SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 09, 2010
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 2010	Commission File Number 000-06253

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

Arkansas (State or other jurisdiction of incorporation or organization)	71-0407808 (I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas (Address of principal executive offices)	71601 (Zip Code)

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

Not Applicable

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

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

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

£ Large accelerated filer S 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 S No

The number of shares outstanding of the Registrant’s Common Stock as of October 22, 2010, was 17,230,920.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2010

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Part I: Financial Information
Item 1. Financial Statements
Simmons First National Corporation

Consolidated Balance Sheets
September 30, 2010 and December 31, 2009

(In thousands, except share data)	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and non-interest bearing balances due from banks	$77,874	$71,575
Interest bearing balances due from banks	247,300	282,010
Federal funds sold	750	--
Cash and cash equivalents	325,924	353,585
Investment securities	645,490	646,915
Mortgage loans held for sale	25,383	8,397
Assets held in trading accounts	7,412	6,886
Loans	1,739,554	1,874,989
Allowance for loan losses	(25,682)	(25,016)
Net loans	1,713,872	1,849,973
Covered assets:		
Loans, net of discount	38,160	--
Other real estate owned, net of discount	2,650	--
FDIC loss share receivable	9,600	--
Premises and equipment	77,967	78,126
Foreclosed assets held for sale, net	23,903	9,179
Interest receivable	16,884	17,881
Bank owned life insurance	48,662	40,920
Goodwill	60,605	60,605
Core deposit premiums	1,194	1,769
Other assets	20,451	19,086
Total assets	$3,018,157	$3,093,322
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$374,494	$363,154
Interest bearing transaction accounts and savings deposits	1,146,433	1,156,264
Time deposits	861,242	912,754
Total deposits	2,382,169	2,432,172
Federal funds purchased and securities sold under agreements to repurchase	85,561	105,910
Short-term debt	1,728	3,640
Long-term debt	136,829	159,823
Accrued interest and other liabilities	27,901	20,530
Total liabilities	2,634,188	2,722,075
Stockholders' equity:		
Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2010 and December 31, 2009	--	--
Common stock, Class A, $0.01 par value; 60,000,000 shares authorized;		

17,230,920 and 17,093,931 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	172	171
Surplus	113,376	111,694
Undivided profits	269,369	258,620
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of $680 at September 30, 2010 and $457 at December 31, 2009	1,052	762
Total stockholders' equity	383,969	371,247
Total liabilities and stockholders' equity	$ 3,018,157	$ 3,093,322

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three and Nine Months Ended September 30, 2010 and 2009

(In thousands, except per share data)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$26,934	$29,122	$80,413	$85,373
Covered loans	864	--	1,077	--
Federal funds sold	6	10	12	25
Investment securities	4,182	5,089	13,178	16,762
Mortgage loans held for sale	210	136	429	489
Assets held in trading accounts	7	3	20	13
Interest bearing balances due from banks	123	87	487	235
TOTAL INTEREST INCOME	32,326	34,447	95,616	102,897
INTEREST EXPENSE				
Deposits	4,605	7,133	14,881	24,537
Federal funds purchased and securities sold under agreements to repurchase	126	172	398	597
Short-term debt	15	6	45	18
Long-term debt	1,524	1,743	4,619	5,239
TOTAL INTEREST EXPENSE	6,270	9,054	19,943	30,391
NET INTEREST INCOME	26,056	25,393	75,673	72,506
Provision for loan losses	3,407	2,789	10,396	7,549
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,649	22,604	65,277	64,957
NON-INTEREST INCOME				
Trust income	1,343	1,361	3,763	3,910
Service charges on deposit accounts	4,388	4,763	13,428	13,061
Other service charges and fees	646	642	2,096	2,034
Income on sale of mortgage loans, net of commissions	1,242	798	2,777	3,198
Income on investment banking, net of commissions	369	598	1,750	1,684
Credit card fees	3,972	3,745	11,692	10,495
Premiums on sale of student loans	1,979	2,047	2,524	2,333
Bank owned life insurance income	404	293	1,260	970
Gain on sale of securities, net	--	--	--	144
Gain on FDIC assisted transaction	--	--	3,037	--
Other income	479	716	1,943	1,951
TOTAL NON-INTEREST INCOME	14,822	14,963	44,270	39,780
NON-INTEREST EXPENSE				
Salaries and employee benefits	14,809	14,441	45,039	43,698
Occupancy expense, net	1,906	1,846	5,632	5,559
Furniture and equipment expense	1,542	1,553	4,563	4,623

Other real estate and foreclosure expense	304	132	676	292
Deposit insurance	885	865	2,899	3,955
Merger related costs	134	--	577	--
Other operating expenses	7,178	7,470	21,444	20,789
TOTAL NON-INTEREST EXPENSE	26,758	26,307	80,830	78,916
INCOME BEFORE INCOME TAXES	10,713	11,260	28,717	25,821
Provision for income taxes	3,093	3,600	8,160	7,416
NET INCOME	$7,620	$7,660	$20,557	$18,405
BASIC EARNINGS PER SHARE	$0.45	$0.54	$1.20	$1.31
DILUTED EARNINGS PER SHARE	$0.44	$0.54	$1.19	$1.30

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2010 and 2009

(In thousands)	September 30, 2010	September 30, 2009
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$20,557	$18,405
Items not requiring (providing) cash		
Depreciation and amortization	4,275	4,396
Provision for loan losses	10,396	7,549
Gain on sale of investment securities	--	(144)
Net accretion of investment securities	(24)	(92)
Stock-based compensation expense	717	448
Net accretion on FDIC loss share receivable	(81)	--
Gain on FDIC assisted transaction	(3,037)	--
Deferred income taxes	1,457	1,237
Bank owned life insurance income	(1,260)	(970)
Changes in		
Interest receivable	997	1,312
Mortgage loans held for sale	(16,986)	(3,019)
Assets held in trading accounts	(526)	(1,085)
Other assets	(1,761)	(665)
Accrued interest and other liabilities	2,903	(1,283)
Income taxes payable	1,398	1,920
Net cash provided by operating activities	19,025	28,009
INVESTING ACTIVITIES		
Net collections (originations) of loans	106,377	(5,672)
Purchases of premises and equipment, net	(3,531)	(3,561)
Proceeds from sale of foreclosed assets	13,734	3,061
Net sales of short-term investment securities	--	84,033
Proceeds from sale of available-for-sale securities	--	194
Proceeds from maturities of available-for-sale securities	390,417	570,997
Purchases of available-for-sale securities	(366,346)	(382,136)
Proceeds from maturities of held-to-maturity securities	313,038	170,944
Purchases of held-to-maturity securities	(310,520)	(370,894)
Purchases of bank owned life insurance	(6,482)	(25)
Net cash proceeds received in FDIC assisted transaction	18,067	--
Net cash provided by investing activities	154,754	66,941
FINANCING ACTIVITIES		
Net change in deposits	(147,343)	(5,064)
Net change in short-term debt	(1,912)	2,381
Dividends paid	(9,808)	(7,998)
Proceeds from issuance of long-term debt	3,915	7,666
Repayment of long-term debt	(26,909)	(4,777)
Net change in federal funds purchased and		

securities sold under agreements to repurchase	(20,349)	(18,783)
Net shares issued under stock compensation plans	966	1,479
Net cash used in financing activities	(201,440)	(25,096)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(27,661)	69,854
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	353,585	139,536
CASH AND CASH EQUIVALENTS, END OF PERIOD	$325,924	$209,390

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2010 and 2009

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2008	$140	$40,807	$ 3,190	$244,655	$288,792
Comprehensive income					
Net income	--	--	--	18,405	18,405
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($970)	--	--	(1,617)	--	(1,617)
Comprehensive income					16,788
Stock issued as bonus shares – 27,915 shares	--	702	--	--	702
Cancelled bonus shares – 1,113 shares	--	29	--	--	29
Non-vested bonus shares	--	(1,343)	--	--	(1,343)
Stock issued for employee stock purchase plan – 5,823 shares	--	141	--	--	141
Exercise of stock options – 55,900 shares	--	678	--	--	678
Stock granted under stock-based compensation plans	--	136	--	--	136
Securities exchanged under stock option plan	--	(102)	--	--	(102)
Cash dividends declared – $0.57 per share	--	--	--	(7,998)	(7,998)
Balance, September 30, 2009 (Unaudited)	140	41,048	1,573	255,062	297,823
Comprehensive income					
Net income	--	--	--	6,805	6,805
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($486)	--	--	(811)	--	(811)
Comprehensive income					5,994
Stock issued from public stock offering, net of offering costs of $4,178	30	70,456	--	--	70,486
Non-vested bonus shares	--	135	--	--	135
Exercise of stock options – 800 shares	1	11	--	--	12
Stock granted under stock-based compensation plans	--	44	--	--	44
Dividends paid – $0.19 per share	--	--	--	(3,247)	(3,247)
Balance, December 31, 2009	171	111,694	762	258,620	371,247
Comprehensive income					
Net income	--	--	--	20,557	20,557
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $222	--	--	290	--	290

Comprehensive income					20,847
Stock issued as bonus shares – 80,245 shares	1	203	--	--	204
Non-vested bonus shares	--	587	--	--	587
Stock issued for employee stock purchase plan – 4,947 shares	--	131	--	--	131
Exercise of stock options – 67,988 shares	--	968	--	--	968
Stock granted under stock-based compensation plans	--	130	--	--	130
Securities exchanged under stock option plan	--	(337)	--	--	(337)
Dividends paid – $0.57 per share	--	--	--	(9,808)	(9,808)
Balance, September 30, 2010 (Unaudited)	$172	$113,376	$ 1,052	$269,369	$383,969

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2009, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K Annual Report for 2009 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Subsequent Events

After the reporting date of these financial statements, on October 15, 2010, the Company, through its wholly-owned subsidiary, Simmons First National Bank (the “Bank”), entered into a purchase and assumption agreement with loss share agreements with the Federal Deposit Insurance Corporation (“FDIC”) pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB (“Security”) in Olathe, Kansas. As a result of this acquisition, the Company expands its footprint outside the Arkansas borders for the second time.

Under the terms of the agreement, the Bank acquired approximately $407.0 million in assets which excluded approximately $65.2 million of assets and approximately $27.9 million of allowance for loan losses to be retained by the FDIC. Assets acquired include approximately $318.6 million in loans and other real estate, approximately $11.1 million cash and cash equivalents and approximately $75.6 million in investment securities. The Bank also assumed approximately $433.6 million in liabilities, including approximately $338.2 million in deposits. In connection with the Acquisition, the FDIC made a payment to the Bank in the amount of approximately $73.1 million. This amount is subject to customary post-closing adjustments based upon the final closing date balance sheet for Security. The terms of the agreement provide for the FDIC to indemnify the Bank against certain claims, including claims with respect to liabilities of Security not assumed or otherwise purchased by the Bank, claims made by shareholders of Security, and claims based on any prior action or inaction by Security’s directors, officers and other employees.

Pursuant to the terms of the agreement's loss sharing arrangements, the FDIC will cover 80% of the Bank's losses on the disposition of loans and foreclosed real estate attributable to the acquisition. The deposits were acquired with no deposit premium, and assets were acquired at a discount to Security's historic book value as of October 15, 2010, of $46.5 million, subject to customary adjustments. The Bank will reimburse the FDIC for 80% of its recoveries with respect to losses for which the FDIC paid the Bank 80% reimbursement under the loss sharing agreements.

The third-party valuations on the acquired assets and assumed liabilities associated with the Security acquisition are not currently available to the Company; therefore, no fair value adjustments have been applied. When these reports become available, the Company will report the required financial statements to the SEC in an amendment on Form 8-K, Current Report. In any event, the Company will file these financial statements on Form 8-K no later than December 28, 2010.

The Company has begun a series of procedures to streamline the number of regulatory agencies which have supervisory jurisdiction over its subsidiary banks. On October 12, 2010, Simmons First Bank of El Dorado, N.A. filed an application with the Arkansas State Bank Department to convert from a national bank to an Arkansas chartered state bank. The Bank Department is reviewing the application and the bank. A public hearing on the conversion application is set for December 16, 2010, at which time the Company expects the conversion to be approved. The converted bank, Simmons First Bank of El Dorado, will remain a member of the Federal Reserve Bank of St. Louis. Contemporaneously with the effective date of the conversion, Simmons First Bank of Hot Springs, Simmons First Bank of South Arkansas, Simmons First Bank of Northeast Arkansas and Simmons First Bank of Northwest Arkansas are anticipating becoming member banks of the Federal Reserve Bank of St. Louis. Upon completion of this regulatory realignment, the lead bank, Simmons First National Bank, will remain a national bank while the other seven subsidiary banks will be Arkansas chartered state banks and member banks of the Federal Reserve Bank of St. Louis.

Recently Issued Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") ASU 2009-17, Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities, as well as qualifying special-purpose entities that were previously excluded from previous consolidation guidance. ASU 2009-17 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Adoption of the new guidance did not have a significant impact on the Company's ongoing financial position or results of operations.

In December 2009, the FASB issued ASU 2009-16, Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets. ASU 2009-16 amends the derecognition accounting and disclosure guidance. ASU 2009-16 eliminates the exemption from consolidation for Qualified Special Purpose Entities ("QSPEs") and also requires a transferor to evaluate all existing QSPEs to determine whether they must be consolidated. ASU 2009-16 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009, and did not have a significant impact on the Company's ongoing financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and nonrecurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 18 – Fair Value Measurements. These new disclosure requirements were adopted by the Company during the period ended March 31, 2010, with the exception of the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. With respect to the portions of this ASU that were adopted during the period ended March 31, 2010, the adoption of this standard did not have a significant impact on the Company's financial position, results of operations or disclosures. Management does not believe that the adoption of the remaining portion of this ASU will have a significant impact on the Company's ongoing financial position, results of operation or disclosures.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements. The amendments remove the requirement for an SEC registrant to disclose the date through which subsequent events were evaluated as this requirement would have potentially conflicted with SEC reporting requirements. Removal of the disclosure requirement is not expected to affect the nature or timing of subsequent events evaluations performed by the Company. ASU 2010-09 became effective upon issuance.

In July 2010, the FASB issued ASU 2010-10, which will require the Company to provide extensive new disclosures in its financial statements. The proposed Statement is intended to improve the transparency of financial reporting by requiring enhanced disclosures about the Company's allowance for credit losses as well as the credit quality of the Company's loan portfolio.

The enhanced disclosures include disclosure of information that enables the users of the Company's consolidated financial statements to understand the risk characteristics of the Company's loan portfolio segments, the factors and methodologies used in estimating the Company's allowance for loan losses for each portfolio, and the activity in both the loan balances and allowance for loan losses for each loan portfolio segment. Additionally, the disclosures include disclosing information by loan portfolio segment that enables users to assess the fair value of the Company's loans at the end of the reporting period, as well as assess the quantitative and qualitative risks arising from the credit quality of the Company's loans. Suggested disclosures also include information that enables users to understand the accounting for, and amount of, loans that meet the definition of an impaired loan in ASC Topic 310, as well as loans that are on nonaccrual status. The ASU is effective beginning with the first interim or annual reporting period ending after December 15, 2010, with early application encouraged. Because ASU 2010-10 enhances current disclosure requirements and does not represent a departure from current GAAP, issuance and adoption of the ASU will not affect the Company's financial position or results of operations, but will require additional disclosures in the Company's interim and annual consolidated financial statements.

There have been no other significant changes to the Company's accounting policies from the 2009 Form 10-K.

Acquisition Accounting, Covered Loans and Related Loss Share Receivable

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared loss agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques . The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC. For further discussion of the Company's acquisition and loan accounting, see Note 2 and Note 5 to the consolidated financial statements.

Earnings Per Share

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

Following is the computation of per share earnings for the three and nine months ended September 30, 2010 and 2009:

(In thousands, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$7,620	$7,660	$20,557	$18,405
Average common shares outstanding	17,220	14,043	17,187	14,019
Average potential dilutive common shares	62	90	62	90
Average diluted common shares	17,282	14,133	17,249	14,109
Basic earnings per share	$0.45	$0.54	$1.20	$1.31
Diluted earnings per share	$0.44	$0.54	$1.19	$1.30

Stock options to purchase 98,998 and 100,290 shares for the three and nine months ended September 30, 2010 and 2009, respectively, were not included in the earnings per share calculation because the exercise price exceeded the average market price.

NOTE 2: ACQUISITION

On May 14, 2010, the Company, through its wholly-owned subsidiary, the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Southwest Community Bank (“SWCB”) in Springfield, Missouri. As a result of this acquisition, the Company expands its footprint outside the Arkansas borders for the first time. The Company recognized a pre-tax gain of $3.0 million on this transaction and incurred pre-tax merger related costs of $0.4 million. A summary, at fair value, of the assets acquired and liabilities assumed is as follows:

(In thousands)	Acquired from the FDIC	Fair Value Adjustments	Fair Value
ASSETS			
Cash and non-interest bearing balances due from banks	$222	$ 10,653	$10,875
Interest bearing balances due from banks	7,192	--	7,192
Investment securities	24,850	--	24,850
Covered assets:			
Loans	56,214	(16,037)	40,177
Other real estate	6,538	(1,892)	4,646
FDIC loss share receivable	--	13,783	13,783
Premises and equipment	10	--	10
Other assets	616	(159)	457
Total assets	$95,642	$ 6,348	$101,990
LIABILITIES			
Deposits:			
Non-interest bearing transaction accounts	$5,063	$ --	$5,063
Interest bearing transaction accounts and savings deposits	103	--	103
Time deposits	92,174	--	92,174

Total deposits	97,340	--	97,340
FDIC true-up payable	--	1,504	1,504
Accrued interest and other liabilities	109	--	109
Total liabilities	$97,449	$ 1,504	$98,953
Gain on acquisition of SWCB			$3,037

The Bank will share in the losses on assets covered under the loss share agreements. The FDIC will reimburse the Bank for 80% of all losses on covered assets. The loss sharing agreements entered into by the Bank and the FDIC in conjunction with the purchase and assumption agreement require that the Bank follow certain servicing procedures as specified in the loss share agreements or risk losing FDIC reimbursement of covered asset losses. Additionally, to the extent that actual losses incurred by the Bank under the loss share agreements are less than expected, the Bank may be required to reimburse the FDIC under the clawback provisions of the loss share agreements. At September 30, 2010, the covered loans and covered other real estate owned and the related FDIC loss share receivable (collectively, the "covered assets") and the FDIC clawback payable were reported at the net present value of expected future amounts to be paid or received.

Purchased loans acquired in a business combination, including loans purchased in the SWCB acquisition, are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. Purchased loans are accounted for in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality accounting guidance for certain loans or debt securities acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges and an adjustment in accretable yield, recognized on a prospective basis over the loan's or pool's remaining life, which will have a positive impact on interest income.

On the acquisition date, the preliminary estimate of the contractually required payments for all acquired loans was $56.2 million, the cash flows expected to be collected were $43.3 million including interest, and the estimated fair value was $40.2 million. These amounts were determined based upon the remaining life of the acquired loans, including the effects of estimated prepayments, estimated loss ratios, the estimated value of the underlying collateral, and the net present value of cash flows expected to be received. The discount on covered loans that that would be accreted into future earnings of the Company based on expected cash flows totaled $16.0 million.

The Company has finalized its analysis of the acquired loans along with the other acquired assets and assumed liabilities in this transaction. No significant adjustments to the estimated amounts and carrying values were required.

NOTE 3: INVESTMENT SECURITIES

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

(In thousands)	September 30, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Treasury	$4,000	$ 40	$ --	$4,040	$--	$ --	$ --	$--
U.S. Government agencies	250,927	2,371	(23)	253,275	254,229	799	(1,348)	253,680
Mortgage-backed securities	81	3	--	84	90	5	--	95
State and political subdivisions	205,610	5,293	(131)	210,772	208,812	2,728	(580)	210,960
Other securities	930	--	--	930	930	--	--	930
	$461,548	$ 7,707	$ (154)	$469,101	$464,061	$ 3,532	$ (1,928)	$465,665
Available-for-Sale								
U.S. Treasury	$--	$ --	$ --	$--	$4,297	$ 32	$ --	$4,329
U.S. Government agencies	165,507	1,117	--	166,624	160,807	953	(236)	161,524
Mortgage-backed securities	2,762	232	(1)	2,993	2,896	78	(2)	2,972
Other securities	13,941	388	(4)	14,325	13,633	399	(3)	14,029
	$182,210	$ 1,737	$ (5)	$183,942	$181,633	$ 1,462	$ (241)	$182,854

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

As of September 30, 2010, securities with unrealized losses, segregated by length of impairment, were as follows:

	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$ 32,004	$ 23	$ --	$ --	$ 32,004	$ 23
Mortgage-backed securities	345	--	--	--	345	--
State and political subdivisions	2,241	22	1,904	109	4,145	131
Total	$ 34,590	$ 45	$ 1,904	$ 109	$ 36,494	$ 154
Available-for-Sale						
Mortgage-backed securities	$ --	$ --	$ 115	$ 1	$ 115	$ 1
Other securities	1	4	--	--	1	4
Total	$ 1	$ 4	$ 115	$ 1	$ 116	$ 5

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2010, 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 September 30, 2010, management believes the impairments detailed in the table above are temporary.

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $415,645,000 at September 30, 2010, and $446,189,000 at December 31, 2009.

The book value of securities sold under agreements to repurchase amounted to $70,976,000 and $80,050,000 for September 30, 2010, and December 31, 2009, respectively.

Income earned on securities for the nine months ended September 30, 2010 and 2009, is as follows:

(In thousands)	2010	2009
Taxable		
Held-to-maturity	$3,560	$1,741
Available-for-sale	3,387	9,234
Non-taxable		
Held-to-maturity	6,231	5,768
Available-for-sale	--	19
Total	$13,178	$16,762

Maturities of investment securities at September 30, 2010, are as follows:

	Held-to-Maturity		Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 13,072	$ 13,168	$ 20,619	$ 20,622
After one through five years	270,608	273,530	87,108	87,295
After five through ten years	95,075	97,372	60,536	61,694
After ten years	82,793	85,031	6	6
Other securities	--	--	13,941	14,325
Total	$ 461,548	$ 469,101	$ 182,210	$ 183,942

There were no realized gains from the sale of securities for the three and nine month periods ended September 30, 2010, with no realized gains for the three-month period ended September 30, 2009. Gross realized gains of $144,000 were recognized from the sale of securities for the nine-month period ended September 30, 2009. There were no realized losses over the same periods.

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

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2010, the Company's loan portfolio, excluding loans covered by FDIC loss share agreements, was $1.74 billion, compared to $1.87 billion at December 31, 2009. The various categories of loans, excluding loans covered by FDIC loss share agreements, are summarized as follows:

(In thousands)	September 30, 2010	December 31, 2009
Consumer		
Credit cards	$181,774	$189,154
Student loans	64,989	114,296
Other consumer	123,062	139,647
Total consumer	369,825	443,097
Real Estate		
Construction	150,137	180,759
Single family residential	375,150	392,208
Other commercial	566,370	596,517
Total real estate	1,091,657	1,169,484
Commercial		
Commercial	146,258	168,206
Agricultural	121,716	84,866
Financial institutions	--	3,885
Total commercial	267,974	256,957
Other	10,098	5,451
Total loans before allowance for loan losses	$1,739,554	$1,874,989

As of September 30, 2010, credit card loans, which are unsecured, were $181,774,000 or 10.4% of total loans, versus $189,154,000, or 10.1% of total loans at December 31, 2009. The credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Credit card loans are regularly reviewed to facilitate the identification and monitoring of creditworthiness.

At September 30, 2010, and December 31, 2009, impaired loans, net of Government guarantees, totaled $50,966,000 and $46,859,000, respectively. Allocations of the allowance for loan losses relative to impaired loans were $4,741,000 at September 30, 2010, and $8,343,000 at December 31, 2009. Approximately $643,000 and $651,000 of interest income was recognized on average impaired loans of $56,468,000 and $33,367,000 as of September 30, 2010 and 2009, respectively. Interest recognized on impaired loans on a cash basis during the first nine months of 2010 and 2009 was immaterial.

Transactions in the allowance for loan losses are as follows:

(In thousands)	2010	2009
Balance, beginning of year	$25,016	$25,841
Additions		
Provision charged to expense	10,396	7,549
	35,412	33,390
Deductions		
Losses charged to allowance, net of recoveries of $5,166 and $2,989 for the first nine months of 2010 and 2009, respectively	9,730	7,560
Balance, September 30	$25,682	25,830
Additions		
Provision charged to expense		2,767
Deductions		28,597
Losses charged to allowance, net of recoveries of $698 for the last three months of 2009		3,581
Balance, end of year		$25,016

NOTE 5: COVERED LOANS

The Company evaluated loans purchased in conjunction with the acquisition of SWCB described in Note 2, Acquisition, for impairment in accordance with the provisions of ASC Topic 310-30. Purchased covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. The following table reflects the carrying value of all purchased covered impaired loans as of September 30, 2010, for the SWCB FDIC assisted transaction:

(in thousands)	Loans Covered by FDIC Loss Share September 30, 2010
Performing fixed rate loans	$ 12,869
Criticized fixed rate loans	2,348
Sub-standard fixed rate loans	15,026
Total fixed rate loans	30,243
Performing variable rate loans	2,289
Criticized variable rate loans	143
Sub-standard variable rate loans	5,485
Total variable rate loans	7,917
Total covered loans (1)	$ 38,160

(1) These loans were not classified as non-performing assets at September 30, 2010, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all

purchased impaired loans. The loans are grouped in pools sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques.

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition date. These loan pools are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Company's non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics.

The following is a summary of the covered impaired loans acquired in the SWCB acquisition on May 14, 2010, as of the date of acquisition.

(in thousands)	Loans Covered by FDIC Loss Share May 14, 2010
Contractually required principal and interest at acquisition	$ 58,739
Non-accretable difference (expected losses and foregone interest)	(15,396)
Cash flows expected to be collected at acquisition	43,343
Accretable yield	(3,166)
Basis in acquired loans at acquisition	$ 40,177

As of the acquisition date, the preliminary estimates of contractually required payments receivable, including interest, for all covered impaired loans acquired in the SWCB transaction was $56.2 million. The cash flows expected to be collected as of the acquisition dates for these loans were $40.9 million, including interest. These amounts were determined based upon the estimated remaining life of the underlying loans, which includes the effects of estimated prepayments.

Changes in the carrying amount of the accretable yield for purchased impaired loans were not deemed material for the three months ended September 30, 2010.

There were no allowances for loan losses related to the purchased impaired loans at September 30, 2010.

NOTE 6: GOODWILL AND CORE DEPOSIT PREMIUMS

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

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

The carrying basis and accumulated amortization of core deposit premiums (net of core deposit premiums that were fully amortized) at September 30, 2010, and December 31, 2009, were as follows:

(In thousands)	September 30, 2010	December 31, 2009
Gross carrying amount	$6,822	$6,822
Accumulated amortization	(5,628)	(5,053)

Net core deposit premiums	$1,194	$1,769

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Core deposit premium amortization expense recorded for the nine months ended September 30, 2010 and 2009, was $575,000 and $604,000, respectively. The Company's estimated amortization expense for the remainder of 2010 is $124,000, and for each of the following four years is:
2011 – $451,000; 2012 – $321,000; 2013 – $268,000; and 2014 – $30,000.

NOTE 7: TIME DEPOSITS

Time deposits include approximately $377,957,000 and $420,537,000 of certificates of deposit of $100,000 or more at September 30, 2010, and December 31, 2009, respectively.

NOTE 8: INCOME TAXES

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

(In thousands)	September 30, 2010	September 30, 2009
Income taxes currently payable	$6,703	$6,179
Deferred income taxes	1,457	1,237
Provision for income taxes	$8,160	$7,416

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

(In thousands)	September 30, 2010	December 31, 2009
Deferred tax assets		
Allowance for loan losses	$ 9,671	$ 8,859
Valuation of foreclosed assets	103	99
Deferred compensation payable	1,694	1,603
Vacation compensation	952	898
Loan interest	203	195
Other	480	391
Total deferred tax assets	13,103	12,045
Deferred tax liabilities		
Accumulated depreciation	(341)	(451)
Deferred loan fee income and expenses, net	(1,619)	(1,310)
FHLB stock dividends	(542)	(503)
Goodwill and core deposit premium amortization	(11,197)	(9,805)
Gain on acquisition	(1,191)	--
Available-for-sale securities	(679)	(457)
Other	(1,351)	(1,657)
Total deferred tax liabilities	(16,920)	(14,183)
Net deferred tax liabilities included in other liabilities on balance sheets	$ (3,817)	$ (2,138)

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

(In thousands)	September 30, 2010	September 30, 2009
Computed at the statutory rate (35%)	$10,051	$9,037
Increase (decrease) in taxes resulting from:		
State income taxes, net of federal tax benefit	622	378
Tax exempt interest income	(2,207)	(2,119)
Tax exempt earnings on BOLI	(441)	(339)
Other differences, net	135	459
Actual tax provision	$8,160	$7,416

The Company follows ASC Topic 740, Income Taxes, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC Topic 740 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

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

The Company files income tax returns in the U.S. federal jurisdiction. The Company’s U.S. federal income tax returns are open and subject to examinations from the 2007 tax year and forward. The Company’s various state income tax returns are generally open from the 2003 and later tax return years based on individual state statute of limitations.

NOTE 9: SHORT-TERM AND LONG-TERM DEBT

Long-term debt at September 30, 2010, and December 31, 2009, consisted of the following components:

(In thousands)	September 30, 2010	December 31, 2009
FHLB advances, due 2010 to 2033, 2.02% to 8.41% secured by residential real estate loans	$ 105,899	$ 128,893
Trust preferred securities, due 12/30/2033, fixed at 8.25%, callable without penalty	10,310	10,310
Trust preferred securities, due 12/30/2033, floating rate of 2.80% above the three month LIBOR rate, reset quarterly, callable without penalty	10,310	10,310
Trust preferred securities, due 12/30/2033, fixed rate of 6.97% through 2010, thereafter, at a floating rate of 2.80% above the three month LIBOR rate, reset quarterly, callable in 2010 without penalty	10,310	10,310
	$ 136,829	$ 159,823

At September 30, 2010, the Company had no Federal Home Loan Bank ("FHLB") advances with original maturities of one year or less.

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

Aggregate annual maturities of long-term debt at September 30, 2010, are:

(In thousands)	Year	Annual Maturities
	2010	$ 1,670
	2011	43,964
	2012	6,895
	2013	16,863
	2014	5,199
	Thereafter	62,238
	Total	$ 136,829

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NOTE 10: CONTINGENT LIABILITIES

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

On October 1, 2003, an action in Pulaski County Circuit Court was filed by Thomas F. Carter, Tena P. Carter and certain related entities against Simmons First Bank of South Arkansas (“South Arkansas”) and the 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 the Bank due to lack of venue. Venue was changed to Jefferson County for the Company and 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, lodged the transcript with the Arkansas Supreme Court Clerk, and filed their initial Brief. The Company and South Arkansas timely filed their Brief in response. On September 8, 2010, the Arkansas Court of Appeals dismissed the Plaintiffs’ appeal without prejudice, finding that the Trial Court had not entered a final Order, which may allow the Plaintiffs to re-file the appeal at a later date. At this time, no basis for any material liability has been identified.

NOTE 11: CAPITAL STOCK

On February 27, 2009, at a special meeting, the Company’s shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of preferred stock, $0.01 par value. The aggregate liquidation preference of all shares of preferred stock cannot exceed $80,000,000. As of September 30, 2010, no preferred stock has been issued.

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

As part of its strategic focus on building capital, management suspended the Company's stock repurchase program in July 2008. The Company has made no purchases of its common stock since that time. Under the current stock repurchase plan, the Company can repurchase an additional 645,672 shares. However, because of the recently completed stock offering and based on management's strategy to retain capital, the Company does not anticipate resuming its stock repurchases during 2010.

On August 26, 2009, the Company filed a shelf registration statement with the SEC. The shelf registration statement, which was declared effective on September 9, 2009, allows the Company 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 are determined at the time of any offering under a separate prospectus supplement that the Company is 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 the Company's 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.

NOTE 12: UNDIVIDED PROFITS

The Company's subsidiary banks are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Comptroller of the Currency is required, if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits, as defined, for that year combined with its retained net profits of the preceding two years. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of current year earnings plus 75% of the retained net earnings of the preceding year. At September 30, 2010, the bank subsidiaries had approximately $18.0 million available for payment of dividends to the Company, without prior approval of the regulatory agencies.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier l leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of September 30, 2010, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's "total risk-based capital" ratio was 20.46% at September 30, 2010.

NOTE 13: STOCK BASED COMPENSATION

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

The table below summarizes the transactions under the Company's active stock compensation plans for the nine months ended September 30, 2010:

	Stock Options Outstanding		Non-Vested Stock Awards Outstanding	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant-Date Fair-Value
Balance, January 1, 2010	374,133	$21.78	48,506	$26.96
Granted	--	--	80,245	26.79
Stock Options Exercised	(67,988)	14.25	--	--
Stock Awards Vested	--	--	(15,482)	27.58
Forfeited/Expired	(1,912)	28.54	(3,964)	26.27
Balance, September 30, 2010	304,233	$23.42	109,305	$26.77
Exercisable, September 30, 2010	249,031	$22.19		

The following table summarizes information about stock options under the plans outstanding at September 30, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$12.13 - $ 15.65	69,935	0.6	$ 12.21	69,935	$ 12.21
23.78 - 24.50	82,400	4.1	24.06	82,400	24.06
26.19 - 27.67	53,400	5.6	26.20	42,420	26.21
28.42 - 28.42	51,360	6.3	28.42	35,080	28.42
30.31 - 30.31	47,138	7.6	30.31	19,196	30.31

Total stock-based compensation expense was $717,347 and $448,667 during the nine months ended September 30, 2010 and 2009, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. Unrecognized stock-based compensation expense related to stock options totaled $291,525 at September 30, 2010. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.10 years. Unrecognized stock-based compensation expense related to non-vested stock awards was $2,404,540 at September 30, 2010. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.78 years.

Aggregate intrinsic values of outstanding stock options and exercisable stock options at September 30, 2010, were $1.5 million and $1.5 million, respectively. Aggregate intrinsic value represents the difference between the Company’s closing stock price on the last trading day of the period, which was $28.27 as of September 30, 2010, and the exercise price multiplied by the number of options outstanding. The total intrinsic values of stock options exercised during the nine months ended September 30, 2010 and 2009, were $953,000 and $933,000, respectively.

NOTE 14: ADDITIONAL CASH FLOW INFORMATION

The following is a summary of the Company's additional cash flow information during the nine months ended:

(In thousands)	Nine Months Ended September 30, 2010	2009
Interest paid	$20,403	$31,755
Income taxes paid	5,305	4,274
Transfers of loans to other real estate	26,452	6,085

In connection with the SWCB acquisition, accounted for by using the purchase method, the Company acquired assets and assumed liabilities as follows:

(In thousands)	Nine Months Ended September 30, 2010
Assets acquired	$ 101,990
Liabilities assumed	98,953
Bargain purchase gain	$ 3,037

NOTE 15: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
Professional services	$ 1,041	$ 981	$ 3,042	$ 2,516
Postage	594	626	1,868	1,805
Telephone	584	528	1,707	1,579
Credit card expense	1,407	1,294	4,037	3,792
Operating supplies	354	371	1,013	1,118
Amortization of core deposit premiums	187	201	575	604
Other expense	3,011	3,469	9,202	9,375
Total other operating expenses	$ 7,178	$ 7,470	$ 21,444	$ 20,789

NOTE 16: CERTAIN TRANSACTIONS

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

NOTE 17: COMMITMENTS AND CREDIT RISK

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

At September 30, 2010, the Company had outstanding commitments to extend credit aggregating approximately $295,166,000 and $270,771,000 for credit card commitments and other loan commitments, respectively. At December 31, 2009, the Company had outstanding commitments to extend credit aggregating approximately $262,257,000 and $393,437,000 for credit card commitments and other loan commitments, respectively.

Standby letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $10,091,000 and $10,391,000 at September 30, 2010, and December 31, 2009, respectively, with terms ranging from 90 days to three years. At September 30, 2010, and December 31, 2009, the Company’s deferred revenue under standby letter of credit agreements is approximately $50,000 and $46,000, respectively.

NOTE 18: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted ASC Topic 820, Fair Value Measurements and Disclosures. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Topic 820 describes three levels of inputs that may be used to measure fair value:

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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

Available-for-sale securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid Government bonds, mortgage products and exchange traded equities. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company's investment in a Government money market mutual fund (the "AIM Fund") is reported at fair value utilizing Level 1 inputs. The remainder of the Company's available-for-sale securities are reported at fair value utilizing Level 2 inputs.

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

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009.

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2010				
ASSETS				
Available-for-sale securities				
U.S. Government agencies	$ 166,624	$ --	$ 166,624	$ --
Mortgage-backed securities	2,993	--	2,993	--
Other securities	14,325	1,503	12,822	--
Assets held in trading accounts	7,412	3,050	4,362	--
December 31, 2009				
ASSETS				
Available-for-sale securities				
U.S. Treasury	$ 4,329	$ --	$ 4,329	$ --
U.S. Government agencies	161,524	--	161,524	--
Mortgage-backed securities	2,972	--	2,972	--
Other securities	14,029	1,503	12,526	--
Assets held in trading accounts	6,886	5,350	1,536	--

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

Impaired loans (Collateral Dependent) – Loan impairment is reported when full payment under the loan terms is not expected. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Mortgage loans held for sale – Mortgage loans held for sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analyses with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held for sale are classified as Level 3. At September 30, 2010, and December 31, 2009, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

Covered loans and other real estate owned – Fair values of covered loans and other real estate owned are based on a discounted cash flow methodology that considers factors including the type of loan and related collateral, variable or fixed rate, classification status, remaining term, interest rate, historical delinquencies, loan to value ratios, current market rates and remaining loan balance. The loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans were based on current market rates for new originations of similar loans. Estimated credit losses were also factored into the projected cash flows of the loans. Covered loans and other real estate owned are classified within Level 3 of the fair value hierarchy.

FDIC loss share receivable – Fair value of the FDIC loss share receivable is based on the net present value of future cash proceeds expected to be received from the FDIC under the provisions of the loss share agreements using a discount rate that is based on current market rates. The FDIC loss share receivable is classified within Level 3 of the fair value hierarchy.

FDIC true-up payable – Fair value of the FDIC true-up payable is based on the net present value of expected future cash payments to be made by the Company to the FDIC at the conclusion of the loss share agreements. The discount rate used was based on current market rates. The expected cash flows were calculated in accordance with the loss share agreements and are based primarily on the expected losses on the covered assets. The FDIC true-up is classified within Level 3 of the fair value hierarchy.

The following table sets forth the Company's financial assets and liabilities by level within the fair value hierarchy that were measured at fair value on a nonrecurring basis as of September 30, 2010, and December 31, 2009.

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2010				
ASSETS				
Impaired loans (collateral dependent)	$ 46,225	$ --	$ --	$ 46,225
Covered assets:				
Loans	38,160	--	--	38,160
Other real estate owned	2,650	--	--	2,650
FDIC loss share receivable	9,600	--	--	9,600
LIABILITIES				
FDIC true-up payable	1,530	--	--	1,530
December 31, 2009				
ASSETS				
Impaired loans (collateral dependent)	40,445	--	--	40,445

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ASC Topic 825, Financial Instruments, requires disclosure in annual and interim financial statements of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

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

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

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

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

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

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

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

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

(In thousands)	September 30, 2010 Carrying Amount	September 30, 2010 Fair Value	December 31, 2009 Carrying Amount	December 31, 2009 Fair Value
Financial assets				
Cash and cash equivalents	$325,924	$325,924	$353,585	$353,585
Held-to-maturity securities	461,548	469,101	464,061	465,665
Mortgage loans held for sale	25,383	25,383	8,397	8,397
Interest receivable	16,884	16,884	17,881	17,881
Loans, net	1,713,872	1,710,759	1,849,973	1,844,509
Covered loans	38,160	38,179	--	--
FDIC loss share receivable	9,600	9,600	--	--
Financial liabilities				
Non-interest bearing transaction accounts	374,494	374,494	363,154	363,154
Interest bearing transaction accounts and savings deposits	1,146,433	1,146,433	1,156,264	1,156,264
Time deposits	861,242	863,253	912,754	914,977
Federal funds purchased and securities sold under agreements to repurchase	85,561	85,561	105,910	105,910
Short-term debt	1,728	1,728	3,640	3,640
Long-term debt	136,829	149,099	159,823	173,847
Interest payable	2,251	2,251	2,712	2,712

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

Foreclosed assets held for sale are the only material non-financial assets valued on a nonrecurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company’s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 2 inputs based on observable market data. As of September 30, 2010 and December 31, 2009, the fair value of foreclosed assets held for sale, excluding those covered by FDIC loss share agreements, less estimated costs to sell was $23.9 million and $9.2 million, respectively.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of SIMMONS FIRST NATIONAL CORPORATION as of September 30, 2010, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2010 and 2009 and statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2009, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

BKD, LLP

/s/ BKD, LLP

Pine Bluff, Arkansas
November 9, 2010

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

SUBSEQUENT ACQUISITION

On October 15, 2010, Simmons First National Corporation (the "Company" or "Simmons") announced that its wholly-owned bank subsidiary, Simmons First National Bank (the "Bank"), entered into a purchase and assumption agreement with loss share arrangements with the Federal Deposit Insurance Corporation ("FDIC") to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB ("SSB") in Olathe, Kansas. As a result of this acquisition, the Company expands its footprint into the state of Kansas for the first time, with nine branches located in the communities of Olathe, Overland Park, Leawood, Salina and Wichita.

The assets of SSB were purchased from the FDIC at a discount of $46.5 million, or approximately 11.4% of total assets. All deposits were acquired with no deposit premium. Through the loss share provisions of the purchase and assumption agreement, the FDIC will reimburse the Company for 80% of the losses it incurs on the disposition of loans and foreclosed real estate on all covered assets.

Under the terms of the agreement, the Bank acquired approximately $407.0 million in assets, including approximately $318.6 million in loans and other real estate, approximately $11.1 million cash and cash equivalents and approximately $75.6 million in investment securities. The Bank also assumed approximately $433.6 million in liabilities, including approximately $338.2 million in deposits. In connection with the acquisition, the FDIC made a payment to the Bank in the amount of approximately $73.1 million. The third-party valuations on the acquired assets and assumed liabilities associated with the Security acquisition are not currently available to the Company; therefore, no fair value adjustments have been applied.

OVERVIEW

Simmons recorded net income of $7.6 million for the third quarter of 2010, compared to $7.7 million for the same quarter of 2009. Diluted earnings per share were $0.44 for the quarter ended September 30, 2010, compared to $0.54 for the same period in 2009. Net income for the nine-month period ended September 30, 2010, was $20.6 million, or $1.19 diluted earnings per share, compared to $18.4 million, or $1.30 per share for the same period in 2009.

On May 14, 2010, the Company announced that the Bank had entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Southwest Community Bank ("SWCB") in Springfield, Missouri. As a result of this acquisition, Simmons expanded its footprint outside the Arkansas borders for the first time. The Company recognized a pre-tax gain of $3.0 million on this transaction and incurred pre-tax merger related costs of $0.4 million. After taxes, this gain, net of merger related costs, contributed $1.6 million to 2010 net income, or $0.09 to diluted earnings per share. Except for the $3.0 million pre-tax gain and the $0.4 million pre-tax merger related costs, the SWCB acquisition did not significantly impact the Company's results of operations for the nine-months ended 2010.

On March 5, 2010, the Company announced the decision to close or consolidate 9 branches, primarily smaller branches in rural areas. During June 2010, these branches were closed and we recorded a one-time, nonrecurring charge of $0.01 diluted earnings per share associated with the closings. For more information on branch closings, see Efficiency Initiatives below.

Excluding the nonrecurring items, earnings were $19.2 million for the nine-months ended September 30, 2010, an increase of $780,000, or 4.2% from the same period of 2009. Excluding the nonrecurring items, diluted earnings per share for the nine-months ended September 30, 2010, were $1.11, compared to $1.30 for the same period of 2009.

Total assets were $3.02 billion at September 30, 2010, compared to $3.09 billion at December 31, 2009. Total loans, excluding those covered by FDIC loss share agreements, were $1.74 billion at September 30, 2010, compared to $1.87 billion at December 31, 2009.

Stockholders' equity as of September 30, 2010, was $384.0 million, an increase of $12.7 million, or approximately 3.4%, from December 31, 2009. Book value per share was $22.28 at September 30, 2010, compared to $21.72 at December 31, 2009.

Simmons First National Corporation is an Arkansas based financial holding company with eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. The Company's eight banks conduct financial operations from 89 offices, of which 85 are financial centers, in 46 communities in Arkansas, Missouri and Kansas.

Efficiency Initiatives

We previously reported that we hired a consultant to help us identify and implement revenue enhancements, process improvements and branch staff level adjustments. The identification phase of the project is complete and we have begun to implement the recommendations. We currently estimate a total annual benefit from the efficiency initiative of approximately $5 million before tax. Approximately one-third of the benefit is projected from revenue enhancements with the remainder from non-interest expense savings. We have assured our associates that no one will lose their job as a result of this initiative, as all positions impacted will be eliminated through attrition. Therefore, we will not recognize the full annual benefit immediately. Instead, we expect to achieve these annual benefits in increments of approximately 12%, or $0.6 million in 2010 ($0.3 million in the fourth quarter); 60%, or $3 million in 2011; and the full $5 million in 2012 and each year thereafter.

During June 2010, as scheduled as part of our branch right sizing initiative, and after much deliberation and analysis, we closed or consolidated nine financial centers, primarily smaller branches in rural areas. We believe most of the customers will be absorbed into other Simmons locations in close proximity to the closed branches. After the closings, we have 75 financial centers in Arkansas, still one of the best footprints in the state. As a result of these closings, we recorded a one-time, nonrecurring pre-tax charge of $372,000, or $0.01 to diluted earnings per share, for the quarter ended June 30, 2010, and the nine-months ended September 30, 2010. Again, staff reductions will be realized through attrition and associates at the affected branches will be reassigned to other locations. We project annual non-interest expense savings of approximately $900,000 before tax, and hope to achieve 40% of that benefit in 2010, beginning in the third quarter. Our branch right sizing initiative has been under way for some time. Over the last several years we have added numerous new financial centers, closed several and relocated others. We will continue our efforts to manage our product delivery system in the most efficient manner possible.

CRITICAL ACCOUNTING POLICIES

Overview

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 on loans not covered by loss share, (b) acquisition accounting and the valuation of covered loans and the related indemnification asset, (c) the valuation of goodwill and the useful lives applied to intangible assets, (d) the valuation of employee benefit plans and (e) income taxes.

Allowance for Loan Losses on Loans Not Covered by Loss Share

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 appropriate 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 and at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio. 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.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased significantly and if so, recognizes a provision for loan loss in its consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC.

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 13, Stock Based Compensation, in the accompanying Condensed 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.

NET INTEREST INCOME

Overview

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 39.225%.

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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. However, due to the extremely low interest rate environment, approximately 69% of our loans, excluding loans covered by FDIC loss share agreements, and 85% of our time time deposits, are scheduled to reprice within one year from September 30, 2010.

Net Interest Income Quarter-to-Date Analysis

For the three month period ended September 30, 2010, net interest income on a fully taxable equivalent basis was $27.3 million, an increase of $616,000, or 2.3%, over the same period in 2009. The increase in net interest income was the result of a $2.8 million decrease in interest expense offset by a $2.2 million decrease in interest income.

The $2.8 million decrease in interest expense is the result of a 47 basis point decrease in cost of funds due to competitive repricing during a low interest rate environment, coupled with a shift in our mix of interest bearing deposits. The lower interest rates accounted for a $2.3 million decrease in interest expense. The most significant component of this decrease was the $1.5 million decrease associated with the repricing of the Company’s time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. As a result, the average rate paid on time deposits decreased 70 basis points from 2.25% to 1.55%. Lower rates on interest bearing transaction and savings accounts resulted in an additional $770,000 decrease in interest expense, with the average rate decreasing by 27 basis points from 0.70% to 0.43%. Although the level of average total interest bearing liabilities only decreased slightly by $35,000, interest expense due to volume decreased by $515,000 as a result of a change in deposit mix (higher costing time deposits declined while lower costing transaction accounts increased) and a reduction in long-term debt.

The $2.2 million decrease in interest income primarily is the result of a 37 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate during a low rate environment, coupled with a shift in our mix of interest earning assets. The lower interest rates accounted for a $1.4 million decrease in interest income. The most significant component of this decrease was a $1.3 million decrease associated with the repricing of our investment securities portfolio. As a result, the average rate earned on the securities portfolio decreased 92 basis points from 4.21% to 3.29 %. Although the level of average interest earning assets increased by $23.9 million, interest income due to volume decreased by $810,000 as a result of a change in asset mix (higher yielding loans declined while lower yielding balances due from banks increased). The decrease in average loans, net of covered loans, accounted for a $1.3 million decrease, while an increase in average investment securities resulted in a $378,000 increase in interest income. The increase in balances due from banks was due to our 2008 and 2009 initiative to increase liquidity, along with our secondary stock offering completed in December 2009 which provided approximately $70.5 million in net proceeds.

Net Interest Income Year-to-Date Analysis

For the nine month period ended September 30, 2010, net interest income on a fully taxable equivalent basis was $79.5 million, an increase of $3.3 million, or 4.4%, over the same period in 2009. The increase in net interest income was the result of a $10.4 million decrease in interest expense offset by a $7.1 million decrease in interest income.

The $10.4 million decrease in interest expense is the result of a 61 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, coupled with a shift in our mix of interest bearing deposits. The lower interest rates accounted for a $9.1 million decrease in interest expense. The most significant component of this decrease was the $6.2 million decrease associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. As a result, the average rate paid on time deposits decreased 93 basis points from 2.57% to 1.64%. Lower rates on interest bearing transaction and savings accounts resulted in an additional $2.8 million decrease in interest expense, with the average rate decreasing by 33 basis points from 0.80% to 0.47%. Although the level of average total interest bearing liabilities remained unchanged, interest expense due to volume decreased by $1.4 million as a result of a change in deposit mix (higher costing time deposits declined while lower costing transaction accounts increased) and a reduction in long-term debt.

The $7.1 million decrease in interest income primarily is the result of a 48 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate during a low rate environment coupled with a shift in our mix of interest earning assets. The lower interest rates accounted for a $4.3 million decrease in interest income. The most significant component of this decrease was a $3.3 million decrease associated with the repricing of our investment securities portfolio. As a result, the average rate earned on the securities portfolio decreased 57 basis points from 4.06% to 3.49%. Although the level of average interest earning assets increased by $69.6 million, interest income due to volume decreased by $2.9 million as a result of a change in asset mix (higher yielding loans and investments declined while lower yielding balances due from banks increased). The decrease in average loans, net of covered loans, accounted for $3.2 million of this decrease. The increase in balances due from banks was due to our 2008 and 2009 initiative to increase liquidity, along with our secondary stock offering completed in December 2009 which provided approximately $70.5 million in net proceeds.

Net Interest Margin

Our net interest margin increased 5 basis points to 4.02% for the quarter ended September 30, 2010, when compared to 3.97% for the same period in 2009. For the nine-month period ended September 30, 2010, net interest margin increased 6 basis points to 3.85%, when compared to 3.79% for the same period in 2009. Based on our current interest rate risk pricing model, we expect a relatively flat to slightly improving margin through the remainder of 2010 on our legacy balance sheet in the current interest rate environment. However, we anticipate margin expansion in the fourth quarter of 2010 due to our FDIC assisted acquisitions.

Net Interest Income Tables

Table 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and nine-month periods ended September 30, 2010 and 2009, respectively, as well as changes in fully taxable equivalent net interest margin for the three-month and nine-month periods ended September 30, 2010, versus September 30, 2009.

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

(In thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest income	$32,326	$34,447	$95,616	$102,897
FTE adjustment	1,257	1,304	3,782	3,633
Interest income – FTE	33,583	35,751	99,398	106,530
Interest expense	6,270	9,054	19,943	30,391
Net interest income – FTE	$27,313	$26,697	$79,455	$76,139
Yield on earning assets – FTE	4.94 %	5.31 %	4.82 %	5.30 %
Cost of interest bearing liabilities	1.12 %	1.59 %	1.17 %	1.78 %
Net interest spread – FTE	3.82 %	3.72 %	3.65 %	3.52 %
Net interest margin – FTE	4.02 %	3.97 %	3.85 %	3.79 %

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	Three Months Ended September 30, 2010 vs. 2009	Nine Months Ended September 30, 2010 vs. 2009
Decrease due to change in earning assets	$ (810)	$ (2,863)
Decrease due to change in earning asset yields	(1,358)	(4,269)
Increase due to change in interest bearing liabilities	515	1,359
Increase due to change in interest rates paid on interest bearing liabilities	2,269	9,089
Increase in net interest income	$ 616	$ 3,316

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three-month and nine-month periods ended September 30, 2010 and 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. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended September 30,					
	2010			2009		
($ in thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning Assets						
Interest bearing balances due from banks	$ 159,996	$ 123	0.31	$ 91,832	$ 87	0.38
Federal funds sold	3,477	6	0.68	5,962	10	0.67
Investment securities - taxable	448,978	2,110	1.86	390,635	3,001	3.05
Investment securities - non-taxable	205,809	3,315	6.39	207,152	3,341	6.40
Mortgage loans held for sale	19,842	210	4.20	11,063	136	4.88
Assets held in trading accounts	7,438	7	0.37	6,293	3	0.19
Loans	1,809,902	26,948	5.91	1,957,600	29,173	5.91
Covered loans	38,956	864	8.80	--	--	--
Total interest earning assets	2,694,398	33,583	4.94	2,670,537	35,751	5.31
Non-earning assets	308,699			244,344		
Total assets	$ 3,003,097			$ 2,914,881		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$ 1,143,827	$ 1,236	0.43	$ 1,074,415	$ 1,891	0.70
Time deposits	860,265	3,369	1.55	922,575	5,242	2.25
Total interest bearing deposits	2,004,092	4,605	0.91	1,996,990	7,133	1.42
Federal funds purchased and securities sold under agreement to repurchase	82,708	126	0.60	100,470	172	0.68
Other borrowed funds						
Short-term debt	3,241	15	1.84	3,032	6	0.79

Long-term debt	137,631	1,524	4.39	161,882	1,743	4.27
Total interest bearing liabilities	2,227,672	6,270	1.12	2,262,374	9,054	1.59
Non-interest bearing liabilities						
Non-interest bearing deposits	363,599			329,427		
Other liabilities	27,600			25,107		
Total liabilities	2,618,871			2,616,908		
Stockholders' equity	384,226			297,973		
Total liabilities and stockholders' equity	$ 3,003,097			$ 2,914,881		
Net interest spread			3.82			3.72
Net interest margin		$ 27,313	4.02		$ 26,697	3.97

	Nine Months Ended September 30					
	2010			2009		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning Assets						
Interest bearing balances due from banks	$ 230,611	$ 487	0.28	$ 63,611	$ 235	0.49
Federal funds sold	1,845	12	0.87	5,267	25	0.63
Investment securities - taxable	441,893	6,947	2.10	475,094	10,975	3.09
Investment securities - non-taxable	206,734	9,969	6.45	191,818	9,259	6.45
Mortgage loans held for sale	13,072	429	4.39	13,703	489	4.77
Assets held in trading accounts	7,166	20	0.37	5,496	13	0.32
Loans	1,835,178	80,457	5.86	1,932,879	85,534	5.92
Covered loans	21,010	1,077	6.85	--	--	--
Total interest earning assets	2,757,509	99,398	4.82	2,687,868	106,530	5.30
Non-earning assets	295,628			246,394		
Total assets	$ 3,053,137			$ 2,934,262		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$ 1,162,217	$ 4,071	0.47	$ 1,069,488	$ 6,386	0.80
Time deposits	882,270	10,810	1.64	946,021	18,151	2.57
Total interest bearing deposits	2,044,487	14,881	0.97	2,015,509	24,537	1.63
Federal funds purchased and securities sold under agreement to repurchase	98,693	398	0.54	108,868	597	0.73
Other borrowed funds						
Short-term debt	3,483	45	1.73	2,177	18	1.11
Long-term debt	140,464	4,619	4.40	161,213	5,239	4.34
Total interest bearing liabilities	2,287,127	19,943	1.17	2,287,767	30,391	1.78
Non-interest bearing liabilities						

Non-interest bearing deposits	362,474			328,238		
Other liabilities	23,958			22,924		
Total liabilities	2,673,559			2,638,929		
Stockholders’ equity	379,578			295,333		
Total liabilities and stockholders’ equity	$ 3,053,137			$ 2,934,262		
Net interest spread			3.65			3.52
Net interest margin		$ 79,455	3.85		$ 76,139	3.79

Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month and nine-month period ended September 30, 2010, as compared to the same period of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

	Three Months Ended September 30, 2010 over 2009			Nine Months Ended September 30, 2010 over 2009		
(In thousands, on a fully taxable equivalent basis)	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in						
Interest income						
Interest bearing balances due from banks	$ 55	$ (19)	$ 36	$ 390	$ (138)	$ 252
Federal funds sold	(4)	--	(4)	(20)	7	(13)
Investment securities - taxable	400	(1,291)	(891)	(723)	(3,305)	(4,028)
Investment securities - non-taxable	(22)	(4)	(26)	719	(9)	710
Mortgage loans held for sale	95	(21)	74	(22)	(38)	(60)
Assets held in trading accounts	1	3	4	5	2	7
Loans	(2,199)	(26)	(2,225)	(4,289)	(788)	(5,077)
Covered loans	864	--	864	1,077	--	1,077
Total	(810)	(1,358)	(2,168)	(2,863)	(4,269)	(7,132)
Interest expense						
Interest bearing transaction and savings accounts	115	(770)	(655)	514	(2,829)	(2,315)
Time deposits	(334)	(1,539)	(1,873)	(1,154)	(6,187)	(7,341)
Federal funds purchased and securities sold under agreements to repurchase	(28)	(18)	(46)	(52)	(147)	(199)
Other borrowed funds						
Short-term debt	--	9	9	14	13	27
Long-term debt	(268)	49	(219)	(681)	61	(620)
Total	(515)	(2,269)	(2,784)	(1,359)	(9,089)	(10,448)
(Decrease) increase in net interest income	$ (295)	$ 911	$ 616	$ (1,504)	$ 4,820	$ 3,316

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

The provision for loan losses for the three month period ended September 30, 2010, was $3.4 million, compared to $2.8 million for the three month period ended September 30, 2009, an increase of $618,000. The provision for loan losses for the nine month period ended September 30, 2010, was $10.4 million, compared to $7.5 million for the nine month period ended September 30, 2009, an increase of $2.9 million. The provision increase was primarily due to an increase in net loan charge-offs, most of which had previously been reserved. Management has also determined that there are several economic and environmental factors that necessitate the need for a higher level of unallocated reserve, resulting in a higher level of provision. See Allowance for Loan Losses section for additional information.

NON-INTEREST INCOME

Total non-interest income was $14.8 million for the three month period ended September 30, 2010, a decrease of $141,000, or 0.9%, compared to $15.0 million for the same period in 2009. For the nine-months ended September 30, 2010, non-interest income was $44.3 million, an increase of $4.5 million, or 11.3%, compared to $39.8 million for the same period ended September 30, 2009. The increase was primarily a result of the $3.0 million gain on the FDIC assisted acquisition of SWCB in the second quarter of 2010, combined with the increase in credit card fees during the year.

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, gains (losses) from sales of securities and gains on FDIC assisted transactions.

Table 5 shows non-interest income for the three-month and nine-month periods ended September 30, 2010 and 2009, respectively, as well as changes in 2010 from 2009.

Table 5: Non-Interest Income

(In thousands)	Three Months Ended September 30 2010	Three Months Ended September 30 2009	2010 Change from 2009		Nine Months Ended September 30 2010	Nine Months Ended September 30 2009	2010 Change from 2009	
Trust income	$ 1,343	$ 1,361	$ (18)	-1.32 %	$ 3,763	$ 3,910	$ (147)	-3.76 %
Service charges on deposit accounts	4,388	4,763	(375)	-7.87	13,428	13,061	367	2.81
Other service charges and fees	646	642	4	0.62	2,096	2,034	62	3.05
Income on sale of mortgage loans, net of commissions	1,242	798	444	55.64	2,777	3,198	(421)	-13.16
Income on investment banking, net of commissions	369	598	(229)	-38.29	1,750	1,684	66	3.92
Credit card fees	3,972	3,745	227	6.06	11,692	10,495	1,197	11.41
Premiums on sale of student loans	1,979	2,047	(68)	-3.32	2,524	2,333	191	8.19
Bank owned life insurance income	404	293	111	37.88	1,260	970	290	29.90
Gain on sale of securities, net	--	--	--	--	--	144	(144)	100.00
Gain on FDIC assisted transaction	--	--	--	--	3,037	--	3,037	--
Other income	479	716	(237)	-33.10	1,943	1,951	(8)	-0.41
Total non-interest income	$ 14,822	$ 14,963	$ (141)	-0.94 %	$ 44,270	$ 39,780	$ 4,490	11.29 %

Recurring fee income for the three-month period ended September 30, 2010, was $10.3 million, a decrease of $162,000 from the three month period ended September 30, 2009. Service charges on deposit accounts decreased by $375,000, primarily due to a decline in fee income as a result of recent regulatory changes related to overdrafts on point-of-sale transactions. Credit card fees increased $227,000 due primarily to a higher volume of credit and debit card transactions.

Recurring fee income for the nine-month period ended September 30, 2010, was $31.0 million, an increase of $1.5 million from the same period in 2009. Credit card fees increased $1.2 million for the nine-months ended September 30, due primarily to a growing volume of credit and debit card transactions. Service charges on deposit accounts increased by $367,000, due primarily to changes in our fee structure and deposit mix. Trust income decreased by $147,000 for the nine-months ended September 30, due primarily 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.

Income on sale of mortgage loans increased by $444,000 for the three-months ended September 30, 2010, compared to the same period in 2009, due primarily to lower mortgage rates leading to a significant increase in residential refinancing volume during the third quarter of 2010. For the nine-months ended September 30, 2010, compared to the same period in 2009, income on sale of mortgage loans decreased by $421,000. This decline was primarily due to a combination of the winding down of the first time homeowners program and the general weakness in the economy, resulting in fewer refinancings during the first six months of 2010.

Income on investment banking decreased $229,000 for the three months ended September 30, 2010, compared to the same period in 2009, primarily due to the low interest rate environment which has resulted in a slowdown in dealer-bank transactions.

Premiums on sale of student loans increased by $191,000 for the nine months ended September 30, 2010, compared to the same period in 2009. The increase was due to a higher volume of loan sales in 2010. U.S. government legislation has eliminated the private sector from providing student loans after the 2009-2010 school year. During the third quarter of 2010, we sold the balance of our loans that were originated for the 2009-2010 school year, approximately $65 million of student loans, to the government, resulting in premiums of approximately $2.0 million. See Loan Portfolio section for additional information on student loans.

There were no realized gains from the sale of securities for the three and nine month periods ended September 30, 2010, with no realized gains for the three-month period ended September 30, 2009. Gross realized gains of $144,000 were recognized from the sale of securities for the nine-month period ended September 30, 2009. There were no realized losses over the same periods.

NON-INTEREST EXPENSE

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense, through the continued use of expense control measures that have been installed. 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 subsidiary to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for the three and nine-month periods ended September 30, 2010, was $26.8 million and $80.8 million, an increase of $451,000, or 1.7%, and $1.9 million, or 2.4%, from the same periods in 2009. Included in non-interest expense in 2010 were nonrecurring merger related costs associated with the Company’s FDIC assisted acquisitions and nonrecurring branch closing costs.

Other real estate and foreclosure expense increased by $172,000, or 130%, and $384,000, or 132%, respectively, for the three and nine-month periods ended September 30, 2010, over the same periods of 2009. This increase was a result of the increasing flow of nonperforming loans into foreclosed assets, then through liquidation. We remain aggressive in the identification, quantification and resolution of problem loans.

Deposit insurance expense for the nine-month period ended September 30, 2010, decreased by $1.1 million, or 27%, from the same period in 2009. The decrease in deposit insurance expense was primarily due to the special assessment applied to all insured institutions as of June 30, 2009. The decrease was partially offset by current year increases in the fee assessment rates and the exhaustion of available credits to offset assessments.

Fees paid for professional services for the nine-month period ended September 30, 2010, increased by $526,000, or 21%, from the same period in 2009. The increase in professional services, which consist of audit, accounting, legal and consulting fees, was primarily due to the increase in fees related to our ongoing efficiency initiatives. See the section titled Efficiency Initiatives in the Overview for additional information.

Other non-interest expense for the nine-month period ended September 30, 2010, decreased $458,000, or 13%, from the same period in 2009. The decrease was primarily due to a $335,000 reduction in lenders fees paid on student loans.

Table 6 below shows non-interest expense for the three-month and nine-month periods ended September 30, 2010 and 2009, respectively, as well as changes in 2010 from 2009.

Table 6: Non-Interest Expense

(In thousands)	Three Months Ended September 30 2010	2009	2010 Change from 2009		Nine Months Ended September 30 2010	2009	2010 Change from 2009	
Salaries and employee benefits	$ 14,809	$ 14,441	$ 368	2.55 %	$ 45,039	$ 43,698	$ 1,341	3.07 %
Occupancy expense, net	1,906	1,846	60	3.25	5,632	5,559	73	1.31
Furniture and equipment expense	1,542	1,553	(11)	-0.71	4,563	4,623	(60)	-1.30
Other real estate and foreclosure expense	304	132	172	130.30	676	292	384	131.51
Deposit insurance	885	865	20	2.31	2,899	3,955	(1,056)	-26.70
Merger related costs	134	--	134	--	577	--	577	--
Other operating expenses								
Professional services	1,041	981	60	6.12	3,042	2,516	526	20.91
Postage	594	626	(32)	-5.11	1,868	1,805	63	3.49
Telephone	584	528	56	10.61	1,707	1,579	128	8.11
Credit card expenses	1,407	1,294	113	8.73	4,037	3,792	245	6.46
Operating supplies	354	371	(17)	-4.58	1,013	1,118	(105)	-9.39
Amortization of intangibles	187	201	(14)	-6.97	575	604	(29)	-4.80
Other expense	3,011	3,469	(458)	-13.20	9,202	9,375	(173)	-1.85
Total non-interest expense	$ 26,758	$ 26,307	$ 451	1.71 %	$ 80,830	$ 78,916	$ 1,914	2.43 %

LOAN PORTFOLIO

Our loan portfolio, excluding loans covered by FDIC loss share agreements, averaged $1.835 billion and $1.933 billion during the first nine months of 2010 and 2009, respectively. As of September 30, 2010, total loans, excluding loans covered by FDIC loss share agreements, were $1.740 billion, a decrease of $135.4 million from December 31, 2009. 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 our 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 collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

The balances of loans outstanding, excluding loans covered by FDIC loss share agreements, at the indicated dates are reflected in Table 7, according to type of loan.

Table 7: Loan Portfolio

(In thousands)	September 30, 2010	December 31, 2009
Consumer		
Credit cards	$181,774	$189,154
Student loans	64,989	114,296
Other consumer	123,062	139,647
Total consumer	369,825	443,097
Real Estate		
Construction	150,137	180,759
Single family residential	375,150	392,208
Other commercial	566,370	596,517
Total real estate	1,091,657	1,169,484
Commercial		
Commercial	146,258	168,206
Agricultural	121,716	84,866
Financial institutions	--	3,885
Total commercial	267,974	256,957
Other	10,098	5,451
Total loans before allowance for loan losses	$1,739,554	$1,874,989

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were $369.8 million at September 30, 2010, or 21.3% of total loans, compared to $443.0 million, or 23.6% of total loans at December 31, 2009. The decrease in consumer loans from December 31, 2009, to September 30, 2010, was primarily due to the sale of student loans, the seasonal decline in our credit card portfolio and a decline in indirect consumer loans.

The student loan portfolio balance at September 30, 2010, was $65.0 million, compared to $114.3 million at December 31, 2009, a decrease of $49.3 million, or 43.1%. The significant decrease was due to the sale of all student loans originated during the 2009-2010 school year.

Simmons has been in the student loan business since 1966, and we believe that the banking industry has been very efficient in serving the students and the schools in Arkansas. However, U.S. government legislation finalized during the first quarter has eliminated the private sector from providing student loans after the 2009-2010 school year. Therefore, as of June 30, 2010, Simmons and the banking industry are no longer providers of student loans.

As for our current student loan portfolio, we have sold the loans we originated during the 2009-2010 school year under the program established in 2008 in which the government will purchase the loans at par plus a premium. Sales of these loans during the third quarter of 2010 have left approximately $65 million of student loans in our portfolio that will not qualify for the government purchase program. We currently plan to continue servicing the remaining student loans internally until the loans pay off, we find a suitable buyer or the students consolidate their loans.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were $1.092 billion at September 30, 2010, or 62.8% of total loans, compared to the $1.169 billion, or 62.4% of total loans at December 31, 2009. Our construction and development (“C&D”) loans decreased by $30.6 million, or 16.9%, with loans either migrating to our commercial real estate (“CRE”) portfolio or 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 8.6% of our loan portfolio and, CRE loans (excluding C&D) represent 32.6% 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 $268.0 million at September 30, 2010, or 15.4% of total loans, compared to $257.0 million, or 13.7% of total loans at December 31, 2009. An increase in the agricultural loan portfolio due primarily to seasonality was largely offset by a decrease in other commercial loans due to weak loan demand throughout Arkansas and southern Missouri.

COVERED ASSETS

On May 14, 2010, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of SWCB in an FDIC assisted transaction that generated a pre-tax bargain-purchase gain of $3.0 million. Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby the Bank is indemnified against 80% of losses. The loans acquired from the former SWCB, as well as the acquired other real estate owned and the related loss share receivable from the FDIC, are presented as covered assets in the accompanying consolidated financial statements. A summary of the covered assets is as follows.

Table 8: Covered Assets

(In thousands)	September 30, 2010
Loans, net of discount	$ 38,160
Other real estate owned, net of discount	2,650
FDIC loss share receivable	9,600
Total covered assets	$ 50,410

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

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

Historically, 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 $2.2 million of Government guaranteed student loans became over 90 days past due during the quarter ending September 30, 2010. 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, excluding other real estate covered by FDIC loss share agreements, increased by $14.7 million from December 31, 2009, to September 30, 2010, as we continue to aggressively manage our non-performing assets. The majority of the increase was attributable to our acceptance of a deed in lieu of foreclosure for an $8.1 million motel loan in the Northwest Arkansas region, previously in nonaccrual status. We recorded the property at $6.7 million, with the difference charged-off through our allowance for loan losses. This transaction is also the primary reason our nonaccrual loans decreased by $12.0 million from year end. Total non-performing assets increased $2.5 million from December 31, 2009. We remain aggressive in the identification, quantification and resolution of problem loans.

Given current economic conditions, borrowers of all types are experiencing declines in income and cash flow. As a result, many borrowers are seeking to reduce contractual cash outlays, the most prominent being debt payments. In an effort to preserve our net interest margin and earning assets, we are open to working with existing customers in order to maximize the collectability of the debt.

When we restructure a loan to a borrower that is experiencing financial difficulty and grant a concession that we would not otherwise consider, a troubled debt restructuring (“TDR”) results and the Company classifies the loan as a TDR. The Company grants various types of concessions, primarily interest rate reduction and/or payment modifications or extensions, with an occasional forgiveness of principal.

Under ASC Topic 310-10-35 – Subsequent Measurement, a TDR is considered to be impaired, and an impairment analysis must be performed. We assess the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determine if a specific allocation to the allowance for loan losses is needed.

Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full; or, if an obligation yields a market interest rate and no longer has any concession regarding payment amount or amortization, then it is not considered a TDR one year after the year in which the restructuring takes place. The Company had TDRs totaling $16.1 million and $20.9 million at September 30, 2010, and December 31, 2009, respectively. The majority of performing and non-performing TDRs are in our CRE portfolio.

The Company returns TDRs to accrual status only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period, and (2) repayment has been in accordance with the contract for a sustained period, typically at least six months.

Although the general state of the national economy remains volatile, and despite the challenges in housing and commercial real estate markets, we continue to maintain relatively good asset quality. The allowance for loan losses as a percent of total loans was 1.48% as of September 30, 2010. Non-performing loans equaled 0.75% of total loans. Non-performing assets were 1.23% of total assets, up 11 basis points from year end. The allowance for loan losses was 197% of non-performing loans. Our annualized net charge-offs to total loans for the third quarter of 2010 was 0.79%. Excluding credit cards, the annualized net charge-offs to total loans for the third quarter was 0.63%. Annualized net credit card charge-offs to total credit card loans for the third quarter were 2.24%, compared to 2.41% during the full year 2009, yet more than 775 basis points below the most recently published industry average for credit card charge-offs.

The Company does not own any securities backed by subprime mortgage assets, and offers no mortgage loan products that target subprime borrowers.

Table 9 presents information concerning non-performing assets, including nonaccrual and other real estate owned (excluding covered loans and covered other real estate owned).

Table 9: Non-performing Assets

($ in thousands)	September 30, 2010		December 31, 2009	
Nonaccrual loans (1)	$9,999		$21,994	
Loans past due 90 days or more (principal or interest payments):				
Government guaranteed student loans (2)	2,154		1,939	
Other loans	891		1,383	
Total loans past due 90 days or more	3,045		3,322	
Total non-performing loans	13,044		25,316	
Other non-performing assets:				
Foreclosed assets held for sale	23,903		9,179	
Other non-performing assets	104		20	
Total other non-performing assets	24,007		9,199	
Total non-performing assets	$37,051		$34,515	
Performing TDRs	$14,607		$12,718	
Allowance for loan losses to non-performing loans (3)	196.89	%	98.81	%
Non-performing loans to total loans (3)	0.75	%	1.35	%
Non-performing loans to total loans (excluding Government guaranteed student loans) (2) (3)	0.63	%	1.25	%
Non-performing assets to total assets (3)	1.23	%	1.12	%
Non-performing assets to total assets (excluding Government guaranteed student loans) (2) (3)	1.16	%	1.05	%

(1) Includes nonaccrual TDRs of approximately $1.5 million at September 30, 2010, and $8.2 million at December 31, 2009.

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

(3) Excludes assets covered by FDIC loss share agreements, except for their inclusion in total assets.

There was no interest income on the nonaccrual loans recorded for the nine month periods ended September 30, 2010 and 2009.

At September 30, 2010, impaired loans, net of government guarantees, excluding loans covered by FDIC loss share agreements, were $51.0 million compared to $46.9 million at December 31, 2009. Impaired loans at September 30, 2010, include $2.2 million of government guaranteed student loans. During the three months ended June 30, 2010, some large commercial real estate loan relationships in the Northwest Arkansas region were downgraded and considered impaired. However, individual impairment testing on these loans, based on current appraisals, revealed the need for specific reserves that were actually smaller for these relationships than had previously been applied based on our model. 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 10 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 various government stimulus programs. Various Federal Reserve articles and reports indicate the economy is in a moderate recovery, but questions remain about the durability of growth and whether it can be sustained by private demand as the impetus from the federal fiscal stimulus fades later this year. While the recession may be over, production, income, sales and employment are at very low levels. With moderate economic growth, it is possible the recovery could take years. The unemployment rate seems likely to remain elevated for several years. The unallocated reserve addresses inherent probable losses not included elsewhere in the allowance for loan losses. 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 is shown in Table 10.

Table 10: Allowance for Loan Losses

(In thousands)	2010	2009
Balance, beginning of year	$ 25,016	$ 25,841
Loans charged off		
Credit card	4,103	3,983
Other consumer	1,911	1,710
Real estate	8,203	3,569
Commercial	679	1,287
Total loans charged off	14,896	10,549
Recoveries of loans previously charged off		
Credit card	810	657
Other consumer	756	555
Real estate	3,382	1,252
Commercial	218	525
Total recoveries	5,166	2,989
Net loans charged off	9,730	7,560
Provision for loan losses	10,396	7,549
Balance, September 30	$ 25,682	25,830
Loans charged off		
Credit card		1,353
Other consumer		1,048
Real estate		1,245
Commercial		633
Total loans charged off		4,279
Recoveries of loans previously charged off		
Credit card		263
Other consumer		118
Real estate		141
Commercial		176
Total recoveries		698
Net loans charged off		3,581
Provision for loan losses		2,767
Balance, end of year		$ 25,016

Provision for Loan Losses

The amount of provision to the allowance during the nine month periods ended September 30, 2010 and 2009, and for the year ended December 31, 2009, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on at least a quarterly basis, but generally on a monthly basis, to determine the level of provision made to the allowance.

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 September 30, 2010, the allowance for loan losses reflects an increase of approximately $666,000 from December 31, 2009, while total loans decreased by $135.4 million over the same nine month period. The allocation in each category within the allowance generally reflects the overall changes in the loan portfolio mix.

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. We are also cautious regarding the continued softening of the real estate market in Arkansas. 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 at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio for the period ended September 30, 2010.

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

	September 30, 2010			December 31, 2009		
($ in thousands)	Allowance Amount	% of loans (1)		Allowance Amount	% of loans (1)	
Credit cards	$5,515	10.4	%	$5,808	10.1	%
Other consumer	1,758	10.8	%	1,719	13.5	%
Real estate	9,275	62.8	%	11,164	62.4	%
Commercial	2,053	15.4	%	2,451	13.7	%
Other	239	0.6	%	161	0.3	%
Unallocated	6,842			3,713		
Total	$25,682	100.0	%	$25,016	100.0	%

(1) Percentage of loans in each category to total loans not covered by FDIC loss share.

DEPOSITS

Deposits are our primary source of funding for earning assets and are primarily developed through our network of 85 financial centers, including our recent Kansas acquisition. 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 September 30, 2010, core deposits comprised 83.2% 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 September 30, 2010, were $2.382 billion, a decrease of $50.0 million from December 31, 2009. We have continued our strategy to move more volatile time deposits to less expensive, revenue enhancing transaction accounts. Non-interest bearing transaction accounts increased $11.3 million to $374.5 million at September 30, 2010, compared to $363.2 million at December 31, 2009. Interest bearing transaction and savings accounts were $1.146 billion at September 30, 2010, a $9.8 million decrease compared to $1.156 billion on December 31, 2009. Total time deposits decreased approximately $51.5 million to $861.2 million at September 30, 2010, from $912.8 million at December 31, 2009. We had $22.6 million and $21.4 of brokered deposits at September 30, 2010, and December 31, 2009, respectively.

LONG-TERM DEBT

Our long-term debt was $136.8 million and $159.8 million at September 30, 2010, and December 31, 2009, respectively. The outstanding balance for September 30, 2010, includes $105.9 million in FHLB long-term advances and $30.9 million of trust preferred securities. During the nine months ended September 30, 2010, we reduced long-term debt by $23.0 million, or 14.4%, from December 31, 2009.

CAPITAL

Overview

At September 30, 2010, total capital reached $384.0 million. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At September 30, 2010, our equity to asset ratio was 12.7% compared to 12.0% at year-end 2009.

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 June 30, 2010, no preferred stock has been issued.

On August 26, 2009, we filed a shelf registration statement with the Securities and Exchange Commission (the "SEC"). The shelf registration statement, which was declared effective on September 9, 2009, allows 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 are determined at the time of any offering under a separate prospectus supplement that we are 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 for stock based compensation programs, 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 nine months ended September 30, 2010, or the 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 $0.57 per share for the first nine months of 2010, unchanged from the same period of 2009. 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.

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 subsidiary banks. Payment of dividends by the eight subsidiary banks is subject to various regulatory limitations. See the Liquidity and Market Risk Management discussions of Item 3 – Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

Risk Based Capital

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 September 30, 2010, 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 September 30, 2010, and December 31, 2009, are presented in table 12 below:

Table 12: Risk-Based Capital

($ in thousands)	September 30, 2010	December 31, 2009
Tier 1 capital		
Stockholders' equity	$383,969	$371,247
Trust preferred securities	30,000	30,000
Goodwill and core deposit premiums (1)	(48,986)	(51,128)
Unrealized gain (loss) on available-for-sale securities, net of income taxes	(1,052)	(762)
Total Tier 1 capital	363,931	349,357
Tier 2 capital		
Qualifying unrealized gain on available-for-sale equity securities	4	5
Qualifying allowance for loan losses	23,729	24,405
Total Tier 2 capital	23,733	24,410
Total risk-based capital	$387,664	$373,767
Risk weighted assets	$1,894,845	$1,950,227
Assets for leverage ratio	$2,952,227	$3,002,275
Ratios at end of period		
Tier 1 leverage ratio	12.33%	11.64%
Tier 1 risk-based capital ratio	19.21%	17.91%
Total risk-based capital ratio	20.46%	19.17%
Minimum guidelines		
Tier 1 leverage ratio	4.00%	4.00%
Tier 1 risk-based capital ratio	4.00%	4.00%
Total risk-based capital ratio	8.00%	8.00%

(1) 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this quarterly report may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as "anticipate," "estimate," "expect," "foresee," "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, efficiency initiatives, 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, fair value for covered loans, covered other real estate owned and FDIC loss share receivable; 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.

RECONCILIATION OF NON-GAAP MEASURES

The table below presents computations of core earnings (net income excluding nonrecurring items {Gain on FDIC assisted transaction, merger related costs and branch right sizing expense}) and diluted core earnings per share (non-GAAP). Nonrecurring items are included in financial results presented in accordance with generally accepted accounting principles ("GAAP").

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

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

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

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

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

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

See Table 13 below for the reconciliation of non-GAAP financial measures, which exclude nonrecurring items for the periods presented.

Table 13: Reconciliation of Core Earnings (non-GAAP)

($ in thousands)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net Income	$7,620	$7,660	$20,557	$18,405
Nonrecurring items				
Gain on FDIC assisted transaction	--	--	(3,037)	--
Merger related costs	134	--	577	--
Branch right sizing	--	--	372	--
Tax effect (1)	(53)	--	716	--
Net nonrecurring items	81	--	(1,372)	--
Core earnings (non-GAAP)	$7,701	$7,660	$19,185	$18,405
Diluted earnings per share	$0.44	$0.54	$1.19	$1.30
Nonrecurring items				
Gain on FDIC assisted transaction	--	--	(0.18)	--
Merger related costs	--	--	0.03	--
Branch right sizing	--	--	0.02	--
Tax effect (1)	--	--	0.05	--
Net nonrecurring items	--	--	(0.08)	--
Diluted core earnings per share (non-GAAP)	$0.44	$0.54	$1.11	$1.30

(1) Effective tax rate of 39.225%, adjusted for additional fair value deduction related to the donation of closed branch with a fair value significantly higher than its book value.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Parent Company

The Company has leveraged its investment in subsidiary banks and depends upon the dividends paid to it, as the sole shareholder of the subsidiary banks, as a principal source of funds for dividends to shareholders, stock repurchase and debt service requirements. At September 30, 2010, undivided profits of the Company's subsidiary banks were approximately $175.2 million, of which approximately $18.0 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

Subsidiary Banks

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

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers, by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets, as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of each bank subsidiary monitor these same indicators and make adjustments as needed.

In response to tightening credit markets in 2007 and anticipating potential liquidity pressures in 2008, the Company's management strategically planned to enhance the liquidity of each of its subsidiary banks during 2008 and 2009. We grew core deposits through various initiatives, and built additional liquidity in each of our subsidiary banks by securing additional long-term funding from FHLB borrowings. At September 30, 2010, each subsidiary bank was within established guidelines and total corporate liquidity remains very strong. At September 30, 2010, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 18.0% of total assets, as compared to 17.8% at December 31, 2009.

Liquidity Management

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

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

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

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

Third, our subsidiary banks have lines of credits available with the Federal Home Loan Bank. While we use portions of those lines to match off longer-term mortgage loans, we also use those lines to meet liquidity needs. Approximately $469 million of these lines of credit are currently available, if needed.

Fourth, we use a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 28% of the investment portfolio is classified as available-for-sale. We also use securities held in the securities portfolio to pledge when obtaining public funds.

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

We believe the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

Market Risk Management

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

Interest Rate Sensitivity

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

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

The table below presents our interest rate sensitivity position at September 30, 2010. This analysis is based on a point in time and may not be meaningful because assets and liabilities are categorized according to contractual maturities, repricing periods and expected cash flows rather than estimating more realistic behaviors as is done in the simulation models. Also, this analysis does not consider subsequent changes in interest rate level or spreads between asset and liability categories.

Table 14: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
(In thousands, except ratios)	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
Earning assets								
Short-term investments	$248,050	$--	$--	$--	$--	$--	$--	$248,050
Assets held in trading accounts	4,831	--	--	2,581	--	--	--	7,412
Investment securities	65,155	35,151	92,964	152,771	153,165	126,689	19,595	645,490
Mortgage loans held for sale	25,383	--	--	--	--	--	--	25,383
Loans	669,755	97,473	135,807	304,811	265,156	227,342	39,210	1,739,554
Covered loans	22,252	5,030	1,583	5,279	444	3,301	271	38,160
Total earning assets	1,035,426	137,654	230,354	465,442	418,765	357,332	59,076	2,704,049
Interest bearing liabilities								