SIMMONS FIRST NATIONAL CORP
Form 10-K
February 26, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
T Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2008

or

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

Commission file number 0-6253

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

| | |
|---|---|
| Arkansas<br>(State or other jurisdiction of<br>incorporation or organization) | 71-0407808<br>(I.R.S. employer<br>identification No.) |
| 501 Main Street, Pine Bluff, Arkansas<br>(Address of principal executive offices) | 71601<br>(Zip Code) |

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

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

| | |
|---|---|
| Common Stock, $0.01 par value<br>(Title of each class) | The Nasdaq Stock Market®<br>(Name of each exchange on which registered) |

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

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

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

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

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

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):
o Large accelerated filer x Accelerated filer o 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 aggregate market value of the Registrant’s Common Stock, par value $0.01 per share, held by non-affiliates on June 30, 2008, was $350,885,496 based upon the last trade price as reported on the Nasdaq Global Select Market® of $27.97.

The number of shares outstanding of the Registrant's Common Stock as of February 4, 2009 was 13,982,474.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 21, 2009.

Introduction

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

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

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

FORM 10-K INDEX

# PART I

## ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the Forward Looking Statements section in Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters" of this report and other cautionary statements set forth elsewhere in this report.

### The Company and the Banks

Simmons First National Corporation (the "Company") is a financial holding company registered under the Bank Holding Company Act of 1956. The Gramm-Leach-Bliley-Act ("GLB Act") has substantially increased the financial activities that certain banks, bank holding companies, insurance companies and securities brokerage companies are permitted to undertake. Under the GLB Act, expanded activities in insurance underwriting, insurance sales, securities brokerage and securities underwriting not previously allowed for banks and bank holding companies are now permitted upon satisfaction of certain guidelines concerning management, capitalization and satisfaction of the applicable Community Reinvestment Act guidelines for the banks. Generally these new activities are permitted for bank holding companies whose banking subsidiaries are well managed, well capitalized and have at least a satisfactory rating under the Community Reinvestment Act. A bank holding company must apply to become a financial holding company and the Board of Governors of the Federal Reserve System must approve its application.

The Company's application to become a financial holding company was approved by the Board of Governors on March 13, 2000. The Company has reviewed the new activities permitted under the Act. If the appropriate opportunity presents itself, the Company is interested in expanding into other financial services.

The Company is a publicly traded financial holding company headquartered in Arkansas with consolidated total assets of $2.9 billion, consolidated loans of $1.9 billion, consolidated deposits of $2.3 billion and total equity capital of $289 million as of December 31, 2008. The Company owns eight community banks in Arkansas. The Company and its eight banking subsidiaries conduct their operations through 88 offices, of which 84 are financial centers, located in 47 communities in Arkansas.

Simmons First National Bank (the "Bank") is the Company's lead bank. The Bank is a national bank, which has been in operation since 1903. The Bank's primary market area, with the exception of its nationally provided credit card product, is Central and Western Arkansas. At December 31, 2008 the Bank had total assets of $1.4 billion, total loans of $955 million and total deposits of $1.1 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of the Bank, performs the trust and fiduciary business operations for the Bank as well as the Company. Simmons First Investment Group, Inc. ("SFIG"), a wholly owned subsidiary of the Bank, which is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the National Association of Securities Dealers ("NASD"), performs the broker-dealer operations of the Bank.

Simmons First Bank of Jonesboro ("Simmons/Jonesboro") is a state bank, which was acquired in 1984. Simmons/Jonesboro's primary market area is Northeast Arkansas. At December 31, 2008, Simmons/Jonesboro had total assets of $295 million, total loans of $246 million and total deposits of $250 million.

Simmons First Bank of South Arkansas ("Simmons/South") is a state bank, which was acquired in 1984. Simmons/South's primary market area is Southeast Arkansas. At December 31, 2008, Simmons/South had total assets of $172 million, total loans of $91 million and total deposits of $147 million.

Simmons First Bank of Northwest Arkansas ("Simmons/Northwest") is a state bank, which was acquired in 1995. Simmons/Northwest's primary market area is Northwest Arkansas. At December 31, 2008, Simmons/Northwest had total assets of $287 million, total loans of $202 million and total deposits of $238 million.

Simmons First Bank of Russellville ("Simmons/Russellville") is a state bank, which was acquired in 1997. Simmons/Russellville's primary market area is Russellville, Arkansas. At December 31, 2008, Simmons/Russellville had total assets of $202 million, total loans of $121 million and total deposits of $146 million.

Simmons First Bank of Searcy ("Simmons/Searcy") is a state bank, which was acquired in 1997. Simmons/Searcy's primary market area is Searcy, Arkansas. At December 31, 2008, Simmons/Searcy had total assets of $152 million, total loans of $104 million and total deposits of $120 million.

Simmons First Bank of El Dorado, N.A. (“Simmons/El Dorado”) is a national bank, which was acquired in 1999. Simmons/El Dorado’s primary market area is South Central Arkansas. At December 31, 2008, Simmons/El Dorado had total assets of $258 million, total loans of $132 million and total deposits of $219 million.

Simmons First Bank of Hot Springs (“Simmons/Hot Springs”) is a state bank, which was acquired in 2004. Simmons/Hot Springs’ primary market area is Hot Springs, Arkansas. At December 31, 2008, Simmons/Hot Springs had total assets of $166 million, total loans of $82 million and total deposits of $117 million.

The Company's subsidiaries provide complete banking services to individuals and businesses throughout the market areas they serve. Services include consumer (credit card, student and other consumer), real estate (construction, single family residential and other commercial) and commercial (commercial, agriculture and financial institutions) loans, checking, savings and time deposits, trust and investment management services, and securities and investment services.

Loan Risk Assessment

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

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

Growth Strategy

The Company's growth strategy has been to primarily focus on the state of Arkansas. In 2008, the Company completed a four-year de novo branch expansion plan with the opening of a new regional headquarters for Simmons/Northwest, along with an additional financial center in Little Rock. The Company added its first financial centers in the Arkansas markets of North Little Rock, Beebe and Paragould during 2007. New locations were also opened in Little Rock and El Dorado during 2006. In 2005 the Company added three branch locations in the Little Rock/Conway metropolitan area, one in the Fayetteville/Springdale/Rogers metropolitan area and one in the Fort Smith metropolitan area. While new financial centers can be dilutive to earnings in the short-term, the Company believes they will reward shareholders in the intermediate and long-term. As completion of its desired footprint within the state of Arkansas nears, the Company continues to evaluate opportunities to expand into contiguous states. More specifically, the Company is interested in expansion by opening new financial centers or by acquisitions of financial centers in growth or strategic markets, preferably with assets totaling $200 million or more.

With an expanded presence in Arkansas, ongoing investments in technology and enhanced products and services, the Company is in position to meet the demands of customers in the markets it serves.

Competition

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

Employees

As of February 4, 2009, the Company and its subsidiaries had approximately 1,111 full time equivalent employees. None of the employees is represented by any union or similar groups, and the Company has not experienced any labor disputes or strikes arising from any such organized labor groups. The Company considers its relationship with its employees to be good.

Executive Officers of the Company

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

| NAME | AGE | POSITION | YEARS SERVED |
|---|---|---|---|
| J. Thomas May | 62 | Chairman and Chief Executive Officer | 22 |
| David L. Bartlett | 57 | President and Chief Operating Officer | 12 |
| Robert A. Fehlman | 44 | Executive Vice President and Chief Financial Officer | 20 |
| Marty D. Casteel | 57 | Executive Vice President | 20 |
| Robert C. Dill | 65 | Executive Vice President, Marketing | 42 |
| David W. Garner | 39 | Senior Vice President and Controller | 11 |
| Tommie K. Jones | 61 | Senior Vice President and Human Resources Director | 34 |
| L. Ann Gill | 61 | Senior Vice President/Manager, Audit | 43 |
| Kevin J. Archer | 45 | Senior Vice President/Credit Policy and Risk Assessment | 13 |
| John L. Rush | 74 | Secretary | 41 |

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2008, along with their principal occupation.

| NAME | PRINCIPAL OCCUPATION |
|---|---|
| William E. Clark, II | President and Chief Executive Officer<br>Clark Contractors LLC |
| Steven A. Cossé | Executive Vice President and General Counsel<br>Murphy Oil Corporation |
| Edward Drilling | President<br>AT&T Arkansas |
| George A. Makris, Jr. | President<br>M.K. Distributors, Inc. |
| J. Thomas May | Chairman and Chief Executive Officer<br>Simmons First National Corporation |

| | |
|---|---|
| W. Scott McGeorge | President<br>Pine Bluff Sand and Gravel Company |
| Stanley E. Reed | Farmer |
| Harry L. Ryburn | Orthodontist (retired) |
| Robert L. Shoptaw | Chairman of the Board<br>Arkansas Blue Cross and Blue Shield |

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## SUPERVISION AND REGULATION

### The Company

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

The federal law generally prohibits a bank holding company from directly or indirectly engaging in non-banking activities. This prohibition does not include loan servicing, liquidating activities or other activities so closely related to banking as to be a proper incident thereto. Bank holding companies, including the Company, which have elected to qualify as financial holding companies, are authorized to engage in financial activities. Financial activities include any activity that is financial in nature or any activity that is incidental or complimentary to a financial activity.

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

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

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

### Subsidiary Banks

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

Prior to passage of the GLB Act in 1999, the subsidiary banks, with numerous exceptions, were subject to the application of the laws of the state of Arkansas, regarding the limitation of the maximum permissible interest rate on loans. The Arkansas limitation for general loans was 5% over the Federal Reserve Discount Rate, with an additional maximum limitation of 17% per annum for consumer loans and credit sales. Certain loans secured by first liens on residential real estate and certain loans controlled by federal law (e.g., guaranteed student loans, SBA loans, etc.) were exempt from this limitation; however, a substantial portion of the loans made by the subsidiary banks, including all credit card loans, have historically been subject to this limitation. The GLB Act included a provision which sets the maximum interest rate on loans made in Arkansas, by banks with Arkansas as their home state, at the greater of the rate authorized by Arkansas law or the highest rate permitted by any of the out-of-state banks which maintain branches in Arkansas. An action was brought in the Western District of Arkansas, attacking the validity of the statute in 2000. Subsequently, the District Court issued a decision upholding the statute, and during October 2001, the Eighth Circuit Court of Appeals upheld the statute on appeal. Thus, in the fourth quarter of 2001, the Company began to implement the changes permitted by the GLB Act.

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

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

Potential Enforcement Action for Bank Holding Companies and Banks

Enforcement proceedings seeking civil or criminal sanctions may be instituted against any bank, any financial or bank holding company, any director, officer, employee or agent of the bank or holding company, which is believed by the federal banking agencies to be violating any administrative pronouncement or engaged in unsafe and unsound prac