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

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

FORM 10-Q

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

For Quarter Ended September 30, 2008 Commission File Number 0-6253

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

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

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

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 23, 2008 was 13,958,932.

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

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Part I: Financial Information
Item 1. Financial Statements

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

ASSETS

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

See Condensed Notes to Consolidated Financial Statements.
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Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

LIABILITIES AND STOCKHOLDERS' EQUITY

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

See Condensed Notes to Consolidated Financial Statements.
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Simmons First National Corporation
Consolidated Statements of Income
Three and Nine Months Ended September 30, 2008 and 2007

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

Earnings Per Share

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

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

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

NOTE 2: INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

The various categories of loans are summarized as follows:

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

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

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

Transactions in the allowance for loan losses are as follows:

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

NOTE 4: GOODWILL AND CORE DEPOSIT PREMIUMS

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

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

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

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

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

NOTE 5: TIME DEPOSITS

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

NOTE 6: INCOME TAXES

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

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

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

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

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

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

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

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

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

NOTE 7: SHORT-TERM AND LONG-TERM DEBT

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

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

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

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

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

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

NOTE 8: CONTINGENT LIABILITIES

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

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

NOTE 9: CAPITAL STOCK

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

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

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

NOTE 10: UNDIVIDED PROFITS

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

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

NOTE 11: STOCK BASED COMPENSATION

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

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

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

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

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

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

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

NOTE 12: ADDITIONAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
(In thousands)	2008	2007
Interest paid	$ 50,471	$ 57,557
Income taxes paid	$ 9,857	$ 8,447

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NOTE 13: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

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

NOTE 14: CERTAIN TRANSACTIONS

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

NOTE 15: COMMITMENTS AND CREDIT RISK

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

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

Letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $10,368,000 and $9,906,000 at September 30, 2008 and December 31, 2007, respectively, with terms ranging from 90 days to three years. At September 30, 2008 and December 31, 2007 the Company's deferred revenue under standby letter of credit agreements is approximately $83,000 and $42,000, respectively.

NOTE 16: FAIR VALUE MEASUREMENTS

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

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a fair value hierarchy which requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

		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)
Available-for-Sale Securities	$394,267	$ --	$394,267	$ --

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

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

		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)
Impaired Loans	$12,561	$ --	$ --	$12,561

Impaired loans are the only material instruments valued on a nonrecurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when Management believes the uncollectability of a loan is confirmed. Impaired loans, net of specific allowance, were $13,801,000 as of September 30, 2008. This valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

NOTE 17: SUBSEQUENT EVENTS

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

BKD, LLP

/s/ BKD, LLP

Pine Bluff, Arkansas
November 7, 2008

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

OVERVIEW

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

Overview

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

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

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

Allowance for Loan Losses

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

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

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

Goodwill and Intangible Assets

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

Employee Benefit Plans

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

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

Income Taxes

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

NET INTEREST INCOME

Overview

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

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

Net Interest Income Quarter-to-Date Analysis

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

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

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

Net Interest Income Year-to-Date Analysis

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

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

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

Net Interest Margin

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

Net Interest Income Tables

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

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

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

Table 2: Changes in Fully Taxable Equivalent Net Interest Income

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

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

Table 3: Average Balance Sheets and Net Interest Income Analysis

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

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

	Nine Months Ended September 30					
	2008			2007		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning Assets						
Interest bearing balances due from banks	$ 69,248	$ 1,184	2.28	$ 23,325	$ 938	5.38
Federal funds sold	41,304	716	2.32	32,576	1,303	5.35
Investment securities - taxable	443,403	15,962	4.81	401,105	13,776	4.59
Investment securities - non-taxable	156,405	7,560	6.46	128,268	6,208	6.47
Mortgage loans held for sale	7,658	338	5.90	8,116	383	6.31
Assets held in trading accounts	4,068	42	1.38	4,748	124	3.49
Loans	1,872,370	95,994	6.85	1,811,378	105,977	7.82
Total interest earning assets	2,594,456	121,796	6.27	2,409,516	128,709	7.14
Non-earning assets	255,356			252,766		
Total assets	$ 2,849,812			$ 2,662,282		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$ 932,549	$ 11,280	1.62	$ 731,989	$ 9,832	1.80
Time deposits	1,037,242	30,420	3.92	1,128,660	39,467	4.68
Total interest bearing deposits	1,969,791	41,700	2.83	1,860,649	49,299	3.54
Federal funds purchased and						