future period.

Management believes that certain non-GAAP measures, including diluted core earnings per share, tangible book value, the ratio of tangible common equity to tangible assets, tangible stockholders' equity and return on average tangible equity, may be useful to analysts and investors in evaluating the performance of our Company. We have included certain of these non-GAAP measures, including cautionary remarks regarding the usefulness of these analytical tools, in this table. The selected consolidated financial data set forth below should be read in conjunction with the financial statements of the Company and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

(In thousands, except per share & other data)	Years Ended December 31				
	2009	2008	2007	2006	2005
Income statement data:					
Net interest income	\$97,727	\$94,017	\$92,116	\$88,804	\$90,257
Provision for loan losses	10,316	8,646	4,181	3,762	7,526
Net interest income after provision for loan losses	87,411	85,371	87,935	85,042	82,731
Non-interest income	52,711	49,326	46,003	43,947	42,318
Non-interest expense	104,722	96,360	94,197	89,068	85,584
Income before taxes	35,400	38,337	39,741	39,921	39,465
Provision for income taxes	10,190	11,427	12,381	12,440	12,503
Net income	\$25,210	\$26,910	\$27,360	\$27,481	\$26,962
Per share data:					
Basic earnings	1.75	1.93	1.95	1.93	1.88
Diluted earnings	1.74	1.91	1.92	1.90	1.84
Diluted core earnings (non-GAAP) (1)	1.74	1.73	1.97	1.90	1.84
Book value	21.72	20.69	19.57	18.24	17.04
Tangible book value (non-GAAP) (2)	18.07	16.16	14.97	13.68	12.46
Dividends	0.76	0.76	0.73	0.68	0.61
Basic average common shares outstanding	14,375,323	13,945,249	14,043,626	14,226,481	14,375,005
Diluted average common shares outstanding	14,465,718	14,107,943	14,241,182	14,474,812	14,686,927
Balance sheet data at period end:					
Assets	3,093,322	2,923,109	2,692,447	2,651,413	2,523,768
Investment securities	646,915	646,134	530,930	527,126	521,789

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Total loans	1,874,989	1,933,074	1,850,454	1,783,495	1,718,107					
Allowance for loan losses	25,016	25,841	25,303	25,385	26,923					
Goodwill & other intangible assets	62,374	63,180	63,987	64,804	65,634					
Non interest bearing deposits	363,154	334,998	310,181	305,327	331,113					
Deposits	2,432,172	2,336,333	2,182,857	2,175,531	2,059,958					
Long-term debt	128,894	127,741	51,355	52,381	56,090					
Subordinated debt & trust preferred	30,930	30,930	30,930	30,930	30,930					
Stockholders' equity	371,247	288,792	272,406	259,016	244,085					
Tangible stockholders' equity (non GAAP) (2)	308,873	225,612	208,419	194,212	178,451					
Capital ratios at period end:										
Stockholders' equity to total assets	12.00	%	9.88	%	10.12	%	9.77	%	9.67	%
Tangible common equity to tangible assets										
(non-GAAP) (3)	10.19	%	7.89	%	7.93	%	7.51	%	7.26	%
Tier 1 leverage ratio	11.64	%	9.15	%	9.06	%	8.83	%	8.62	%
Tier 1 risk-based ratio	17.91	%	13.24	%	12.43	%	12.38	%	12.26	%
Total risk-based capital ratio	19.17	%	14.50	%	13.69	%	13.64	%	13.54	%
Dividend payout	43.68	%	39.79	%	38.02	%	35.79	%	33.15	%

Annualized performance ratios:										
Return on average assets	0.85	%	0.94	%	1.03	%	1.07	%	1.08	%
Return on average equity	8.26	%	9.54	%	10.26	%	10.93	%	11.24	%
Return on average tangible equity (non-GAAP) (2) (4)	10.61	%	12.54	%	13.78	%	15.03	%	15.79	%
Net interest margin (5)	3.78	%	3.75	%	3.96	%	3.96	%	4.13	%
Efficiency ratio (6)	65.69	%	66.84	%	64.94	%	64.81	%	62.30	%

Balance sheet ratios:

Nonperforming assets as a percentage of										
period-end assets	1.12	%	0.64	%	0.51	%	0.45	%	0.40	%
Nonperforming loans as a percentage of period-end loans										
	1.35	%	0.81	%	0.60	%	0.56	%	0.49	%

Nonperforming assets as a percentage of

period-end loans & OREO	1.83	%	0.96	%	0.75	%	0.67	%	0.58	%
Allowance/to nonperforming loans	98.81	%	165.12	%	226.10	%	252.46	%	319.48	%
Allowance for loan losses as a percentage of period-end loans										
	1.33	%	1.34	%	1.37	%	1.42	%	1.57	%
Net (recoveries) charge-offs as a percentage of average loans										
	0.58	%	0.43	%	0.23	%	0.22	%	0.43	%

Other data

Number of financial centers	84		84		83		81		79	
Number of full time equivalent employees	1,091		1,123		1,128		1,134		1,110	

(1) Diluted core earnings (net income excluding nonrecurring items) is a non-GAAP measure. The following nonrecurring items were excluded in the calculation of diluted core earnings per share (non-GAAP). In 2008, the Company recorded a \$0.13 increase in EPS from the cash proceeds on a mandatory Visa stock redemption and a \$0.05 increase in EPS from the reversal of Visa, Inc.'s litigation expense recorded in 2007. In 2007, the Company recorded a \$0.05 reduction in EPS from litigation expense associated with the recognition of certain contingent liabilities related to Visa, Inc.'s litigation.

(2) Because of our significant level of intangible assets, total goodwill and core deposit premiums, management believes a useful calculation for investors in their analysis of our Company is tangible book value per share (non-GAAP). This non-GAAP calculation eliminates the effect of goodwill and acquisition related intangible assets and is calculated by subtracting goodwill and intangible assets from total stockholders' equity, and dividing the resulting number by the common stock outstanding at period end. The following table reflects the reconciliation of this non-GAAP measure to the GAAP presentation of book value for the periods presented above:

(In thousands, except per share & other data)	Years Ended December 31				
	2009	2008	2007	2006	2005
Stockholders' equity	\$ 371,247	\$ 288,792	\$ 272,406	\$ 259,016	\$ 244,085
Less: Intangible assets					

Goodwill	60,605	60,605	60,605	60,605	60,605
Other intangibles	1,769	2,575	3,382	4,199	5,029
Tangible stockholders' equity (non-GAAP)	\$ 308,873	\$ 225,612	\$ 208,419	\$ 194,212	\$ 178,451
Book value per share	\$ 21.72	\$ 20.69	\$ 19.57	\$ 18.24	\$ 17.04
Tangible book value per share (non-GAAP)	\$ 18.07	\$ 16.16	\$ 14.97	\$ 13.68	\$ 12.46
Shares outstanding	17,093,931	13,960,680	13,918,368	14,196,855	14,326,923

(3) Tangible common equity to tangible assets ratio is tangible stockholders' equity (non-GAAP) divided by total assets less goodwill and other intangible assets as and for the periods ended presented above.

(4) Return on average tangible equity is a non-GAAP measure that removes the effect of goodwill and intangible assets, as well as the amortization of intangibles, from the return on average equity. This non-GAAP measure is calculated as net income, adjusted for the tax-effected effect of intangibles, divided by average tangible equity.

(5) Fully taxable equivalent (assuming an income tax rate of 37.5%).

(6) The efficiency ratio is total non-interest expense less foreclosure expense and amortization of intangibles, divided by the sum of net interest income on a fully taxable equivalent basis plus total non-interest income less security gains, net of tax. For the year ended December 31, 2009, this calculation excludes the FDIC special assessment of \$1.4 million from total non-interest expense. For the year ended December 31, 2008, this calculation adds the VISA litigation expense reversal of \$1.2 million to total non-interest expense and excludes gain on partial redemption of Visa shares of \$3.0 million from total non-interest income. For the year ended December 31, 2007, this calculation excludes VISA litigation expense of \$1.2 million from total non-interest expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

Overview

As discussed in Note 16, New Accounting Standards, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report, on July 1, 2009, the Accounting Standards Codification ("ASC") became the Financial Accounting Standards Board's ("FASB") officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") for all nongovernmental entities, with the exception of guidance issued by the SEC and its staff. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. We adopted this accounting standard in preparing the Consolidated Financial Statements beginning with the period ended September 30, 2009.

We follow accounting and reporting policies that 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 we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider 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 our 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 our ongoing risk management system.

A loan is considered impaired when it is probable that we 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 we established based on our 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. We perform an annual goodwill impairment test, and more than annually if circumstances warrant, in accordance with ASC Topic 350, Intangibles – Goodwill and Other. ASC Topic 350 requires that goodwill and intangible assets that have indefinite lives be reviewed for impairment annually, or more frequently if certain conditions occur. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Employee Benefit Plans

We have 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 ASC Topic 718, Compensation – Stock Compensation, 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 10, Employee Benefit Plans, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

We are subject to the federal income tax laws of the United States, and the tax laws of the states and other jurisdictions where we conduct 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 income 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.

2009 Overview

Our net income for the year ended December 31, 2009, was \$25.2 million, a 6.3% decrease from net income of \$26.9 million in 2008. Net income in 2007 was \$27.4 million. Diluted earnings per share decreased \$0.17, or 8.9%, to \$1.74 in 2009 compared to \$1.91 in 2008. Diluted earnings per share in 2007 were \$1.92.

During the first quarter of 2008, we 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 our 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, we received cash proceeds from the mandatory partial redemption of our 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. Excluding these nonrecurring items, our core earnings per share increased by \$0.01 in 2009 over 2008. See Reconciliation of

Non-GAAP Measures and Table 20 - Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

At December 31, 2009, our loan portfolio totaled \$1.875 billion, which is a \$58.1 million, or 3.0%, decrease from the same period last year. This decrease was due due primarily to a \$49.8 million decrease in real estate loans, primarily in construction and development loans. Even during this period of soft loan demand, our consumer loan portfolio increased by \$23.8 million, or 5.7%, primarily driven by a \$19.5 million increase in credit card balances.

Although the general state of the national economy remains volatile, and despite the challenges in the Northwest Arkansas region, we continue to maintain relatively good asset quality. The allowance for loan losses as a percent of total loans was 1.33% at December 31, 2009. Non-performing loans equaled 1.35% of total loans, up 54 basis points from 2008. Non-performing assets were 1.12% of total assets, up 48 basis points from 2008. The allowance for loan losses was 99% of non-performing loans. The Company's annualized net charge-offs for 2009 were 0.75% of total loans. Excluding credit cards, annualized net charge-offs for 2009 were 0.57% of total loans. Net credit card charge-offs for 2009 were 2.61%, more than 750 basis points below the most recently published credit card charge-off industry average. We do not own any securities backed by subprime mortgage assets and we have no mortgage loan products that target subprime borrowers.

Total assets at December 31, 2009, were \$3.093 billion, an increase of \$170 million, or 5.8%, over the period ended December 31, 2008. Stockholders' equity as of December 31, 2009, was \$371.2 million, an increase of \$82.4 million, or approximately 28.6%, from December 31, 2008. Approximately \$70.5 million of the increase in stockholders' equity was the result of the secondary stock offering we completed in December 2009, in which we issued a total of 3,047,500 shares of common stock, including the over-allotment, at a price of \$24.50 per share, less underwriting discounts and commissions

Simmons First National Corporation is an Arkansas based, Arkansas committed financial holding company with \$3.1 billion in assets and eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. Our eight subsidiary banks conduct financial operations from 88 offices, of which 84 are financial centers, 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 us to participate in the CPP at a level up to \$59.7 million. At a Special Meeting of Shareholders held on February 27, 2009, our 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. We were the thirty-second bank in the country to be approved. Our 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, we requested and were granted an extension by the Treasury due to the ambiguity and uncertainty regarding the ability to repay the funds at the time of our choosing.

On July 7, 2009, management notified the Treasury that the Company would not participate in the CPP. After careful consideration and analysis, The Arkansas economy continued doing well relative to many other geographic regions of the country, and we continued to have strong asset quality, liquidity and capital. Accordingly, we did not believe our participation in the CPP was necessary nor in the best interest of our shareholders.

Net Interest Income

Net interest income, our 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 Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, began 2006 at 7.25% and increased 50 basis points in the first quarter and 50 basis points in the second quarter to end the year at 8.25%. During 2007, the prime interest rate decreased 50 basis points in the third quarter and 50 basis points in the fourth quarter to end the year at 7.25%. During 2008, the prime interest rate decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175 basis points in the fourth quarter to end the year at 3.25%. The prime interest rate remained at 3.25% throughout 2009.

The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began 2006 at 4.25%. During 2006, the Federal Funds rate increased 50 basis points in the first quarter and 50 basis points in the second quarter to end the year at 5.25%. During 2007, the Federal Funds rate decreased 50 basis points in the third quarter and 50 basis points in the fourth quarter to end the year at 4.25%. During 2008, the Federal Funds rate decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175-200 basis points in the fourth quarter to end the year at 0.00%-0.25%. The Federal Funds rate remained unchanged throughout 2009.

Our 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 our loan portfolio and approximately 80% of our time deposits have repriced in one year or less. These historical percentages are consistent with our current interest rate sensitivity.

For the year ended December 31, 2009, net interest income on a fully taxable equivalent basis was \$102.7 million, an increase of \$4.6 million, or 4.7%, from the same period in 2008. The increase in net interest income was the result of a \$23.3 million decrease in interest expense offset by an \$18.7 million decrease in interest income. As a result, the net interest margin was 3.78% for the year ended December 31, 2009, an increase of 3 basis points from 2008.

The \$23.3 million decrease in interest expense for 2009 is primarily the result of a 108 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, partially offset by a \$57.3 million increase in average interest bearing liabilities. The growth in average interest bearing liabilities was primarily due to our initiatives to enhance liquidity during 2008 and 2009 through (1) the introduction of a new high yield investment deposit account and (2) securing additional long-term FHLB advances. The lower interest rates accounted for a \$22.8 million decrease in interest expense. The most significant component of this decrease was the \$12.6 million decrease associated with the repricing of our 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 our time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 131 basis points from 3.74% to 2.43%. Lower rates on federal funds purchased and other debt resulted in an additional \$1.7 million decrease in interest expense, with the average rate paid on debt decreasing by 108 basis points from 2.77% to 1.69%. The higher level of average interest bearing liabilities resulted in a \$522,000 decrease in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately \$50.3 million from internal deposit growth and \$7.0 million in federal funds purchased and other debt.

The \$18.7 million decrease in interest income for 2009 is primarily the result of a 91 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a \$95.8 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a \$24.3 million decrease in interest income. The most significant component of this decrease was the \$14.6 million decrease associated with the repricing of our 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 our loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio decreased 76 basis points from 6.68% to 5.92%. The growth in average interest earning assets resulted in a \$5.5 million improvement in interest income. The growth in investment securities accounted for \$3.0 million of the increase, while the growth in average loans resulted in \$2.2 million of this increase.

Our net interest margin decreased 21 basis points to 3.75% for the year ended December 31, 2008, when compared to 3.96% for the same period in 2007. Based on our current interest rate risk pricing model, we anticipate flat to slight margin improvement in 2010.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2009, 2008 and 2007, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2009 versus 2008 and 2008 versus 2007.

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

(In thousands)	2009	Years Ended December 31		2007
		2008	2008	
Interest income	\$136,533	\$156,141		\$168,536
FTE adjustment	4,935	4,060		3,463
Interest income - FTE	141,468	160,201		171,999
Interest expense	38,806	62,124		76,420
Net interest income - FTE	\$102,662	\$98,077		\$95,579
Yield on earning assets - FTE	5.21	% 6.12	% 7.13	%
Cost of interest bearing liabilities	1.69	% 2.77	% 3.69	%
Net interest spread - FTE	3.52	% 3.35	% 3.44	%
Net interest margin - FTE	3.78	% 3.75	% 3.96	%

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	2009 vs. 2008	2008 vs. 2007
Increase due to change in earning assets	\$5,523	\$10,688
(Decrease) due to change in earning asset yields	(24,256)	(22,486)
Increase due to change in interest rates paid on interest bearing liabilities	22,796	16,216
Increase (decrease) due to change in interest bearing liabilities	522	(1,920)
Increase in net interest income	\$4,585	\$2,498

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 each of the years in the three-year period ended December 31, 2009. 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. Nonaccrual 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)	Years Ended December 31			2008			2007		
	Average Balance	2009 Income/ Expense	Yield/ Rate(%)	Average Balance	2008 Income/ Expense	Yield/ Rate(%)	Average Balance	2007 Income/ Expense	Yield/ Rate(%)
ASSETS									
Earning Assets									
Interest bearing balances due from banks	\$ 120,763	\$ 439	0.36	\$ 83,547	\$ 1,415	1.69	\$ 22,957	\$ 1,161	5.06
Federal funds sold	4,271	27	0.63	34,577	748	2.16	26,798	1,418	5.29
Investment securities - taxable	448,918	13,896	3.10	437,612	21,057	4.81	395,388	18,362	4.64
Investment securities - non-taxable	196,446	12,632	6.43	157,793	10,173	6.45	131,369	8,454	6.44
Mortgage loans held for sale	12,428	608	4.89	6,909	411	5.95	7,971	505	6.34
Assets held in trading accounts	6,187	20	0.32	5,711	73	1.28	4,958	100	2.02
Loans	1,924,317	113,846	5.92	1,891,357	126,324	6.68	1,822,777	141,999	7.79
Total interest earning assets	2,713,330	141,468	5.21	2,617,506	160,201	6.12	2,412,218	171,999	7.13
Non-earning assets	251,282			250,675			254,656		
Total assets	\$ 2,964,612			\$ 2,868,181			\$ 2,666,874		
LIABILITIES AND STOCKHOLDERS' EQUITY									

Liabilities									
Interest bearing liabilities									
Interest bearing transaction and savings deposits									
	\$ 1,091,960	\$ 8,252	0.76	\$ 959,567	\$ 14,924	1.56	\$ 736,160	\$ 13,089	1.78
Time deposits	939,358	22,794	2.43	1,021,427	38,226	3.74	1,124,557	52,385	4.66
Total interest bearing deposits									
	2,031,318	31,046	1.53	1,980,994	53,150	2.68	1,860,717	65,474	3.52
Federal funds purchased and securities sold under agreement to repurchase									
	107,975	769	0.71	113,964	2,110	1.85	113,167	5,371	4.75
Other borrowed funds									
Short-term debt									
	2,583	33	1.28	4,333	111	2.56	14,757	804	5.45
Long-term debt									
	160,963	6,958	4.32	146,218	6,753	4.62	81,408	4,771	5.86
Total interest bearing liabilities									
	2,302,839	38,806	1.69	2,245,509	62,124	2.77	2,070,049	76,420	3.69
Non-interest bearing liabilities									
Non-interest bearing deposits									
	332,998			317,772			307,041		
Other liabilities									
	23,565			22,714			23,156		
Total liabilities									
	2,659,402			2,585,995			2,400,246		
Stockholders' equity									
	305,210			282,186			266,628		
Total liabilities and									

stockholders'							
equity	\$ 2,964,612		\$ 2,868,181		\$ 2,666,874		
Net interest							
spread		3.52		3.35			3.44
Net interest							
margin	\$ 102,662	3.78	\$ 98,077	3.75	\$ 95,579		3.96

Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for each of the years ended December 31, 2009 and 2008, as compared to prior years. 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)	Years Ended December 31 2009 over 2008			2008 over 2007		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in						
Interest income						
Interest bearing balances due from banks	\$ 451	\$ (1,427)	\$ (976)	\$ 1,436	\$ (1,182)	\$ 254
Federal funds sold	(399)	(322)	(721)	332	(1,002)	(670)
Investment securities - taxable	531	(7,692)	(7,161)	2,094	571	2,665
Investment securities - non-taxable	2,485	(26)	2,459	1,704	15	1,719
Mortgage loans held for sale	281	(84)	197	(64)	(30)	(94)
Assets held in trading accounts	6	(59)	(53)	2	1	3
Loans	2,168	(14,646)	(12,478)	5,184	(20,859)	(15,675)
Total	5,523	(24,256)	(18,733)	10,688	(22,486)	(11,798)
Interest expense						
Interest bearing transaction and savings deposits	1,835	(8,507)	(6,672)	3,620	(1,785)	1,835
Time deposits	(2,870)	(12,562)	(15,432)	(4,504)	(9,655)	(14,159)
Federal funds purchased and securities sold under agreements to repurchase	(106)	(1,235)	(1,341)	38	(3,299)	(3,261)
Other borrowed funds						
Short-term debt	(35)	(43)	(78)	(396)	(297)	(693)
Long-term debt	654	(449)	205	3,162	(1,180)	1,982
Total	(522)	(22,796)	(23,318)	1,920	(16,216)	(14,296)
Increase (decrease) in net interest income	\$ 6,045	\$ (1,460)	\$ 4,585	\$ 8,768	\$ (6,270)	\$ 2,498

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 2009, 2008 and 2007, was \$10.3 million, \$8.6 million and \$4.2 million, respectively. During 2009, we increased our provision by approximately \$1.7 million, primarily due to increases in net credit card charge-offs, increases in non-performing loans and a continued deterioration of the real estate market in the Northwest Arkansas region. The 2008 increase was related to special provisions totaling approximately \$2.4 million for possible loan losses in the Northwest Arkansas region and credit card charge-off increases from the historical lows we experienced in 2007 and 2006.

Non-Interest Income

Total non-interest income was \$52.7 million in 2009, compared to \$49.3 million in 2008 and \$46.0 million in 2007. Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance and gains (losses) from sales of securities.

Table 5 shows non-interest income for the years ended December 31, 2009, 2008 and 2007, respectively, as well as changes in 2009 from 2008 and in 2008 from 2007.

Table 5: Non-Interest Income

(In thousands)	Years Ended December 31			2009 Change from 2008		2008 Change from 2007	
	2009	2008	2007				
Trust income	\$ 5,227	\$ 6,230	\$ 6,218	\$ (1,003)	-16.10 %	\$ 12	0.19 %
Service charges on deposit accounts	17,944	15,145	14,794	2,799	18.48	351	2.37
Other service charges and fees	2,668	2,681	3,016	(13)	-0.48	(335)	-11.11
Income on sale of mortgage loans, net of commissions	4,032	2,606	2,766	1,426	54.72	(160)	-5.78
Income on investment banking, net of commissions	2,153	1,025	623	1,128	110.05	402	64.53
Credit card fees	14,392	13,579	12,217	813	5.99	1,362	11.15
Premiums on sale of student loans	2,333	1,134	2,341	1,199	105.73	(1,207)	-51.56
Bank owned life insurance income	1,270	1,547	1,493	(277)	-17.91	54	3.62
Gain on mandatory partial redemption of Visa shares	--	2,973	--	(2,973)	-100.00	2,973	--
Other income	2,548	2,406	2,535	142	5.90	(129)	-5.09
Gain (loss) on sale of securities, net	144	--	--	144	--	--	--
Total non-interest income	\$ 52,711	\$ 49,326	\$ 46,003	\$ 3,385	6.86 %	\$ 3,323	7.22 %

Recurring fee income for 2009 was \$40.2 million, an increase of \$2.6 million, or 6.9%, when compared with the 2008 amounts. Service charges on deposit accounts increased by \$2.8 million, principally due to changes in our fee structure, along with core deposit growth. Credit card fees increased \$814, 000, primarily due to a higher volume of credit and debit card transactions, with the credit card volume increase a direct result of the addition of new credit card accounts in 2007 through 2009. Trust income decreased \$1.0 million, primarily due to the sharp decline seen in our money fund shareholder service fees in the corporate trust area as money market rates have gone to near zero. We

anticipate those revenues will return when rates begin to rise. Also, we had some large one-time estate administration fees in 2008 that impacted the decrease in fees in 2009.

Recurring fee income for 2008 was \$37.6 million, an increase of \$1.4 million, or 3.8%, when compared with the 2007 amounts. Service charges on deposit accounts increased by \$351,000, principally due improvement in our fee structure, along with core deposit growth. Other service charges and fees decreased by \$335,000, primarily due to a decrease in commission revenue from a third party official check vendor as a result of a contract expiration and the change in business related to Check 21. Credit card fees increased \$1.4 million, primarily due to a higher volume of credit and debit card transactions, with the credit card volume increase a direct result of the addition of new credit card accounts in 2007 and 2008.

Income on sale of mortgage loans increased by \$1.4 million, or 54.7%, in 2009 compared to 2008. Lower mortgage rates led to a significant increase in residential financing and refinancing volume. Like the rest of the industry, a significant portion of the increase came from refinancing. However, the federal first time buyer program was also a major stimulus for our overall mortgage production.

During the year ended December 31, 2009, income on investment banking increased \$1.1 million, or 110%, from the year ended 2008. This improvement was primarily due to a volume-driven revenue increase in our dealer bank operation, which carried over from 2008. During 2008, income on investment banking increased \$402,000, or 64.5%, from 2007, due to additional sales volume driven by the interest rate environment, called securities and customer liquidity.

Premiums on sale of student loans increased by \$1.2 million, or 106%, for the year ended December 31, 2009, compared to 2008. Premiums on sale of student loans had decreased by \$1.2 million from 2007 to 2008. These fluctuations in income from student loan sales are due to timing of sales and do not reflect historical levels of income.

During 2008, the student loan industry began going through major challenges related to secondary market liquidity, leaving the Company with no private market to sell student loans at a premium. 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. We sold one package of student loans into the government program during the second quarter of 2009, and, during the third quarter of 2009, sold the remaining student loans originated and fully funded during the 2008-2009 school year. The federal government has announced a one-year extension of its program to purchase student loans. For the immediate future, it is our 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 2009-2010 school year. Those loans would all be sold into the government program during the second and third quarters of 2010. 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.

We expect to record a total of approximately \$2.5 million of non-interest income from premiums on sale of student loans during the second and third quarters of 2010, when the loans are sold. We will continue to evaluate the profitability and viability of this strategic business unit going forward.

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

We recorded net gains of \$144,000 from the sale of securities during 2009. There were no gains or losses on sale of securities during 2008 and 2007.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense through the continued use of expense control measures that have been installed. We utilize an extensive profit planning and reporting system involving all subsidiaries. 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. We also regularly monitor staffing levels at each affiliate to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for 2009 was \$104.7 million, an increase of \$8.4 million or 8.7%, from 2008. Included in non-interest expense for 2008 was a \$1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities. We established the liability and recorded a \$1.2 million nonrecurring expense item during the fourth quarter of 2007. This liability represented our 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. When normalized for the Visa litigation expense reversal, non-interest expense for 2009 increased by 7.3% over 2008.

Deposit insurance expense during 2009 increased to \$4.6 million from \$793,000 in 2008, an increase of \$3.8 million, or 485%. The increase in deposit insurance expense was due to increases in the fee assessment rates during 2009, the

utilization of available credits to offset assessments during 2008 and a special assessment applied to all insured institutions as of June 30, 2009.

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 2009 included \$1.5 million related to the special assessment. The amended rule also permits the FDIC to impose an additional emergency special assessment after June 30, 2009, of up to five basis points if necessary to maintain public confidence in federal deposit insurance. We 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 our control. The imposed special assessment, as well as any future increases in assessments, adversely affects our noninterest expense and results of operations.

In September 2009, the FDIC announced that it would require insured banks to prepay their estimated FDIC assessments for the fourth quarter of 2009 and for the next three years on December 30, 2009. The FDIC also adopted a uniform three basis point increase in assessment rates effective on January 1, 2011. The total amount of our prepaid assessment at was approximately \$11.2 million.

Fees paid for professional services increased by \$819,000, or 29.0%, in 2009 over 2008. The increase in professional services, which consist of audit, accounting, legal and consulting fees, was primarily due to the following proactive initiatives that we undertook in 2009. First, we expensed legal and accounting fees associated with the CPP approval process and the filing of our \$175 million shelf registration. Next, as part of our strategic acquisition initiatives, we contracted a consultant to help us prepare for potential opportunities related to FDIC-assisted transactions. Finally, during the last half of 2009, we began to expense costs, associated with our ongoing efficiency initiatives, which we expect to produce significant savings and revenue enhancements in 2010 and beyond. See Item 1. Business – Efficiency Initiatives for additional information on our efficiency initiatives.

Credit card expense for 2009 increased \$380,000, or 8.14%, over 2008, primarily due to increased card usage, interchange fees and other related expense resulting from initiatives we have taken to grow our credit card portfolio. See Loan Portfolio section for additional information on our credit card portfolio.

Non-interest expense for 2008 was \$96.4 million, an increase of \$2.2 million or 2.3%, from 2007. The increase in non-interest expense during 2008 compared to 2007 is primarily attributed to normal on-going operating expenses and the incremental expenses of approximately \$1.6 million associated with the operation of new financial centers opened during 2008.

As previously mentioned, also included in non-interest expense for 2008 is a \$1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities, originally established and recorded as a \$1.2 million nonrecurring expense item during the fourth quarter of 2007. When normalized for the Visa litigation expense, its reversal and the additional expenses from the expansion, non-interest expense for 2008 increased by 3.2% over 2007.

Deposit insurance expense increased by \$465,000 in 2008, or 142%, over 2007. During 2007, the FDIC issued credits based on historical deposit levels to be used in offsetting deposit insurance assessments; our subsidiary banks received approximately \$1.8 million of these credits. The majority of the credits were exhausted by the third quarter of 2008. As these credits were used, FDIC insurance expense increased.

Credit card expense for 2008 increased \$576,000, or 14.1%, over 2007, primarily due to increased card usage, interchange fees and other related expense resulting from initiatives the Company has taken to grow its credit card portfolio.

Other non-interest expense for 2008 includes an increase of \$289,000 for compensation expense. In 2008, as required by ASC Topic 715, Compensation – Retirement Benefits, we began to recognize the expense for endorsement split-dollar life insurance policies that provide benefits to employees that extend to post-retirement periods.

Core deposit premium amortization expense recorded for the years ended December 31, 2009, 2008 and 2007, was \$805,000, \$807,000 and \$817,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2010 – \$702,000; 2011 – \$451,000; 2012 – \$321,000; 2013 – \$268,000; and 2014 – \$28,000. The estimated amortization expense decreases as core deposit premiums fully amortize in future years.

Table 6 below shows non-interest expense for the years ended December 31, 2009, 2008 and 2007, respectively, as well as changes in 2009 from 2008 and in 2008 from 2007.

Table 6: Non-Interest Expense

(In thousands)	Years Ended December 31			2009 Change from 2008		2008 Change from 2007	
	2009	2008	2007				
Salaries and employee benefits	\$ 58,317	\$ 57,050	\$ 54,865	\$ 1,267	2.22	% \$ 2,185	3.98 %
Occupancy expense, net	7,457	7,383	6,674	74	1.00	709	10.62
Furniture and equipment expense	6,195	5,967	5,865	228	3.82	102	1.74
Loss on foreclosed assets	453	239	212	214	89.54	27	12.74
Deposit insurance	4,642	793	328	3,849	485.37	465	141.77
Other operating expenses							
Professional services	3,643	2,824	2,780	819	29.00	44	1.62
Postage	2,409	2,256	2,309	153	6.78	(53)	-2.30
Telephone	2,113	1,868	1,820	245	13.12	48	2.64
Credit card expense	5,051	4,671	4,095	380	8.14	576	14.07
Operating supplies	1,470	1,588	1,669	(118)	-7.43	(81)	-4.85
Amortization of core deposits	805	807	817	(2)	-0.25	(10)	-1.22
Visa litigation liability expense	--	(1,220)	1,220	1,220	-100.00	(2,440)	--
Other expense	12,167	12,134	11,543	33	0.27	591	5.11
Total non-interest expense	\$ 104,722	\$ 96,360	\$ 94,197	\$ 8,362	8.68	% \$ 2,163	2.30 %

Income Taxes

The provision for income taxes for 2009 was \$10.2 million, compared to \$11.4 million in 2008 and \$12.4 million in 2007. The effective income tax rates for the years ended 2009, 2008 and 2007 were 28.8%, 29.8% and 31.2%, respectively.

Loan Portfolio

Our loan portfolio averaged \$1.924 billion during 2009 and \$1.891 billion during 2008. As of December 31, 2009, total loans were \$1.875 billion, compared to \$1.933 billion on 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).

We seek to manage our credit risk by diversifying the 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. We seek 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. We use the allowance for loan losses as a method to value the loan portfolio at its estimated collectable 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 \$443.1 million at December 31, 2009, or 23.6% of total loans, compared to \$419.3 million, or 21.7% of total loans at December 31, 2008. The \$23.8 million consumer loan increase from 2008 to 2009 is primarily due to an increase in the credit card portfolio.

The credit card portfolio balance at December 31, 2009, increased by \$19.5 million, or 11.5%, when compared to the same period in 2008. This follows a \$3.5 million, or 2.2% growth during the previous year. The growth in outstanding credit card balances is primarily the result of an increase in net new accounts. We added over 15,000 net new accounts in 2009, compared to approximately 5,000 net new accounts in 2008. We believe the increase in outstanding balances and the addition of new accounts are the result of the introduction of several initiatives over the past few years to make our credit card products more competitive, while maintaining extremely high underwriting standards.

The student loan portfolio balance at December 31, 2009 was \$114.3 million, an increase of \$2.7 million, or 2.43%, from December 31, 2008. The student loan portfolio balance at December 31, 2008 was \$111.6 million, an increase of \$35.3 million, or 46.3%, from December 31, 2007. The significant increase in student loan balances from 2007 to 2008 was due to the lack of a secondary student loan market and our decision to hold loans normally sold in the secondary market until we could sell them at a premium into the government program. See Non-Interest Income section for additional information.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were \$1.169 billion at December 31, 2009, or 62.4% of total loans, compared to \$1.219 billion, or 63.1% of total loans at December 31, 2008, a decrease of \$49.8 million. Our construction and development ("C&D") loans decreased by \$44.2 million, with approximately \$11.7 million migrating to our commercial real estate ("CRE") loans and the balance being liquidated or refinanced elsewhere. Considering the challenges in the economy, we believe it is important to note that we have no significant concentrations in our real estate loan portfolio mix. Our C&D loans represent only 9.6% of our loan portfolio and, CRE loans (excluding C&D) represent 31.8% of our loan portfolio, both of which compare very favorably to our peers.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were \$257.0 million at December 31, 2009, or 13.7% of total loans, compared to the \$284.2 million, or 14.7% of total loans at December 31, 2008. This \$27.2 million decrease in commercial loans is primarily due to a \$24.3 million decrease in commercial loans and \$3.4 million decrease in agricultural loans.

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

Table 7: Loan Portfolio

(In thousands)	Years Ended December 31				
	2009	2008	2007	2006	2005
Consumer					
Credit cards	\$189,154	\$169,615	\$166,044	\$143,359	\$143,058
Student loans	114,296	111,584	76,277	84,831	89,818
Other consumer	139,647	138,145	137,624	142,596	138,051
Total consumer	443,097	419,344	379,945	370,786	370,927
Real Estate					
Construction	180,759	224,924	260,924	277,411	238,898
Single family residential	392,208	409,540	382,676	364,450	340,839
Other commercial	596,517	584,843	542,184	512,404	479,684
Total real estate	1,169,484	1,219,307	1,185,784	1,154,265	1,059,421
Commercial					
Commercial	168,206	192,496	193,091	178,028	184,920
Agricultural	84,866	88,233	73,470	62,293	68,761
Financial institutions	3,885	3,471	7,440	4,766	20,499
Total commercial	256,957	284,200	274,001	245,087	274,180
Other	5,451	10,223	10,724	13,357	13,579
Total loans	\$1,874,989	\$1,933,074	\$1,850,454	\$1,783,495	\$1,718,107

Table 8 reflects the remaining maturities and interest rate sensitivity of loans at December 31, 2009.

Table 8: Maturity and Interest Rate Sensitivity of Loans

(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years	Total
Consumer	\$364,232	\$78,234	\$631	\$443,097
Real estate	746,924	395,216	27,344	1,169,484
Commercial	198,464	57,024	1,469	256,957
Other	4,569	608	274	5,451
Total	\$1,314,189	\$531,082	\$29,718	\$1,874,989
Predetermined rate	\$684,919	\$479,559	\$26,711	\$1,191,189
Floating rate	629,270	51,523	3,007	683,800
Total	\$1,314,189	\$531,082	\$29,718	\$1,874,989

Asset Quality

A loan is considered impaired when it is probable that we 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.

The increase in nonaccrual loans from December 2008 to December 2009 is primarily attributable to the downgrade and subsequent nonaccrual status of one commercial real estate facility in the Northwest Arkansas region. This credit represents \$8.1 million of the \$22.0 million nonaccrual loans at year-end.

Historically, we have sold our 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 temporary federal government program only purchases student loans originated in the current

year, we are required to service loans that have converted to a payout basis. Student loans are classified as impaired when payment of interest or principal is 90 days past due. Approximately \$1.9 million of government guaranteed student loans were over 90 days past due as of December 31, 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 guaranteed by the federal government, because they are over 90 days past due they are included in our non-performing assets.

Foreclosed assets held for sale increased during 2009 by a net \$6.2 million as we received title to collateral securing approximately \$10.3 million for loans previously classified as nonaccrual, offset by proceeds from the sales of such properties of approximately \$4.1 million. The increase in foreclosed assets held for sale during 2008 was insignificant.

Approximately \$5.7 million of the foreclosed assets held for sale as of December 31, 2009, are related to C&D projects in the Northwest Arkansas region. These were primarily residential real estate development ventures and associated businesses.

Table 9 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned.

Table 9: Non-performing Assets

(In thousands, except ratios)	Years Ended December 31		2007	2006	2005
	2009	2008			
Nonaccrual loans	\$ 21,994	\$ 14,358	\$ 9,909	\$ 8,958	\$ 7,296
Loans past due 90 days or more (principal or interest payments)					
Government guaranteed student loans (1)	1,939	--	--	--	--
Other loans	1,383	1,292	1,282	1,097	1,131
Total non-performing loans	25,316	15,650	11,191	10,055	8,427
Other non-performing assets					
Foreclosed assets held for sale	9,179	2,995	2,629	1,940	1,540
Other non-performing assets	20	12	17	52	16
Total other non-performing assets	9,199	3,007	2,646	1,992	1,556
Total non-performing assets	\$ 34,515	\$ 18,657	\$ 13,837	\$ 12,047	\$ 9,983
Allowance for loan losses to non-performing loans	98.81 %	165.12 %	226.10 %	252.46 %	319.48 %
Non-performing loans to total loans	1.35	0.81	0.60	0.56	0.49
Non-performing loans to total loans (excluding government guaranteed student loans) (1)	1.25	0.81	0.60	0.56	0.49
Non-performing assets to total assets	1.12	0.64	0.51	0.45	0.40
Non-performing assets to total assets (excluding government guaranteed student loans) (1)	1.05	0.64	0.51	0.45	0.40

(1)

Student loans past due 90 days or more are included in non-performing loans. Student loans are guaranteed by the federal government 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 years ended December 31, 2009, 2008 and 2007.

At December 31, 2009, impaired loans, net of government guarantees, were \$46.9 million compared to \$15.7 million at December 31, 2008. Impaired loans at December 31, 2009, include \$1.9 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 our 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 that will affect specific loans and categories of loans.

As we evaluate 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. Our evaluation process in specific allocations 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

We establish 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, we made adjustments to our 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 11 below detailing the components of the allowance for loan losses.

General Allocations

We establish 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 an analysis of historical losses for each loan category. We give consideration to trends, changes in loan mix, delinquencies, prior losses and other related information.

Unallocated Portion

Allowance allocations other than specific, classified and general are included in the unallocated portion. 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 extent and duration of the current economic recession remains uncertain at this time. 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, we have 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 our 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 for the last five years is shown in table 10.

Table 10: Allowance for Loan Losses

(In thousands)	2009		2008		2007		2006		2005		
Balance, beginning of year	\$	25,841	\$	25,303	\$	25,385	\$	26,923	\$	26,508	
Loans charged off											
Credit card		5,336		3,760		2,663		2,454		4,950	
Other consumer		2,758		2,105		1,538		1,242		1,240	
Real estate		4,814		2,987		1,916		1,868		1,048	
Commercial		1,920		1,394		715		1,317		3,688	
Total loans charged off		14,828		10,246		6,832		6,881		10,926	
Recoveries of loans previously charged off											
Credit card		920		883		1,024		1,040		832	
Other consumer		673		519		483		629		636	
Real estate		1,393		207		648		901		251	
Commercial		701		529		414		536		2,096	
Total recoveries		3,687		2,138		2,569		3,106		3,815	
Net loans charged off		11,141		8,108		4,263		3,775		7,111	
Reclass to reserve for unfunded commitments (1)											
		--		--		--		(1,525)		--	
Provision for loan losses		10,316		8,646		4,181		3,762		7,526	
Balance, end of year	\$	25,016	\$	25,841	\$	25,303	\$	25,385	\$	26,923	
Net charge-offs to average loans		0.58	%	0.43	%	0.23	%	0.22	%	0.43	%
Allowance for loan losses to period-end loans		1.33	%	1.34	%	1.37	%	1.42	%	1.57	%
Allowance for loan losses to net charge-offs		224.54	%	318.71	%	593.55	%	672.45	%	378.6	%

(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.

Provision for Loan Losses

The amount of provision to the allowance each year 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 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.

Allocated Allowance for Loan Losses

We utilize a consistent methodology in the calculation and application of the 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.

Accordingly, several factors in the national economy, including the increase of unemployment rates, the continuing credit crisis, the mortgage crisis, the uncertainty in the residential and commercial real estate markets and other loan sectors which may be exhibiting weaknesses and the unknown impact of various current and future federal government economic stimulus programs influence our determination of the size of unallocated reserves.

As of December 31, 2009, the allowance for loan losses reflects a decrease of approximately \$825,000 from December 31, 2008. The decrease in the allowance correlates directly with a \$58.1 million decrease in the total loan portfolio. The \$58.1 million decrease was concentrated in our C&D and single family residential portfolios, which declined by \$44.2 million and \$17.3 million, respectively. These real estate related portfolios have been most adversely impacted by the overall economic downturn and the regional market saturation in Northwest Arkansas.

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 our loan portfolio. We continued 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, resulting in an increase to the allowance allocation for real estate loans through December 31, 2008.

As the economic downturn continued through 2009, additional problem loans were identified and specific allocations were applied, resulting in a significant decrease in the unallocated portion of the allowance for loan losses. Although several non-performing loans with large specific allocations were charged off during 2009, the identification of other non-performing loans with specific allocations late in 2009 resulted in a relatively small decrease in the total allocation to real estate loans as of December 31, 2009.

Our allocation of the allowance for loan losses to credit card loans increased by approximately \$1.9 million from December 31, 2008, to December 31, 2009, while credit card loan balances increased by \$19.5 million during the period. Annualized net credit card charge-offs to credit card loans increased from 2.02% at December 31, 2008, to 2.41% at December 31, 2009. Due to this increase in charge-offs, an increase in past due balances, elevated national unemployment levels and continued economic uncertainty, we increased the allocation to credit cards to 3.0%.

The unallocated allowance for loan losses is based on our 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. Excessive rains received in Arkansas during 2009 delayed efforts to harvest and reduced the yield and quality of some crops. We are also cautious regarding the continued softening of the real estate market in Arkansas, specifically in the Northwest Arkansas region. The housing industry remains one of the weakest links for economic recovery. Although Arkansas's unemployment rate is lagging behind the national average, it has continued to rise. We actively monitor the status of these industries and economic factors as they relate to our loan portfolio and make changes to the allowance for loan losses as necessary. Based on our analysis of loans and external uncertainties, we believe the allowance for loan losses is adequate for the year ended December 31, 2009.

We allocate 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 11.

Table 11: Allocation of Allowance for Loan Losses

	December 31		2008		2007		2006		2005	
	2009		2008		2007		2006		2005	
(In thousands)	Allowance	% of loans(1)	Allowance	% of loans(1)	Allowance	% of loans(1)	Allowance	% of loans(1)	Allowance	% of loans(1)
Credit cards	\$ 5,808	10.1 %	\$ 3,957	8.8 %	\$ 3,841	9.0 %	\$ 3,702	8.0 %	\$ 3,887	8.3 %
O t h e r										
consumer	1,719	13.5 %	1,325	12.9 %	1,501	11.5 %	1,402	12.8 %	1,158	13.3 %
Real estate	11,164	62.4 %	11,695	63.1 %	10,157	64.1 %	9,835	64.7 %	9,870	61.7 %
Commercial	2,451	13.7 %	2,255	14.7 %	2,528	14.8 %	2,856	13.7 %	5,857	15.9 %
Other	161	0.3 %	209	0.5 %	187	0.6 %	--	0.8 %	--	0.8 %
Unallocated	3,713		6,400		7,089		7,590		6,151	
Total	\$ 25,016	100.0%	\$ 25,841	100.0%	\$ 25,303	100.0%	\$ 25,385	100.0%	\$ 26,923	100.0%

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

37

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as either held-to-maturity, available-for-sale or trading.

Held-to-maturity securities, which include any security for which management has the positive intent and ability to hold until maturity, are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Available-for-sale securities, which include any security for which management has no immediate plans to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income, using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Our philosophy regarding investments is conservative based on investment type and maturity. Investments in the portfolio primarily include U.S. Treasury securities, U.S. Government agencies, mortgage-backed securities and municipal securities. Our general policy is not to invest in derivative type investments or high-risk securities, except for collateralized mortgage-backed securities for which collection of principal and interest is not subordinated to significant superior rights held by others.

Held-to-maturity and available-for-sale investment securities were \$464.1 million and \$182.9 million, respectively, at December 31, 2009, compared to the held-to-maturity amount of \$187.3 million and available-for-sale amount of \$458.8 million at December 31, 2008. During 2009, we made a decision to change our portfolio targets from 75% available-for-sale to 25% available-for-sale. We chose this strategy due to our level of pledging and our history of holding securities to maturity.

As of December 31, 2009, \$254.2 million, or 54.8%, of the held-to-maturity securities were invested in U.S. Treasury securities and obligations of U.S. government agencies, 50.3% of which will mature in less than five years. In the available-for-sale securities, \$165.9 million, or 90.7%, were in U.S. Treasury and U.S. government agency securities, 62.8% of which will mature in less than five years.

In order to reduce our income tax burden, an additional \$208.8 million, or 45.0%, of the held-to-maturity securities portfolio, as of December 31, 2009, was invested in tax-exempt obligations of state and political subdivisions. In the available-for-sale securities, there was none invested in tax-exempt obligations of state and political subdivisions. Most of the state and political subdivision debt obligations are non-rated bonds and represent relatively small, Arkansas issues, which are evaluated on an ongoing basis. There are no securities of any one state or political subdivision issuer exceeding ten percent of our stockholders' equity at December 31, 2009.

As of December 31, 2009, \$1.5 million, or 0.82%, of the available-for-sale securities were invested in a money market mutual fund (the "AIM Fund"), included in other securities. The AIM Fund is invested entirely in U.S. Treasury securities and obligations of U.S. government agencies, or repurchase agreements secured by such obligations. The AIM Fund has no stated maturity date. Investment amounts in the Fund are adjusted by management as needed, without penalty.

We have approximately \$90,000, or 0.02%, in mortgaged-backed securities in the held-to-maturity portfolio at December 31, 2009. In the available-for-sale securities, approximately \$3.0 million, or 1.6% were invested in

mortgaged-backed securities.

As of December 31, 2009, the held-to-maturity investment portfolio had gross unrealized gains of \$3.532 million and gross unrealized losses of \$1.928 million.

We had gross realized gains of \$144,000 and no gross realized losses during the year ended December 31, 2009, from the sales and/or calls of securities. We had no gross realized gains or losses during the years ended December 31, 2008 and 2007, resulting from the sales and/or calls of securities.

Trading securities, which include any security held primarily for near-term sale, are carried at fair value. Gains and losses on trading securities are included in other income. Our trading account is established and maintained for the benefit of investment banking. The trading account is typically used to provide inventory for resale and is not used to take advantage of short-term price movements. As of December 31, 2009, \$5.4 million, or 78%, of the trading securities were invested in the AIM Fund.

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.

During the third quarter of 2008, we determined that our investment in FNMA common stock, held in the available-for-sale other securities category, had become other-than-temporarily impaired. As a result of this impairment the security was written down by \$75,000. We had accumulated this stock over several years in the form of stock dividends from FNMA. The remaining balance of this investment is approximately \$5,000. We have no investment in FNMA or FHLMC preferred stock.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time we expect to receive full value for the securities. Furthermore, as of December 31, 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 December 31, 2009, management believes the impairments detailed in the table below are temporary.

Table 12 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 12: Investment Securities

	Years Ended December 31							
	2009				2008			
(In thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	\$ 254,229	\$ 799	\$ (1,348)	\$ 253,680	\$ 18,000	\$ 629	\$ --	\$ 18,629
Mortgage-backed securities	90	5	--	95	109	2	--	111
State and political subdivisions	208,812	2,728	(580)	210,960	168,262	1,264	(1,876)	167,650
Other securities	930	--	--	930	930	--	--	930
Total	\$ 464,061	\$ 3,532	\$ (1,928)	\$ 465,665	\$ 187,301	\$ 1,895	\$ (1,876)	\$ 187,320

Available-for-Sale

U.S. Treasury	\$ 4,297	\$ 32	\$ --	\$ 4,329	\$ 5,976	\$ 113	\$ --	\$ 6,089
U.S. Government agencies	160,807	953	(236)	161,524	346,585	5,444	(868)	351,161
Mortgage-backed securities	2,896	78	(2)	2,972	2,909	37	(67)	2,879
State and political subdivisions	--	--	--	--	635	2	--	637
Other securities	13,633	399	(3)	14,029	97,625	448	(6)	98,067
Total	\$ 181,633	\$ 1,462	\$ (241)	\$ 182,854	\$ 453,730	\$ 6,044	\$ (941)	\$ 458,833

Table 13 reflects the amortized cost and estimated fair value of securities at December 31, 2009, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis, assuming a 37.5% tax rate) of such securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 13: Maturity Distribution of Investment Securities

(In thousands)	December 31, 2009										Total		
	1 year or less		Over 1 year through 5 years		Over 5 years through 10 years		Over 10 years		No fixed maturity				
											Amortized Cost	Par Value	Fair Value
Held-to-Maturity													
U.S. Government agencies	\$ --		\$ 127,929		\$ 126,300		\$ --		\$ --		\$ 254,229	\$ 254,245	\$ 253,681
Mortgage-backed securities	--		7		59		25		--		91	90	95
State and political subdivisions	9,833		62,255		55,375		81,348		--		208,811	209,123	210,959
Other securities	--		--		--		930		--		930	930	930
Total	\$ 9,833		\$ 190,191		\$ 181,734		\$ 82,303		\$ --		\$ 464,061	\$ 464,388	\$ 465,665
Percentage of total	2.1	%	41.0	%	39.2	%	17.7	%	0.0	%	100.0	%	
Weighted average yield	4.4	%	2.3	%	4.1	%	4.1	%	0.0	%	3.4	%	
Available-for-Sale													
U.S. Treasury	\$ 4,297		\$ --		\$ --		\$ --		\$ --		\$ 4,297	\$ 4,300	\$ 4,329
U.S. Government agencies	7,000		92,938		60,869		--		--		160,807	160,815	161,524
Mortgage-backed securities	--		1,221		1,667		8		--		2,896	2,930	2,972
Other securities	--		--		--		--		13,633		13,633	13,633	14,029
Total	\$ 11,297		\$ 94,159		\$ 62,536		\$ 8		\$ 13,633		\$ 181,633	\$ 181,678	\$ 182,854
Percentage of total	6.2	%	51.8	%	34.4	%	0.0	%	7.5	%	100.0	%	
Weighted average yield	3.9	%	1.6	%	5.1	%	3.0	%	0.6	%	2.9	%	

Deposits

Deposits are our primary source of funding for earning assets and are primarily developed through our network of 84 financial centers. We offer a variety of products designed to attract and retain customers with a continuing focus

on developing core deposits. Our core deposits consist of all deposits excluding time deposits of \$100,000 or more and brokered deposits. As of December 31, 2009, core deposits comprised 81.8% of our total deposits.

We continually monitor the funding requirements at each subsidiary bank along with competitive interest rates in the markets it serves. Because of our community banking philosophy, subsidiary bank executives in the local markets establish the interest rates 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 the funding requirements. We believe we are paying a competitive rate when compared with pricing in those markets.

We manage our interest expense through deposit pricing and do not anticipate a significant change in total deposits. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if it experiences increased loan demand or other liquidity needs. We also utilize brokered deposits as an additional source of funding to meet liquidity needs.

Our total deposits as of December 31, 2009 were \$2.432 billion, an internal deposit growth of \$96 million, or 4.1%, from \$2.336 billion at December 31, 2008. We introduced a new high yield investment deposit account during the first quarter of 2008 as part of our 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 \$1.156 billion at December 31, 2009, a \$129.4 million increase compared to \$1.027 billion on December 31, 2008. Total time deposits decreased approximately \$61.8 million to \$912.75 million at December 31, 2009, from \$974.56 million at December 31, 2008.

Non-interest bearing transaction accounts increased \$28.2 million to \$363.2 million at December 31, 2009, compared to \$335.0 million at December 31, 2008. We had \$21 million and \$33 million of brokered deposits at December 31, 2009 and 2008, respectively.

Table 14 reflects the classification of the average deposits and the average rate paid on each deposit category, which are in excess of 10 percent of average total deposits for the three years ended December 31, 2009.

Table 14: Average Deposit Balances and Rates

(In thousands)	December 31 2009		2008		2007	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Non-interest bearing transaction accounts	\$ 332,998	--	\$ 317,772	--	\$ 307,041	--
Interest bearing transaction and savings deposits	1,091,960	0.76 %	959,567	1.56 %	736,160	1.78 %
Time deposits						
\$100,000 or more	406,924	2.43 %	426,304	3.80 %	441,854	4.81 %
Other time deposits	532,434	2.42 %	595,123	3.70 %	682,703	3.55 %
Total	\$ 2,364,316	1.31 %	\$ 2,298,766	2.31 %	\$ 2,167,758	3.02 %

The Company's maturities of large denomination time deposits at December 31, 2009 and 2008 are presented in table 15.

Table 15: Maturities of Large Denomination Time Deposits

(In thousands)	Time Certificates of Deposit (\$100,000 or more)			
	December 31 2009		2008	
	Balance	Percent	Balance	Percent

Maturing

Three months or less	\$ 161,762	38.5	%	\$ 144,982	34.6	%
Over 3 months to 6 months	102,670	24.4	%	107,093	25.6	%
Over 6 months to 12 months	120,162	28.6	%	119,186	28.5	%
Over 12 months	35,943	8.5	%	47,133	11.3	%
Total	\$420,537	100.00	%	\$418,394	100.00	%

41

Short-Term Debt

Federal funds purchased and securities sold under agreements to repurchase were \$105.9 million at December 31, 2009, as compared to \$115.4 million at December 31, 2008. Other short-term borrowings, consisting of U.S. TT&L Notes and short-term FHLB borrowings, were \$3.6 million at December 31, 2009, as compared to \$1.1 million at December 31, 2008.

We have historically funded our growth in earning assets through the use of core deposits, large certificates of deposits from local markets, FHLB borrowings and Federal funds purchased. Management anticipates that these sources will provide necessary funding in the foreseeable future.

Long-Term Debt

Our long-term debt was \$159.8 million and \$158.7 million at December 31, 2009 and 2008, respectively. The outstanding balance for December 31, 2009 includes \$128.9 million in FHLB long-term advances and \$30.9 million of trust preferred securities. The outstanding balance for December 31, 2008, includes \$127.8 million in FHLB long-term advances and \$30.9 million of trust preferred securities.

During the year ended December 31, 2009, we increased long-term debt by \$1.2 million, or 0.73% from December 31, 2008.

Aggregate annual maturities of long-term debt at December 31, 2009 are presented in table 16.

Table 16: Maturities of Long-Term Debt

(In thousands)	Year	Annual Maturities
	2010	\$ 29,013
	2011	43,766
	2012	6,713
	2013	16,658
	2014	4,985
	Thereafter	58,688
	Total	\$ 159,823

Capital

Overview

At December 31, 2009, total capital reached \$371.2 million. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At December 31, 2009, our equity to asset ratio was 12.0% compared to 9.88% at year-end 2008.

Capital Stock

On February 27, 2009, at a special meeting, our shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of preferred stock, \$0.01 par value. The aggregate liquidation preference of all shares of preferred stock cannot exceed \$80,000,000. As of December 31, 2009, no preferred stock has been issued.

On August 26, 2009, we filed a shelf registration statement with the Securities and Exchange Commission ("SEC"). The shelf registration statement, which was declared effective on September 9, 2009, will allow us to raise capital from time to time, up to an aggregate of \$175 million, through the sale of common stock, preferred stock, or a combination thereof, subject to market conditions. Specific terms and prices will be determined at the time of any offering under a separate prospectus supplement that we will be required to file with the SEC at the time of the specific offering.

In November 2009, the Company raised common equity through an underwritten public offering by issuing 2,650,000 shares of common stock at a price of \$24.50 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were \$61.3 million. In December 2009, the underwriters of our stock offering exercised and completed their option to purchase an additional 397,500 shares of common stock at \$24.50 to cover over-allotments. The net proceeds of the exercise of the over-allotment option after deducting underwriting discounts and commissions were \$9.2 million. The total net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately \$70.5 million.

Stock Repurchase

On November 28, 2007, we announced the substantial completion of the existing stock repurchase program and the adoption by the Board of Directors of a new 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 we intend to repurchase. 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. We intend to use the repurchased shares to satisfy stock option exercises, for payment of future stock dividends and for general corporate purposes. We may discontinue purchases at any time that management determines additional purchases are not warranted. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008. We made no purchases of our common stock during the three months or year ended December 31, 2009. Because of the recently completed stock offering and based on our strategy to retain capital, we do not anticipate resuming our stock repurchase during 2010.

Cash Dividends

We declared cash dividends on our common stock of \$0.76 per share for the twelve months ended December 31, 2009, compared to \$0.76 per share for the twelve months ended December 31, 2008. The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all. See Item 5, Market for Registrant's Common Equity and Related Stockholder Matters, for additional information regarding cash dividends.

Parent Company Liquidity

The primary liquidity needs of the Parent Company are the payment of dividends to shareholders, the funding of debt obligations and the share repurchase plan. The primary sources for meeting these liquidity needs are the current cash on hand at the parent company and the future dividends received from the eight affiliate banks. Payment of dividends by the eight subsidiary banks is subject to various regulatory limitations. See Item 7A, Liquidity and Qualitative Disclosures About Market Risk, for additional information regarding the parent company's liquidity.

Risk-Based Capital

Our 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our 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 us 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). Management believes that, as of December 31, 2009, we meet all capital adequacy requirements to which we are subject.

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

Our risk-based capital ratios at December 31, 2009 and 2008, are presented in table 17 below:

Table 17: Risk-Based Capital

(In thousands, except ratios)	December 31		2008	
	2009		2008	
Tier 1 capital				
Stockholders' equity	\$	371,247	\$	288,792
Trust preferred securities		30,000		30,000
Goodwill and core deposit premiums (1)		(51,128)		(53,034)
Unrealized gain (loss) on available-for-sale securities, net of income taxes		(762)		(3,190)
Total Tier 1 capital		349,357		262,568
Tier 2 capital				
Qualifying unrealized gain on available-for-sale equity securities		5		179
Qualifying allowance for loan losses		24,405		24,827
Total Tier 2 capital		24,410		25,006
Total risk-based capital	\$	373,767	\$	287,574
Risk weighted assets	\$	1,950,227	\$	1,983,654
Ratios at end of year				
Leverage ratio		11.64 %		9.15 %
Tier 1 capital		17.91 %		13.24 %

Total risk-based capital	19.17	%	14.50	%
Minimum guidelines				
Leverage ratio	4.00	%	4.00	%
Tier 1 capital	4.00	%	4.00	%
Total risk-based capital	8.00	%	8.00	%

(1) For December 31, 2009 and 2008, in accordance with an Interagency Final Rule, goodwill deducted from Tier 1 capital has been reduced by the amount of any deferred tax liability associated with that goodwill.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In the normal course of business, the Company enters into a number of financial commitments. Examples of these commitments include but are not limited to long-term debt financing, operating lease obligations, unfunded loan commitments and letters of credit.

Our long-term debt at December 31, 2009, includes notes payable, FHLB long-term advances and trust preferred securities, all of which we are contractually obligated to repay in future periods.

Operating lease obligations entered into by the Company are generally associated with the operation of a few of our financial centers located throughout the state of Arkansas. Our financial obligation on these locations is considered immaterial due to the limited number of financial centers that operate under an agreement of this type.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having fixed expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future funding requirements.

The funding requirements of the Company's most significant financial commitments, at December 31, 2009, are shown in table 18.

Table 18: Funding Requirements of Financial Commitments

(In thousands)	Payments due by period				Total
	Less than 1 Year	1-3 Years	3-5 Years	Greater than 5 Years	
Long-term debt	\$29,013	\$50,479	\$21,643	\$58,688	