SIMMONS FIRST NATIONAL CORP
Form 10-K
February 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2015

or

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

Commission file number 0-6253

SIMMONS FIRST NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(870) 541-1000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, or a smaller reporting company. See definitions of “large accelerated filer,” accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes No

The aggregate market value of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates on June 30, 2015, was $1,290,181,611 based upon the last trade price as reported on the NASDAQ Global Select Market® of $46.68.

The number of shares outstanding of the Registrant's Common Stock as of February 3, 2016, was 30,364,129.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 19, 2016.

Introduction

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

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

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

FORM 10-K INDEX

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “estimate,” “expect,” “foresee,” “believe,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company’s future growth, revenue, assets, asset quality, profitability and customer service, critical accounting policies, net interest margin, non-interest revenue, market conditions related to the Company’s stock repurchase program, allowance for loan losses, the effect of certain new accounting standards on the Company’s financial statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

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

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

PART I

ITEM 1. BUSINESS

Company Overview

Simmons First National Corporation (the "Company") is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Arkansas with total assets of $7.6 billion, loans of $4.9 billion, deposits of $6.1 billion and equity capital of $1.1 billion as of December 31, 2015. We conduct banking operations through 149 branches, or "financial centers," located in communities throughout Arkansas, Kansas, Missouri and Tennessee.

We seek to build shareholder value by (i) focusing on strong asset quality, (ii) maintaining strong capital (iii) managing our liquidity position, (iv) improving our operational efficiency (v) opportunistically growing our business, both organically and through acquisitions of financial institutions.

Subsidiary Bank

Our subsidiary bank, Simmons First National Bank ("Simmons Bank" or "lead bank"), is a national bank which has been in operation since 1903. Simmons First Trust Company N.A., a wholly-owned subsidiary of Simmons Bank, performs the trust and fiduciary business operations for Simmons Bank. Simmons First Investment Group, Inc., a wholly-owned subsidiary of Simmons Bank, is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority and performs the broker-dealer and retail investment operations for Simmons Bank. Simmons First Capital Management, Inc., a wholly-owned subsidiary of Simmons Bank, is a Registered Investment Advisor. Simmons First Insurance Services, Inc., is an insurance agency providing life, auto, home, business and commercial insurance coverage. SF Investments, Inc., a wholly-owned subsidiary of Simmons Bank, invests in and manages the capital structure of its REIT subsidiaries.

Simmons Bank and its subsidiaries provide complete banking services to individuals and businesses throughout the market areas they serve. Simmons Bank offers consumer, real estate and commercial loans, checking, savings and time deposits. We have also developed through our experience and scale and through acquisitions, specialized products and services that are in addition to those offered by the typical community bank. Those products include credit cards, trust services, investments, agricultural finance lending, equipment lending, insurance, consumer finance and SBA lending.

Community Bank Strategy

Historically, we utilized separately chartered community banks, supported by our lead bank to provide full service banking products and services across our footprint. On March 5, 2014, we announced the planned consolidation of our six smaller subsidiary banks into Simmons Bank. The subsidiary consolidation was completed in August 2014. We made the decision to consolidate in order to effectively meet the increased regulatory burden facing banks, to reduce certain operating costs and more efficiently perform operational duties. After the charter consolidation and 2015 mergers, Simmons Bank operates as three separate regions. Below is a listing of our regions:

Region	Headquarters
Arkansas Region	Pine Bluff, Arkansas
Kansas/Missouri Region	Springfield, Missouri
Tennessee Region	Union City, Tennessee

Growth Strategy

Over the past 26 years, as we have expanded our markets and services, our growth strategy has evolved and diversified. We have used varying acquisition and internal branching methods to enter key growth markets and increase the size of our footprint.

Since 1990 we have completed 11 whole bank acquisitions, 5 bank branch deals, 1 bankruptcy (363) acquisition, 4 FDIC failed bank acquisitions and 4 Resolution Trust Corporation failed thrift acquisitions. These acquisitions added a total of 125 branches.

In December 2009, we completed a secondary stock offering by issuing a total of 3,047,500 shares of common stock, including the over-allotment, at a price of $24.50 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately $70.5 million. The additional capital positioned us to take advantage of unprecedented acquisition opportunities through FDIC-assisted transactions of failed banks.

In 2010, we expanded outside the borders of Arkansas by acquiring two failed institutions through FDIC-assisted transactions. The first was a $100 million failed bank located in Springfield, Missouri and the second was a $400 million failed thrift located in Olathe, Kansas. On both transactions, we entered into a loss share agreement with the FDIC, which provided significant protection of 80% of covered assets. As part of the acquisitions, we recognized a pre-tax bargain purchase gain of $3.0 million and $18.3 million, respectively, on the Missouri and Kansas transactions.

In 2012, we acquired two additional failed institutions through FDIC-assisted transactions. The first was a $300 million failed bank located in St. Louis, Missouri and the second was a $200 million failed bank located in Sedalia, Missouri. On both transactions, we again entered into a loss share agreement with the FDIC that provided 80% protection of a significant portion of the assets. As part of the acquisitions, we recognized a pre-tax bargain purchase gain of $1.1 million and $2.3 million, respectively, on the Missouri transactions.

In 2013, we completed the acquisition of Metropolitan National Bank (“Metropolitan” or “MNB”) from Rogers Bancshares, Inc. (“RBI”). The purchase was completed through an auction of the MNB stock by the U. S. Bankruptcy Court as a part of the Chapter 11 proceeding of RBI. MNB, which was headquartered in Little Rock, Arkansas, served central and northwest Arkansas and had total assets of $950 million. Upon completion of the acquisition, MNB and our Rogers, Arkansas chartered bank, Simmons First Bank of Northwest Arkansas were merged into our lead bank. As an in market acquisition, MNB had significant branch overlap with our existing branch footprint. We completed the systems conversion for MNB on March 21, 2014 and simultaneously closed 27 branch locations that had overlapping footprints with other locations.

On August 31, 2014, we completed the acquisition of Delta Trust & Banking Corporation (“Delta Trust”), including its wholly-owned bank subsidiary Delta Trust & Bank. Also headquartered in Little Rock, Delta Trust had total assets of $420 million. The acquisition further expanded Simmons Bank's presence in south, central and northwest Arkansas and allows us the opportunity to provide services that have not previously been offered with the addition of Delta Trust's insurance agency and securities brokerage service. We merged Delta Trust & Bank into Simmons Bank and completed the systems conversion on October 24, 2014. At that time, we also closed 4 branch locations with overlapping footprints.

On March 4, 2014, the Company filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). Subsequently, on June 18, 2014, we filed Amendment No. 1 to the shelf registration statement. When declared effective, the shelf registration statement will allow us to raise capital from time to time, up to an aggregate of $300 million, through the sale of common stock, preferred stock, stock warrants, stock rights or a combination thereof, subject to market conditions. Specific terms and prices are determined at the time of any offering under a separate prospectus supplement that the Company is required to file with the SEC at the time of the specific offering.

On February 27, 2015, we completed the acquisition of Liberty Bancshares, Inc. (“Liberty”), including its wholly-owned bank subsidiary Liberty Bank. Liberty was headquartered in Springfield, Missouri, served southwest Missouri and had total assets of $1.1 billion. The acquisition further enhanced Simmons Bank's presence not only in southwest Missouri but also the St. Louis and Kansas City metropolitan areas. The acquisition also allows us the opportunity to provide services that have not previously been offered in these areas such as trust and securities brokerage services. In addition, Liberty’s expertise in Small Business lending will enhance our commercial offerings throughout our geographies. We merged Liberty Bank into Simmons Bank and completed the systems conversion April 24, 2015.

Also on February 27, 2015, we completed the acquisition of Community First Bancshares, Inc. (“Community First”), including its wholly-owned bank subsidiary First State Bank. Community First was headquartered in Union City, Tennessee, served customers through Tennessee and had total assets of $1.9 billion. The acquisition expanded our footprint into Tennessee and allows us the opportunity to provide additional services to customers in this area and expand our community banking strategy. In addition, Community First’s expertise in Small Business and consumer lending will benefit our customers across each region. We merged First State Bank into Simmons Bank and completed the systems conversion September 4, 2015.

In September 2015, we entered into an agreement with the FDIC to terminate all loss share agreements which were entered into in 2010 and 2012 in conjunction with the Company’s acquisition of substantially all of the assets (“covered assets”) and assumption of substantially all of the liabilities of four failed banks in FDIC-assisted transactions. Under the early termination, all rights and obligations of the Company and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated.

Under the terms of the agreement, the FDIC made a net payment of $2,368,000 to Simmons Bank as consideration for the early termination of the loss share agreements. The early termination was recorded in the Company’s financial statements by removing the FDIC indemnification asset, receivable from FDIC, the FDIC true-up liability and recording a one-time, pre-tax charge of $7,476,000. As a result, the Company reclassified loans previously covered by FDIC loss share to loans acquired, not covered by FDIC loss share. Foreclosed assets previously covered by FDIC loss share were reclassified to foreclosed assets not covered by FDIC loss share.

On October 29, 2015, we completed the acquisition of Ozark Trust & Investment Corporation ("Ozark Trust"), including its wholly-owned non-deposit trust company, Trust Company of the Ozarks. Headquartered in Springfield, Missouri, Ozark Trust had over $1 billion in assets under management and provided a wide range of financial services for its clients including investment management, trust services, IRA rollover or transfers, successor trustee services, personal representatives and custodial services. As our first acquisition of a fee-only financial firm, Ozark Trust provides a new wealth management capability that can be leveraged across the Company's entire geographic footprint.

Acquisition Strategy

Merger and Acquisition activities are an important part of the Company's growth strategy. We intend to focus our near term acquisition strategy on traditional acquisitions. We continue to believe that the challenging economic environment combined with more restrictive bank regulatory reforms will cause many financial institutions to seek merger partners in the near to intermediate future. We also believe our community banking philosophy, access to capital and successful acquisition history position us as a purchaser of choice for community banks seeking a strong partner.

We expect that our target areas for acquisitions will continue to be banks operating in growth markets within the existing footprint of Arkansas, Kansas, Missouri and Tennessee markets as well as banks operating in identified expansion markets including Oklahoma, Texas and other areas. In addition, we will pursue financial service companies with specialty lines of business and branch acquisitions within the existing markets.

As consolidations continue to unfold in the banking industry, the management of risk is an important consideration in how the Company evaluates and consummates those transactions. The senior management teams of both our parent company and lead bank have had extensive experience during the past twenty-six years in acquiring banks, branches and deposits and post-acquisition integration of operations. We believe this experience positions us to successfully acquire and integrate banks.

The process of merging or acquiring two banking organizations is extremely complex; it requires a great deal of time and effort from both buyer and seller. The business, legal, operational, organizational, accounting, and tax issues all must be addressed if the merger or acquisition is to be successful. Throughout the process, valuation is an important input to the decision-making process, from initial target analysis through integration of the entities. Merger and acquisition strategies are vitally important in order to derive the maximum benefit out of a potential deal.

Strategic reasons with respect to negotiated community bank acquisitions include:

- Potentially retaining the target institution’s senior management and providing them with an appealing level of autonomy post-integration. We intend to continue to pursue negotiated community bank acquisitions and we believe that our history with respect to such acquisitions has positioned us as an acquirer of choice for community banks.
- We encourage acquired community banks, their boards and associates to maintain their community involvement, while empowering the banks to offer a broader array of financial products and services. We believe this approach leads to enhanced profitability after the acquisition.
- Taking advantage of future opportunities that can be exploited when the two companies are combined. Companies need to position themselves to take advantage of emerging trends in the marketplace.
- One company may have a major weakness (such as poor distribution or service delivery) whereas the other company has some significant strength. By combining the two companies, each company fills-in strategic gaps that are essential for long-term survival.
- Acquiring human resources and intellectual capital can help improve innovative thinking and development within the company.
- Acquiring a regional or multi-state bank can provide the Company with access to emerging/established markets and/or increased products and services.

Loan Risk Assessment

As part of our ongoing risk assessment, the Company utilizes credit policies and procedures, internal credit expertise and several internal layers of review to analyze risk. The internal layers of ongoing review include Regional Chairmen, Regional Senior Credit Officers, Community Presidents, regional loan committees, Senior Internal Loan Committee and Director’s Loan Committee. Additionally, 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 its lead bank. The appropriateness of the allowance for loan losses is determined based upon the aforementioned performance factors, and provision adjustments are made accordingly.

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

The Simmons Bank Board of Directors has delegated oversight of all acquired assets to the Acquired Asset Loan Committee, comprised of the Corporate CEO, President and an Executive Vice President, along with several Simmons Bank executives. The Board authorizes the Committee to transact loan origination, renewal and workout procedures relative to acquisitions.

Competition

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

Principal Offices and Available Information

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

Employees

As of December 31, 2015, the Company and its subsidiaries had approximately 1,946 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good.

Executive Officers of the Company

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

NAME	AGE	POSITION	YEARS SERVED
George A. Makris, Jr.	59	Chairman and Chief Executive Officer	3
Robert A. Fehlman	51	Senior Executive Vice President, Chief Financial Officer and Treasurer	27
Marty D. Casteel	64	Senior Executive Vice President	27
David W. Garner	46	Executive Vice President, Controller and Chief Accounting Officer	18
Barry K. Ledbetter	53	Executive Vice President and Chief Banking Officer	30
Steven C. Wade	60	Executive Vice President and Chief Credit Officer	14
Patrick A. Burrow	62	Executive Vice President and General Counsel	1
Stephen C. Massanelli	60	Executive Vice President and Organizational Development	1
F. Christian Dunn	56	Executive Vice President, Regulatory Affairs and Risk Strategy	< 1

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Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2015, along with their principal occupation.

NAME	PRINCIPAL OCCUPATION
George A. Makris, Jr.	Chairman and Chief Executive Officer Simmons First National Corporation
David L. Bartlett[1]	President Simmons First National Corporation
Jay D. Burchfield	Financial Services Executive (retired)
William E. Clark, II	Chairman and Chief Executive Officer Clark Contractors, LLC
Steven A. Cossé	Chief Executive Officer (retired) Murphy Oil Corporation
Mark C. Doramus	Chief Financial Officer Stephens, Inc.
Edward Drilling	President AT&T Arkansas
Eugene Hunt	Attorney Hunt Law Firm
Christopher R. Kirkland	Principal Anchor Investments, LLC
W. Scott McGeorge	President Pine Bluff Sand and Gravel Company
Joe D. Porter	President Akin Porter Produce, Inc.
Harry L. Ryburn	Orthodontist (retired)
Robert L. Shoptaw	Chairman of the Board Arkansas black Cross and black Shield

(1) On January 15, 2016, David L. Bartlett retired as President and Chief Banking Officer of the Company and as Director.

SUPERVISION AND REGULATION

The Company

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

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

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

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

Federal legislation 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 Bank

During the fourth quarter of 2010, the Company realigned the regulatory oversight for its affiliate banks in order to create efficiencies through regulatory standardization. We operated as a multi-bank holding company and over the years, have acquired several banks. In accordance with the corporate strategy, in place at that time, of leaving the bank structure unchanged, each acquired bank stayed intact as did its regulatory structure. As a result, the Company's eight affiliate banks were regulated by the Arkansas State Bank Department, the Federal Reserve, the FDIC, and/or the Office of the Comptroller of the Currency ("OCC").

Following the regulatory realignment, the lead bank remained a national bank regulated by the OCC while the other affiliate banks became state member banks with the Arkansas State Bank Department as their primary regulator and the Federal Reserve as their federal regulator. Because of the overlap in footprint, during the fourth quarter of 2013 we merged Simmons First Bank of Northwest Arkansas into Simmons Bank in conjunction with our acquisition of Metropolitan, reducing the number of affiliate state member banks to six. During 2014 we consolidated six of our smaller subsidiary banks into Simmons Bank. After the subsidiary banks were merged into the lead bank, the OCC remained Simmons Bank's primary regulator.

In January 2016 the board of directors for the Bank approved a recommendation to convert from a national bank charter to a state bank charter. We have started the application and exam process and expect the conversion to be completed in March of 2016.

The lending powers of our subsidiary bank are generally subject to certain restrictions, including the amount which may be lent to a single borrower. Simmons Bank is a member of the FDIC, which provides insurance on deposits of each member bank up to applicable limits by the Deposit Insurance Fund. For this protection, Simmons Bank pays a statutory assessment to the FDIC each year.

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

Potential Enforcement Action for Bank Holding Companies and Banks

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

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

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution was one that had at least a 10% "total risk-based capital" ratio.

Effective January 1, 2015, the Company and the Bank became subject to new capital regulations (the “Basel III Capital Rules”) adopted by the Federal Reserve in July 2013 establishing a new comprehensive capital framework for U.S. Banks. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the previous U.S. risk-based capital rules. Full compliance with all of the final rule’s requirements will be phased in over a multi-year schedule. For a tabular summary of our risk-weighted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital" and Note 20, Stockholders’ Equity, of the Notes to Consolidated Financial Statements.

The final rules include a new common equity Tier 1 capital to risk-weighted assets (CET1) ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. CET1 generally consists of common stock; retained earnings; accumulated other comprehensive income and certain minority interests; all subject to applicable regulatory adjustments and deductions. The new capital conservation buffer requirement is to be phased in beginning on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets will be required, which amount will increase each year until the buffer requirement is fully implemented on January 1, 2019.

A banking organization's qualifying total capital consists of two components: Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is an amount equal to the sum of common shareholders' equity, hybrid capital instruments (instruments with characteristics of debt and equity) in an amount up to 25% of Tier 1 Capital, certain preferred stock and the minority interest in the equity accounts of consolidated subsidiaries. For bank holding companies and financial holding companies, goodwill (net of any deferred tax liability associated with that goodwill) may not be included in Tier 1 Capital. Identifiable intangible assets may be included in Tier 1 Capital for banking organizations, in accordance with certain further requirements. At least 50% of the banking organization's total regulatory capital must consist of Tier 1 Capital.

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

The Basel III Capital Rules expanded the risk-weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories, including many residential mortgages and certain commercial real estate.

Under the new capital regulations, the minimum capital ratios are: (1) a CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total risk-based capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio (the ratio of Tier 1 capital to average total adjusted assets) of 4.0%. The FDIC's prompt corrective action standards changed when these new capital regulations became effective. Under the new standards, in order to be considered well-capitalized, the Bank must have a ratio of CET1 capital to risk-weighted assets of 6.5% (new), a ratio of Tier 1 capital to risk-weighted assets of 8% (increased from 6%), a ratio of total capital to risk-weighted assets of 10% (unchanged), and a leverage ratio of 5% (unchanged); and in order to be considered adequately capitalized, it must have the minimum capital ratios described above.

Federal Deposit Insurance Corporation Improvement Act

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

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

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect how community banks, thrifts, and small bank and thrift holding companies are regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, and impose new capital requirements on bank and thrift holding companies.

The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. Effective October 1, 2011, the FRB set the interchange rate cap at $0.21 per transaction plus five basis points multiplied by the value of the transaction. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule has affected the competitiveness of debit cards issued by smaller banks. If our bank subsidiary exceeds $10 billion in total assets, then it will become subject to the interchange rate limits of larger banks which may negatively impact our interchange revenue.

The Dodd-Frank Act also established the Bureau of Consumer Financial Protection (the “CFPB”) as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payment penalties. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways.

Because many of the regulations required to implement the Dodd-Frank Act have been only recently issued, or have not yet been issued, the statute’s effect on the financial services industry in general, and on us in particular, is uncertain at this time. The Dodd-Frank Act is likely to affect our cost of doing business, however, and may limit or expand the scope of our permissible activities and affect the competitive balance within our industry and market areas. Our management continues to actively review the provisions of the Dodd-Frank Act and to assess its probable impact on our business, financial condition, and results of operations. However, given the sweeping nature of the Dodd-Frank Act and other federal government initiatives, we expect that the Company’s regulatory compliance costs will increase over time.

FDIC Deposit Insurance and Assessments

Our customer deposit accounts are insured up to applicable limits by the FDIC’s Deposit Insurance Fund (“DIF) up to $250,000 per separately insured depositor.

The Dodd-Frank Act changed how the FDIC calculates deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution's average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution's insured deposits. The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. If our bank subsidiary exceeds $10 billion in total assets, then it will become subject to the assessment rates assigned to larger banks which may result in higher deposit insurance premiums.

The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds. Previously, the FDIC was required to give rebates to depository institutions equal to the excess once the reserve ratio exceeded 1.50%, and was required to rebate 50% of the excess over 1.35% but not more than 1.5% of insured deposits. The FDIC adopted a final rule on February 7, 2011 that implemented these provisions of the Dodd-Frank Act.

Pending Legislation

Because of concerns relating to competitiveness and the safety and soundness of the banking industry, Congress often considers a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposals will be adopted or the extent to which our business may be affected.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry

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

Changes in economic conditions could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

The previous economic downturn elevated unemployment levels and negatively impacted consumer confidence. It also had a detrimental impact on industry-wide performance nationally as well as the Company's market areas. Since

2013, improvement in several economic indicators have been noted, including increasing consumer confidence levels, increased economic activity and a continued decline in unemployment levels.

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

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

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

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

In response to the financial crisis affecting the banking system and financial markets, the Dodd-Frank Act was enacted in 2010, as well as several programs that have been initiated by the U.S. Treasury, the FRB, and the FDIC to stabilize the financial system.

Some of the provisions of recent legislation and regulation that may adversely impact the Company include: the Durbin Amendment to the Dodd-Frank Act which mandates a limit to debit card interchange fees and Regulation E amendments to the EFTA regarding overdraft fees. These provisions may limit the type of products we offer, the methods by which we offer them, and the prices at which they are offered. These provisions may also increase our costs in offering these products.

The newly created CFPB has unprecedented authority over the regulation of consumer financial products and services. The CFPB has broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers. The scope and impact of the CFPB's actions cannot be determined at this time, which creates significant uncertainty for the Company and the financial services industry in general.

These new laws, regulations, and changes may increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability. The future impact of the many provisions in the Dodd-Frank Act and other legislative and regulatory initiatives on the Company's business and results of operations will depend upon regulatory interpretation and rulemaking that will be undertaken over the next several months and years. As a result, we are unable to predict the ultimate impact of the Dodd-Frank Act or of other future legislation or regulation, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations.

Difficult market conditions have adversely affected our industry.

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

Risks Related to Our Business

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

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

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

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

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

We have a significant consumer credit card portfolio. Although we experienced a decreased amount of net charge-offs in our credit card portfolio in 2015 and 2014, the amount of net charge-offs could worsen. While we continue to experience a better performance with respect to net charge-offs than the national average in our credit card portfolio, our net charge-offs were 1.28% of our average outstanding credit card balances for the year ended December 31, 2015, compared to 1.27% of the average outstanding balances for the year ended on December 31, 2014. Future downturns in the economy could adversely affect consumers in a more delayed fashion compared to commercial businesses in general. Increasing unemployment and diminished asset values may prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a material adverse effect on our unsecured credit card portfolio.

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

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

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

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

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

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

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

In addition to pursuing the acquisition of existing viable financial institutions as opportunities arise we may also continue to engage in *de novo* branching to further our growth strategy. *De novo* branching and growing through acquisition involve numerous risks, including the following:

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

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

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

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

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

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

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

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

- faster than anticipated growth;
- reduced earning levels;
- operating losses;
- changes in economic conditions;

- revisions in regulatory requirements; or
- additional acquisition opportunities.

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

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

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

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

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

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

A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered to be an unsafe and unsound banking practice or a violation of the FRB's regulations, or both. Accordingly, if the financial condition of our subsidiary banks were to deteriorate, we could be compelled to provide financial support to our subsidiary banks at a time when, absent such FRB policy, we may not deem it advisable to provide such assistance. Under such circumstances, there is a possibility that we may not either have adequate available capital or feel sufficiently confident regarding our financial condition, to enter into acquisitions, pay dividends, or engage in other corporate activities.

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

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

Our management has broad discretion over the use of proceeds from future stock offerings.

Although we generally indicate our intent to use the proceeds from stock offerings for general corporate purposes, including funding internal growth and selected future acquisitions, our Board of Directors retains significant discretion with respect to the use of the proceeds from possible future offerings. If we use the funds to acquire other businesses, there can be no assurance that any business we acquire will be successfully integrated into our operations or otherwise perform as expected.

A breach in the security of our systems could disrupt our business, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposure for us.

Our businesses are dependent on our ability and the ability of our third party service providers to process, record and monitor a large number of transactions. If the financial, accounting, data processing or other operating systems and facilities fail to operate properly, become disabled, experience security breaches or have other significant shortcomings, our results of operations could be materially adversely affected.

Although we and our third party service providers devote significant resources to maintain and upgrade our systems and processes that are designed to protect the security of computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us and our customers, there is no assurance that our security systems and those of our third party service providers will provide absolute security. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Despite our efforts and those of our third party service providers to ensure the integrity.

Risks Related to Owning Our Stock

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

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

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

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

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

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

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

The Company and its subsidiaries own or lease additional offices in the states of Arkansas, Kansas, Missouri and Tennessee. The Company and Simmons Bank conduct financial operations from 149 branches, or "financial centers", located in communities throughout Arkansas, Kansas, Missouri and Tennessee.

ITEM 3. LEGAL PROCEEDINGS

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol "SFNC." Set forth below are the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for each quarter of the fiscal years ended December 31, 2015 and 2014. Also set forth below are dividends declared per share in each of these periods:

Price Per Common Share	Quarterly Dividends

	High	Low	Per Common Share
2015			
1st quarter	$46.38	$35.72	$ 0.23
2nd quarter	48.36	42.41	0.23
3rd quarter	48.88	41.58	0.23
4th quarter	58.75	45.50	0.23
2014			
1st quarter	$38.80	$32.01	$ 0.22
2nd quarter	43.22	34.62	0.22
3rd quarter	41.82	37.35	0.22
4th quarter	42.43	37.60	0.22

On February 3, 2016, the closing price for our common stock as reported on the NASDAQ was $42.41. As of February 3, 2016, there were 1,716 shareholders of record of our common stock.

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

Our principal source of funds for dividend payments to our stockholders is distributions, including dividends, from our subsidiary bank, which is subject to restrictions tied to such institution's earnings. Under applicable banking laws, the declaration of dividends by Simmons Bank in any year, in excess of its net profits, as defined, for that year, combined with its retained net profits of the preceding two years, must be approved by the Office of the Comptroller of the Currency. At December 31, 2015, approximately $8.2 million was available for the payment of dividends by Simmons Bank without regulatory approval. For further discussion of restrictions on the payment of dividends, see "Quantitative and Qualitative Disclosures About Market Risk – Liquidity and Market Risk Management," and Note 20, Stockholders' Equity, of Notes to Consolidated Financial Statements.

Stock Repurchase

The Company made no purchases of its common stock during the three months ended or years ended December 31, 2015 and 2014. Under the current stock repurchase plan, we can repurchase an additional 154,136 shares.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Bank Stock Index, the NASDAQ Composite Index and the S&P 500 Stock Index. The graph assumes an investment of $100 on December 31, 2010 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future performance.

	Period Ending					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Simmons First National Corporation	100.00	98.36	94.80	143.14	160.11	206.33
NASDAQ Bank	100.00	89.50	106.23	150.55	157.95	171.92
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
S&P500	100.00	102.11	118.45	156.82	178.28	180.75

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Results from past periods are not necessarily indicative of results that may be expected for any future period.

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

	Years Ended December 31				
(In thousands, except per share & other data)	2015	2014	2013	2012	2
Income statement data:					
Net interest income	$278,595	$171,064	$130,850	$113,517	$
Provision for loan losses	9,022	7,245	4,118	4,140	
Net interest income after provision for loan losses	269,573	163,819	126,732	109,377	
Non-interest income	95,826	62,192	40,616	48,371	
Non-interest expense	258,135	175,721	134,812	117,733	
Income before taxes	107,264	50,290	32,536	40,015	
Provision for income taxes	32,900	14,602	9,305	12,331	
Net income	74,364	35,688	23,231	27,684	
Preferred stock dividends	257	--	--	--	
Net income	$74,107	$35,688	$23,231	$27,684	$
Per share data:					
Basic earnings	2.64	2.11	1.42	1.64	
Diluted earnings	2.63	2.11	1.42	1.64	
Diluted core earnings (non-GAAP) (1)	3.18	2.29	1.69	1.59	
Book value	34.55	27.38	24.89	24.55	
Tangible book value (non-GAAP) (2)	21.97	20.15	19.13	20.66	
Dividends	0.92	0.88	0.84	0.80	
Basic average common shares outstanding	28,083,796	16,878,766	16,339,335	16,908,904	
Diluted average common shares outstanding	28,209,661	16,922,026	16,352,167	16,911,363	
Balance sheet data at period end:					
Assets	7,559,658	4,643,354	4,383,100	3,527,489	
Investment securities	1,526,780	1,082,870	957,965	687,483	

Total loans	4,919,355	2,736,634	2,404,935	1,922,119
Allowance for loan losses (excluding acquired loans) (3)	31,351	29,028	27,442	27,882
Goodwill & other intangible assets	380,923	130,621	93,501	64,365
Non-interest bearing deposits	1,280,234	889,260	718,438	576,655
Deposits	6,086,096	3,860,718	3,697,567	2,874,163
Long-term debt and other borrowings	162,289	114,682	117,090	89,441
Subordinated debt & trust preferred	60,570	20,620	20,620	20,620
Stockholders’ equity	1,076,855	494,319	403,832	406,062
Tangible stockholders’ equity (non GAAP)(2)	665,080	363,698	310,331	341,697
Capital ratios at period end:				
Common stockholders’ equity to total assets	13.84 %	10.65 %	9.21 %	11.51 %
Tangible common equity to tangible assets (non-GAAP) (4)	9.26 %	8.06 %	7.24 %	9.87 %
Tier 1 leverage ratio	11.20 %	8.77 %	9.22 %	10.81 %
Common equity Tier 1 risk-based ratio	14.21 %	n/a	n/a	n/a
Tier 1 risk-based ratio	16.02 %	13.43 %	13.02 %	19.08 %
Total risk-based capital ratio	16.72 %	14.50 %	14.10 %	20.34 %
Dividend payout to common shareholders	34.98 %	41.71 %	59.15 %	48.78 %

	Years Ended December 31				
	2015	2014	2013	2012	2011
Annualized performance ratios:					
Return on average assets	1.03 %	0.80 %	0.64 %	0.83 %	0.77 %
Return on average equity	7.90 %	8.11 %	5.33 %	6.77 %	6.25 %
Return on average tangible equity (non-GAAP) (2) (5)	12.53 %	10.99 %	6.36 %	8.05 %	7.54 %
Net interest margin (6)	4.55 %	4.47 %	4.21 %	3.93 %	3.85 %
Efficiency ratio (7)	59.08 %	69.88 %	71.28 %	70.17 %	67.86 %
Balance sheet ratios: (8)					
Nonperforming assets as a percentage of period-end assets	0.85 %	1.25 %	1.69 %	1.29 %	1.18 %
Nonperforming loans as a percentage of period-end loans	0.58 %	0.63 %	0.53 %	0.74 %	1.02 %
Nonperforming assets as a percentage of period-end loans & OREO	1.94 %	2.76 %	4.10 %	2.74 %	2.44 %
Allowance to nonperforming loans	165.83 %	223.31 %	297.89 %	231.62 %	186.14 %
Allowance for loan losses as a percentage of period-end loans	0.97 %	1.41 %	1.57 %	1.71 %	1.91 %
Net charge-offs (recoveries) as a percentage of average loans	0.17 %	0.30 %	0.27 %	0.40 %	0.49 %
Other data					
Number of financial centers	149	109	131	92	84
Number of full time equivalent employees	1,946	1,338	1,343	1,068	1,083

(1) Diluted core earnings (net income excluding nonrecurring items) is a non-GAAP measure. The following nonrecurring items were excluded in the calculation of diluted core earnings per share (non-GAAP). In 2015, the Company reported a $0.30 decrease in EPS from merger related costs primarily from its Community First, Liberty and Ozark Trust acquisitions, a $0.07 decrease in EPS for the closure of 12 underperforming branches, $0.05 EPS decrease related accelerated vesting on retirement agreements and $0.16 EPS decreased due to the termination of the FDIC loss-share agreements. Also in 2015, the Company recorded a $0.04 EPS increase from the sale of the Salina banking operations. In 2014, the Company reported a $0.27 decrease in EPS from merger related costs primarily from its Delta Trust acquisition, a $0.03 EPS decrease from change-in-control payments related to Delta Trust and a $0.02 EPS decrease from charter consolidation costs. Also in 2014, the Company recorded a $0.04 EPS increase from the sale of its merchant services business and a $0.10 EPS increase from the gains on sale of premises held for sale, net of the closing costs of the former branches. In 2013, the Company recorded a $0.25 decrease in EPS from merger related costs from its Metropolitan National Bank acquisition and a $0.02 decrease in EPS from the closing costs of 7 underperforming branches. In 2012, the Company recorded a $0.05 increase in EPS from the FDIC assisted transactions of Truman Bank and Excel Bank. In 2011, the Company recorded a $0.04 increase in EPS from the sale of MasterCard stock. Also in 2011, the Company recorded a $0.01 decrease in EPS from the closing cost of a branch and a $0.01 EPS decrease from merger related costs from an FDIC-assisted acquisition.

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

	Years Ended December 31				
($ in thousands, except per share data)	2015	2014	2013	2012	2011
Common stockholders' equity	$1,046,003	$494,319	$403,832	$406,062	$407,911
Less: Intangible assets					
Goodwill	327,686	108,095	78,529	60,605	60,605
Other intangibles	53,237	22,526	14,972	3,760	1,579
Tangible common stockholders' equity (non-GAAP)	$665,080	$363,698	$310,331	$341,697	$345,727
Book value per share	$34.55	$27.38	$24.89	$24.55	$23.70
Tangible book value per share (non-GAAP)	$21.97	$20.15	$19.13	$20.66	$20.09
Shares outstanding	30,278,432	18,052,488	16,226,256	16,542,778	17,212,317

(3) Allowance for loan losses at December 31, 2015 and 2014 includes $954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses at December 31, 2015 and 2014 was $32,305,000 and $29,982,000, respectively.

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

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

(6) Fully taxable equivalent (assuming an income tax rate of 39.225%).

(7) The efficiency ratio is total non-interest expense less foreclosure expense and amortization of intangibles, divided by the sum of net interest income on a fully taxable equivalent basis plus total non-interest income less security gains, net of tax. For the year ended December 31, 2015, this calculation excludes merger related costs of $13.8 million from non-interest expense. For the year ended December 31, 2014, this calculation excludes merger related costs of $7.5 million from non-interest expense. For the year ended December 31, 2013, this calculation excludes merger related costs of $6.4 million from non-interest expense. For the year ended December 31, 2012, this calculation excludes the gain on FDIC-assisted transactions of $3.4 million from total non-interest income and excludes merger related costs of $1.9 million from non-interest expense. For the year ended December 31, 2011, this calculation excludes the $1.1 million gain on sale of MasterCard stock.

(8) Excludes all loans acquired and excludes foreclosed assets acquired, covered by FDIC loss share agreements, except for their inclusion in total assets.

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

Critical Accounting Policies & Estimates

Overview

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

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

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

Allowance for Loan Losses on Loans Not Acquired

The allowance for loan losses is management’s estimate of probable losses in the loan portfolio. 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 calculated monthly based on management’s assessment of several factors such as (1) historical loss experience based on volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) concentrations of credit within the loan portfolio, (6) the experience, ability and depth of lending management and staff and (7) other factors and trends that will affect specific loans and categories of loans. We establish general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued for probable losses 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.

Our evaluation of the allowance for loan losses is inherently subjective as it requires material estimates. The actual amounts of loan losses realized in the near term could differ from the amounts estimated in arriving at the allowance for loan losses reported in the financial statements.

Acquisition Accounting, Acquired Loans

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

We evaluate loans acquired in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. We evaluate purchased impaired loans in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. All loans acquired, whether or not previously covered by FDIC loss share agreements, are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, we continue to estimate cash flows expected to be collected on purchased credit impaired loans. We evaluate at each balance sheet date whether the present value of our purchased credit impaired loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the remaining life of the purchased credit impaired loan.

Covered Loans and Related Indemnification Asset

During the third quarter of 2015, the Bank entered into an agreement with the FDIC to terminate all of its remaining loss-sharing agreements. As a result, all FDIC-acquired assets are now classified as non-covered. All acquired loans are recorded at their discounted net present value; therefore, they are excluded from the computations of the asset quality ratios for the legacy loan portfolio, except for their inclusion in total assets. Under the early termination, all rights and obligations of the Bank and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated.

Under the terms of the agreement, the FDIC made a net payment of $2,368,000 to Simmons Bank as consideration for the early termination of the loss share agreements. The early termination was recorded in our financial statements by removing the FDIC indemnification asset, receivable from FDIC, the FDIC true-up provision and recording a one-time, pre-tax charge of $7,476,000.

Prior to the termination of the loss share agreements, deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which was accreted back into income over the life of the shared-loss agreements.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. We perform an annual goodwill impairment test, and more than annually if circumstances warrant, in accordance with ASC Topic 350, *Intangibles – Goodwill and*

Other, as amended by ASU 2011-08 – *Testing Goodwill for Impairment*. ASC Topic 350 requires that goodwill and intangible assets that have indefinite lives be reviewed for impairment at least annually, or more frequently if certain conditions occur. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Income Taxes

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

2015 Overview

Our net income for the year ended December 31, 2015 was $74.1 million and diluted earnings per share were $2.63, compared to net income of $35.7 million and $2.11 diluted earnings per share in 2014. Net income for both 2015 and 2014 included several significant nonrecurring items that impacted net income, mostly related to our acquisitions. Excluding all nonrecurring items, core earnings for the year ended December 31, 2015 was $89.6 million, or $3.18 diluted core earnings per share, compared to $38.7 million, or $2.29 diluted core earnings per share in 2014. Diluted core earnings per share increased by $0.89, or 38.9%. See Reconciliation of Non-GAAP Measures and Table 21 – Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

On February 27, 2015, we closed on the previously announced transactions to acquire Community First Bancshares, Inc. ("Community First"), headquartered in Union City, Tennessee, including its wholly-owned bank subsidiary First State Bank ("First State") and Liberty Bancshares, Inc. ("Liberty"), headquartered in Springfield, Missouri, including its wholly-owned bank subsidiary Liberty Bank. Liberty Bank was subsequently merged into our lead bank, Simmons First National Bank ("Simmons Bank" or "the Bank"), on April 24, 2015 with a simultaneous systems conversion. First State was subsequently merged into Simmons Bank on September 4, 2015 with a simultaneous systems conversion.

On October 29, 2015, we completed the acquisition of Ozark Trust & Investment Corporation ("Ozark Trust"), including its wholly-owned non-deposit trust company, Trust Company of the Ozarks. Headquartered in Springfield, Missouri, Ozark Trust had over $1 billion in assets under management and provided a wide range of financial services for its clients.

These institutions have a rich history of providing exemplary customer service to the communities in which they have served. With the operational system conversions completed with Simmons Bank, we are able to provide customers with innovative products, exceptional customer service and convenience throughout the combined service area and across all lines of business products.

We are very pleased with the core earnings results in 2015. We reported record core earnings and record core earnings per share for 2015. As a result of acquisitions and efficiency initiatives in recent reporting periods, we have and will continue to recognize one-time revenue and expense items which may skew our short-term core business results but provide long-term performance benefits. Our focus continues to be improvement in core operating income.

We are also very pleased with the positive trends in our balance sheet, as reflected in our organic loan growth during the past year as well as our growth from acquisitions, which enabled us to produce a net interest margin of 4.55%.

Stockholders' equity as of December 31, 2015 was $1.1 billion, book value per share was $34.55 and tangible book value per share was $21.97. Our ratio of common stockholders' equity to total assets was 13.8% and the ratio of tangible common stockholders' equity to tangible assets was 9.3% at December 31, 2015. The Company's Tier I leverage ratio of 11.2%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized". See Table 18 – Risk-Based Capital for regulatory capital ratios.

During the third quarter of 2015, the Bank entered into an agreement with the FDIC to terminate all of its remaining loss-sharing agreements. As a result, all FDIC-acquired assets are now classified as non-covered. Under the early termination, all rights and obligations of the Bank and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated.

Total loans, including loans acquired, were $4.9 billion at December 31, 2015, an increase of $2.2 billion, or 80.5%, from the same period in 2014. Acquired loans increased by $990 million, net of discounts, while legacy loans (all loans excluding acquired loans) grew $1.2 billion, or 58.1%. Excluding the $391 million in loan balances that migrated from acquired loans, legacy loans grew $801 million, or 41.0%. We are encouraged by the continued growth in our legacy loan portfolio throughout 2015. We have had very good legacy loan growth again this year, particularly from the new lenders we have attracted in our targeted growth markets. Their production has exceeded our expectations for 2014 and 2015.

We continue to have good asset quality. At December 31, 2015, the allowance for loan losses for legacy loans was $31.4 million, with an additional $1.0 million allowance for acquired loans. The loan discount credit mark was $55.7 million, for a total of $88.1 million of coverage. This equates to a total coverage ratio of 1.8% of gross loans. The ratio of credit mark and related allowance to acquired loans was 3.3%.

The Company's allowance for loan losses on legacy loans as a percent of total loans was 0.97% at December 31, 2015. In the legacy portfolio, non-performing loans equaled 0.58% of total loans. Non-performing assets were 0.85% of total assets. The allowance for loan losses on legacy loans was 166% of non-performing loans. The Company's net charge-offs for 2015 were 0.24% of total loans. Excluding credit cards, net charge-offs for 2015 were 0.16% of total loans.

Total assets were $7.6 billion at December 31, 2015 compared to $4.6 billion at December 31, 2014, an increase of $2.9 billion primarily due to the Community First and Liberty acquisitions.

Subsidiary Bank Consolidation

We completed the consolidation of our subsidiary banks into Simmons Bank, headquartered in Pine Bluff, Arkansas in August of 2014. The elimination of the separate bank charters increased the Company's efficiency and assisted us in more effectively meeting the increased regulatory burden currently facing banking institutions. There are many operational functions that we previously performed separately for each of our seven banks; with the consolidation, these tasks only need to be performed once.

We believe our customers have experienced a positive impact from this change. All of our banking and financial services continue to be available in the same locations as before the consolidation. Our local management and Community Boards of Directors are committed to maintaining our nearby and neighborly service and this change allowed them more opportunity to meet the needs of our customers and the communities we serve.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 39.225%.

The FRB sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The FRB target for the Federal Funds rate, which is the cost to banks of immediately available overnight funds, had remained unchanged at 0.00% - 0.25% since December 2008. On December 16, 2015 the FRB did raise the target to 0.25% to 0.5%. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, had also remained unchanged at 3.25% since December 2008. Effective December 17, 2015 the prime interest rate increased to 3.5%.

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

For the year ended December 31, 2015, net interest income on a fully taxable equivalent basis was $287.1 million, an increase of $109.2 million, or 61.4%, from the same period in 2014. The increase in net interest income was the result of a $117.6 million increase in interest income and an $8.4 million increase in interest expense.

The increase in interest income primarily resulted from a $104.3 million increase in interest income on loans, consisting of legacy loans and acquired loans. The increase in loan volume during 2015 generated $118.2 million of additional interest income, while a 52 basis point decline in yield resulted in a $13.9 million decrease in interest income. The interest income increase from loan volume was primarily due to our Liberty and Community First acquisitions; however, a significant portion of the increase in loan interest income can be attributed to our legacy loan growth of $1.2 billion, or 58.1%, during 2015.

Included in interest income is the additional yield accretion recognized as a result of updated estimates of the cash flows of our acquired loans, as discussed in Note 5, Loans Acquired, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. Each quarter, we estimate the cash flows expected to be collected from the acquired loans, and adjustments may or may not be required. The cash flows estimate has increased based on payment histories and reduced loss expectations of the loans. This resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loans. For loans previously covered by FDIC loss sharing agreements, any increases in expected cash flows also reduced the amount of expected reimbursements under the loss-sharing agreements, which were recorded as indemnification assets. The estimated adjustments to the indemnification assets were amortized on a level-yield basis over the remainder of the loss-sharing agreements or the remaining expected life of the loan pools, whichever was shorter, and were recorded in non-interest expense.

Our net interest margin was 4.55% for the year ended December 31, 2015, up 8 basis points from 2014. Our margin has been strengthened from the impact of the accretable yield adjustments discussed above. Also, the acquisition of loans, along with significant growth in our legacy loan portfolio, has allowed us to increase our level of higher yielding assets during 2015.

Our net interest margin was 4.47% and 4.21% for the years ended December 31, 2014 and 2013, respectively.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2015, 2014 and 2013, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2015 versus 2014 and 2014 versus 2013.

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

	Years Ended December 31		
(In thousands)	2015	2014	2013
Interest income	$300,948	$185,035	$143,113
FTE adjustment	8,518	6,840	4,951
Interest income - FTE	309,466	191,875	148,064
Interest expense	22,353	13,971	12,263
Net interest income - FTE	$287,113	$177,904	$135,801
Yield on earning assets - FTE	4.91 %	4.83 %	4.59 %
Cost of interest bearing liabilities	0.45 %	0.44 %	0.48 %
Net interest spread - FTE	4.46 %	4.39 %	4.11 %
Net interest margin - FTE	4.55 %	4.47 %	4.21 %

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	2015 vs. 2014	2014 vs. 2013
Increase due to change in earning assets	$126,611	$39,750
(Decrease) increase due to change in earning asset yields	(9,020)	4,061
(Decrease) increase due to change in interest rates paid on interest bearing liabilities	(746)	1,163
Decrease due to change in interest bearing liabilities	(7,636)	(2,871)
Increase in net interest income	$109,209	$42,103

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2015. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Nonaccrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31								
	2015			2014			2013		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate (%)	Average Balance	Income/ Expense	Yield/ Rate (%)	Average Balance	Income/ Expense	Yield/ Rate (%)
ASSETS									
Earning assets:									
Interest bearing balances due from banks	$298,544	$773	0.26	$388,045	$857	0.22	$470,651	$1,127	0.24
Federal funds sold	38,446	126	0.33	3,663	27	0.74	4,186	19	0.45
Investment securities - taxable	1,128,035	17,291	1.53	735,637	8,624	1.17	464,319	5,553	1.20
Investment securities - non-taxable	375,390	21,756	5.80	328,310	17,541	5.34	315,445	12,647	4.01
Mortgage loans held for sale	24,996	1,051	4.20	16,038	695	4.33	13,108	467	3.56
Assets held in trading accounts	6,481	18	0.28	6,938	17	0.25	8,607	29	0.34
Loans	4,434,074	268,451	6.05	2,497,272	164,114	6.57	1,947,778	128,222	6.58
Total interest earning assets	6,305,966	309,466	4.91	3,975,903	191,875	4.83	3,224,094	148,064	4.59
Non-earning assets	858,822			502,198			382,408		
Total assets	$7,164,788			$4,478,101			$3,606,502		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Liabilities:									
Interest bearing liabilities:									
Interest bearing transaction and savings deposits	$3,304,654	$7,794	0.24	$1,886,217	$3,057	0.16	$1,490,457	$2,461	0.17
Time deposits	1,344,762	7,454	0.55	1,040,979	6,022	0.58	859,913	5,938	0.69
Total interest bearing deposits	4,649,416	15,248	0.33	2,927,196	9,079	0.31	2,350,370	8,399	0.36
Federal funds purchased and securities sold under agreements to repurchase	113,881	236	0.21	110,644	269	0.24	93,574	219	0.23
Other borrowings	182,007	5,097	2.80	118,256	3,986	3.37	87,089	3,001	3.45
Subordinated debentures	55,554	1,772	3.19	20,620	637	3.09	20,620	644	3.12
Total interest bearing liabilities	5,000,858	22,353	0.45	3,176,716	13,971	0.44	2,551,653	12,263	0.48
Non-interest bearing liabilities:									
Non-interest bearing deposits	1,133,951			820,490			588,374		
Other liabilities	65,568			40,727			30,557		
Total liabilities	6,200,377			4,037,933			3,170,584		
Stockholders' equity	964,411			440,168			435,918		
Total liabilities and stockholders' equity	$7,164,788			$4,478,101			$3,606,502		
Net interest spread			4.46			4.39			4.11

Net interest margin	$287,113	4.55	$177,904	4.47	$135,801	4.21

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Table 4: Volume/Rate Analysis

(In thousands, on a fully taxable equivalent basis)	Years Ended December 31 2015 over 2014 Volume	Yield/ Rate	Total	2014 over 2013 Volume	Yield/ Rate	Total
Increase (decrease) in						
Interest income						
Interest bearing balances due from banks	$(217)	$133	$(84)	$(188)	$(82)	$(270)
Federal funds sold	122	(23)	99	(2)	10	8
Investment securities - taxable	5,498	3,169	8,667	3,183	(112)	3,071
Investment securities - non-taxable	2,649	1,566	4,215	535	4,359	4,894
Mortgage loans held for sale	377	(21)	356	116	112	228
Assets held in trading accounts	(1)	2	1	(5)	(7)	(12)
Loans (including loans acquired)	118,183	(13,846)	104,337	36,111	(219)	35,892
Total	126,611	(9,020)	117,591	39,750	4,061	43,811
Interest expense						
Interest bearing transaction and savings accounts	2,951	1,786	4,737	642	(46)	596
Time deposits	1,692	(260)	1,432	1,135	(1,051)	84
Federal funds purchased and securities sold under agreements to repurchase	8	(41)	(33)	42	8	50
Other borrowings	1,872	(761)	1,111	1,052	(67)	985
Subordinated debentures	1,113	22	1,135	--	(7)	(7)
Total	7,636	746	8,382	2,871	(1,163)	1,708
Increase (decrease) in net interest income	$118,975	$(9,766)	$109,209	$36,879	$5,224	$42,103

Provision for Loan Losses

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio. The level of provision to the allowance is based on management's judgment, with consideration given to the composition, maturity and other qualitative characteristics of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on a monthly basis and, after considering the factors previously noted, to determine the level of provision made to the allowance.

The provision for loan losses for 2015, 2014 and 2013, was $9.0 million, $7.2 million and $4.1 million, respectively. The increase in the provision level was primarily due to our growing legacy portfolio, as well as to the migration of acquired loans previously protected by a credit mark, with no allowance, into our legacy portfolio, thus requiring coverage by the allowance. See Allowance for Loan Losses section for additional information.

Non-Interest Income

Total non-interest income was $95.8 million in 2015, compared to $62.2 million in 2014 and $40.6 million in 2013. Non-interest income for 2015 increased $33.6 million, or 54.0%, from 2014.

Net loss on assets covered by FDIC loss share agreements decreased by $5.5 million in 2015 when compared to 2014 due to the early termination of the loss share agreements in September 2015.

A gain of $2.1 million was recorded on the sale of the banking operations located in Salina, Kansas consisting of three branches that occurred in August 2015. Included in the sale were $5.3 million in loans and $77.8 million in deposits.

During 2015 we recorded net gain of $153,000 on the sale of several branch locations as part of our ongoing branch right sizing strategy. During 2014 we recognized pre-tax net gains of $7.8 million from the sale of several branch locations. These branches were closed in March 2014 as part of our initial branch right sizing strategy related to the November 2013 acquisition of Metropolitan. We are very pleased with the market demand for our former branch facilities, allowing us to negotiate quick sales on the majority of these non-earning assets during 2015 and 2014.

We also recorded a $1.0 million gain from the sale of our merchant services business during the second quarter of 2014. The sale of this service business became necessary as the chip technology in debit and credit cards came to fruition. The new contract we have with our vendor serves to eliminate most of our risk while providing our customers with service and support from experts in their field. While our revenue from these services will decline, so will our support expenses. We believe that by selling our merchant services and entering into a third-party contract we have mitigated our risk with a neutral financial impact.

Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and debit and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, income from the increase in cash surrender values of bank owned life insurance and gains (losses) from sales of securities.

Table 5 shows non-interest income for the years ended December 31, 2015, 2014 and 2013, respectively, as well as changes in 2015 from 2014 and in 2014 from 2013.

Table 5: Non-Interest Income

	Years Ended December 31			Change from		Change from	
(In thousands)	2015	2014	2013	2014		2013	
Trust income	$9,261	$7,111	$5,842	$2,150	30.23 %	$1,269	21.72 %
Service charges on deposit accounts	30,985	25,650	18,815	5,335	20.80	6,835	36.33
Other service charges and fees	9,921	3,574	2,997	6,347	177.59	577	19.25
Mortgage lending income	11,452	5,342	4,592	6,110	114.38	750	16.33
Investment banking income	2,590	1,070	1,811	1,520	142.06	(741)	-40.92
Debit and credit card fees	26,660	22,866	17,833	3,794	16.59	5,033	28.22
Bank owned life insurance income	2,680	1,843	1,319	837	45.42	524	39.73
Gain on sale of banking operations	2,110	--	--	2,110	100.00	--	--
Net (loss) on assets covered by FDIC loss share agreements	(14,812)	(20,316)	(16,188)	5,504	-27.09	(4,128)	25.50
Net gain on sale of premises held for sale	153	7,780	--	(7,627)	-98.03	7,780	100.00
Other income	14,519	7,264	3,746	7,255	99.88	3,518	93.91
Gain (loss) on sale of securities	307	8	(151)	299	3,737.50	159	-105.30
Total non-interest income	$95,826	$62,192	$40,616	$33,634	54.08 %	$21,576	53.12 %

Recurring fee income (service charges, trust fee and debit and credit card fees) for 2015 was $76.8 million, an increase of $17.6 million, or 29.7%, when compared with the 2014 amounts. Service charges on deposits accounts increased $5.3 million, or 20.8%. The majority of these increases were due to the additions of accounts from the Delta Trust, Community First and Liberty acquisitions. Debit and credit card fees increased $3.8 million, or 16.6%, due to higher transaction volume driven by the acquisitions.

Trust income increased by $2.2 million, or 30.2%, due primarily to the Delta Trust and Ozarks Trust acquisitions and supported by growth in our existing personal trust and investor management client base.

Recurring fee income for 2014 was $59.2 million, an increase of $13.7 million, or 30.2%, when compared with the 2013 amounts. Service charges on deposits accounts increased $6.8 million due primarily to fees on accounts added through the acquisitions of Metropolitan and Delta Trust. Debit and credit card fees increased $5.0 million due primarily to a higher volume of debit and credit card transactions.

Mortgage lending income increased by $6.1 million, or 114.4%, in 2015 compared to 2014, primarily related to the increased market areas and additional lenders and customers as a result of the Delta Trust, Community First and Liberty acquisitions. Mortgage lending income increased by $750,000, or 16.3%, in 2014 compared to 2013, as the mortgage market improved significantly during the last half of 2014, following significant decreases in the previous quarters of 2014, when compared to 2013.

Investment banking income increased by $1.5 million, or 142.1%, in 2015 compared to 2014 due primarily to the addition of the retail investment banking operation of Delta Trust. Investment banking income decreased by $741,000, or 40.9%, in 2014 compared to 2013 primarily due to an industry-wide decline in dealer-bank activities.

Net loss on assets covered by FDIC loss share agreements in 2015 included the $7.5 million expense related to the termination of the loss share agreements. This expense was partially offset by a $2.1 million decrease in the indemnification asset. With the September 2015 termination of the loss-sharing agreements the amortization of the indemnification asset was eliminated.

Net loss on assets covered by FDIC loss share agreements increased by $4.1 million in 2014 compared to 2013. Due to the increase in cash flows that were expected to be collected from the FDIC-covered loan portfolios, an additional $2.2 million of amortization, a reduction of non-interest income, was recorded during 2014 as compared to 2013, related to reductions of expected reimbursements under the loss-sharing agreements with the FDIC, which were recorded as indemnification assets. Income from the normal accretion of the FDIC indemnification assets, net of amortization of the FDIC true-up liability, decreased by $1.2 million from the previous year.

Other non-interest income for 2015 increased by $7.3 million from 2014. The increase was primarily due to increased gains on sale of foreclosed assets and recoveries on loans that were charged off prior to acquisition. The remaining increases were the result of the increased income as a result of the Community First and Liberty transactions. Other non-interest income for 2014 increased by $3.5 million from 2013, primarily due to increased gains on sale of foreclosed assets and recoveries on loans that were charged off prior to acquisition.

We recorded $307,000 in net realized gains on sale of securities during 2015 compared to $8,000 in net realized gains on sale of securities during 2014.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense, through the continued use of expense control measures that have been installed. We utilize an extensive profit planning and reporting system involving all subsidiaries. Based on a needs assessment of the business plan for the upcoming year, monthly and annual profit plans are developed, including manpower and capital expenditure budgets. These profit plans are subject to extensive initial reviews and monitored by management on a monthly basis. Variances from the plan are reviewed monthly and, when required, management takes corrective action intended to ensure financial goals are met. We also regularly monitor staffing levels at Simmons Bank to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for 2015 was $258.1 million, an increase of $82.4 million or 46.9%, from 2014. This increase includes approximately $13.8 million of merger related costs during 2015 for our acquisitions of Community First, Liberty and Ozark Trust. Also included in non-interest expense are merger related costs of $7.5 million in 2014, primarily attributed to the acquisition of Delta Trust and costs that carried over into 2014 from the 2013 acquisition of Metropolitan.

We recorded $3.3 million in branch rightsizing costs during 2015, primarily associated with the closure and maintenance of twelve underperforming branches as part of our branch right sizing initiative. Due to the close proximity of the closed branches with other Simmons Bank branches, customers will not be negatively impacted by the closings. We also incurred $2.2 million of costs related to early termination agreements in 2015.

Normalizing for the nonrecurring merger related costs and branch right sizing expenses, non-interest expense increased $75.9 million, or 46.6%, in 2015 from 2014, primarily due to the incremental operating expenses of the acquired Community First, Liberty and Ozark Trust locations. See the Reconciliation of Non-GAAP Measures section for details of the nonrecurring items.

Non-interest expense for 2014 was $175.7 million, an increase of $40.9 million, or 30.4%, from 2013. This increase includes approximately $7.5 million of merger related costs during 2014 for our acquisition of Delta Trust and costs that carried over into 2014 from our 2013 acquisition of Metropolitan. During 2014 we completed our charter consolidation and incurred $0.6 million of charter consolidation costs related to systems conversions. We also closed 27 branches as part of our branch right sizing strategy and incurred $4.7 million in right sizing costs. Also included in non-interest expense are merger related costs of $6.4 million in 2013 related to Metropolitan. Normalizing for the nonrecurring merger related costs, change-in-control payments, branch right sizing expenses and charter consolidation costs, non-interest expense increased $34.2 million, or 26.8% in 2014 from 2013, primarily due to the incremental operating expenses of the acquired Metropolitan and Delta Trust locations. See the Reconciliation of Non-GAAP Measures section for details of the nonrecurring items.

Salaries and employee benefits increased to $139.4 million in 2015 from $89.2 million in 2014, an increase of $50.2 million, or 56.3%. Occupancy expense increased to $16.9 million in 2015 from $12.8 million in 2014, an increase of $4.0 million, or 31.4%. Furniture and fixture expense increased to $14.4 million in 2015 from $9.3 million in 2014, an increase of $5.0 million, or 53.9%. These increases, along with the increases in several other operating expense categories, were a result of the Community First, Liberty and Ozark Trust acquisitions.

Deposit insurance expense during 2015 increased to $4.2 million from $3.4 million in 2014, an increase of $0.8 million, or 25.2%. Deposit insurance expense during 2014 increased to $3.4 million from $2.5 million in 2013, an increase of $0.9 million, or 35.1%. These increases are directly attributable to our growth in total assets.

Amortization of intangibles recorded for the years ended December 31, 2015, 2014 and 2013, was $4.9 million, $2.0 million and $0.6 million, respectively. The current year increase is the result of core deposit intangible and other intangible assets recorded as the result of the Community First and Liberty acquisitions and a full year of amortization expense related to the core deposit intangible from the Delta acquisition. The Company’s estimated amortization expense for each of the following five years is: 2016 – $5.815 million; 2017 – $5.815 million; 2018 – $5.711 million; 2019 – $5.401 million; and 2020 – $5.389 million. The estimated amortization expense decreases as intangible assets fully amortize in future years.

Table 6 below shows non-interest expense for the years ended December 31, 2015, 2014 and 2013, respectively, as well as changes in 2015 from 2014 and in 2014 from 2013.

Table 6: Non-Interest Expense

	Years Ended December 31			Change from		Change from	
(In thousands)	2015	2014	2013	2014		2013	
Salaries and employee benefits	$139,408	$89,210	$74,078	$50,198	56.27 %	$15,132	20.43 %
Occupancy expense, net	16,858	12,833	10,034	4,025	31.36	2,799	27.90
Furniture and equipment expense	14,352	9,325	7,623	5,027	53.91	1,702	22.33
Other real estate and foreclosure expense	4,861	4,507	1,337	354	7.85	3,170	237.10
Deposit insurance	4,201	3,354	2,482	847	25.25	872	35.13
Merger related costs	13,760	7,470	6,376	6,290	84.20	1,094	17.16
Other operating expenses							
Professional services	9,583	7,516	4,473	2,067	27.50	3,043	68.03
Postage	4,219	3,383	2,531	836	24.71	852	33.66
Telephone	4,817	2,957	2,323	1,860	62.90	634	27.29
Credit card expenses	9,157	8,699	6,869	458	5.26	1,830	26.64
Operating supplies	2,395	1,964	1,511	431	21.95	453	29.98
Amortization of intangibles	4,889	1,979	600	2,910	147.04	1,379	229.83
Branch right sizing expense	3,297	4,721	641	(1,424)	-30.16	4,080	636.51
Other expense	26,338	17,803	13,934	8,535	47.94	3,869	27.77
Total non-interest expense	$258,135	$175,721	$134,812	$82,414	46.90 %	$40,909	30.35 %

Income Taxes

The provision for income taxes for 2015 was $32.9 million, compared to $14.6 million in 2014 and $9.3 million in 2013. The effective income tax rates for the years ended 2015, 2014 and 2013 were 30.7%, 29.0% and 28.6%, respectively.

Loan Portfolio

Our legacy loan portfolio, excluding loans acquired, averaged $2.518 billion during 2015 and $1.866 billion during 2014. As of December 31, 2015, total loans, excluding loans acquired, were $3.246 billion, compared to $2.054 billion on December 31, 2014, an increase of $1.193 billion, or 58.1%. This organic loan growth in 2015 represents a significant improvement over recent years. This marks the fourth consecutive year that we have seen annual growth in our legacy loan portfolio. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

When we make a credit decision on an acquired loan as a result of the loan maturing or renewing, the outstanding balance of that loan migrates from loans acquired to legacy loans. Our legacy loan growth from December 31, 2014 to December 31, 2015 included $391 million in balances that migrated from acquired loans during the period. These migrated loan balances are included in the legacy loan balances as of December 31, 2015. Excluding the migrated balances from the growth calculation, our legacy loans have grown at a 41.0% rate during 2015.

We seek to manage our credit risk by diversifying the loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an appropriate allowance for loan losses and regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. We seek to use diversification within the loan portfolio to reduce credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. We use the allowance for loan losses as a method to value the loan portfolio at its estimated collectable amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were $385.7 million at December 31, 2015, or 11.9% of total loans, compared to $288.8 million, or 14.1% of total loans at December 31, 2014. The increase is primarily driven by growth in our consumer installment loans during the last half of 2015. During the second quarter of 2014 we sold substantially our entire student loan portfolio at par, and are now completely out of the student loan business.

The credit card portfolio balance at December 31, 2015, decreased by $8.1 million, or 4.4%, when compared to the same period in 2014. Our credit card portfolio has remained a stable source of lending for several years.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were $2.205 billion at December 31, 2015, or 67.9% of total loans, compared to $1.352 billion, or 65.8% of total loans at December 31, 2014, an increase of $852.7 million, or 63.1%. Our construction and development ("C&D") loans increased by $97.8 million, or 53.73%, single family residential loans increased by $240.6 million, or 52.8%, and commercial real estate ("CRE") loans increased by $514.3 million, or 72.0%. We believe it is important to note that we have no significant concentrations in our real estate loan portfolio mix. Our C&D loans represent 8.6% of our loan portfolio and CRE loans (excluding C&D) represent 37.9% of our loan portfolio, both of which compare very favorably to our peers.

Commercial loans consist of non-real estate loans related to businesses and agricultural loans. Commercial loans were $648.7 million at December 31, 2015, or 20.0% of total loans, compared to the $407.5 million, or 19.8% of total loans at December 31, 2014, an increase of $241.2 million, or 59.2%.

The continued decline in the market price of oil since 2014 has affected banks with high loan exposure to oil and gas companies across the U.S. The negative outlook for a near-term oil price recovery could further worsen the credit quality of such energy loans resulting in an increase in energy related reserves and loan losses. We believe it is important to note that we have no significant concentrations in our loan portfolio of oil and gas industry related companies.

Table 7 reflects the legacy loan portfolio, excluding loans acquired.

Table 7: Loan Portfolio

	Years Ended December 31				
(In thousands)	2015	2014	2013	2012	2011
Consumer					
Credit cards	$177,288	$185,380	$184,935	$185,536	$189,970
Student loans	--	--	25,906	34,145	47,419
Other consumer	208,380	103,402	98,851	105,319	109,211
Total consumer	385,668	288,782	309,692	325,000	346,600
Real Estate					
Construction	279,740	181,968	146,458	138,132	109,825
Single family residential	696,180	455,563	392,285	356,907	355,094
Other commercial	1,229,072	714,797	626,333	568,166	536,372
Total real estate	2,204,992	1,352,328	1,165,076	1,063,205	1,001,291
Commercial					
Commercial	500,116	291,820	164,329	141,336	141,422
Agricultural	148,563	115,658	98,886	93,805	85,728
Total commercial	648,679	407,478	263,215	235,141	227,150
Other	7,115	5,133	4,655	5,167	4,728
Total loans, excluding loans acquired, before allowance for loan losses	$3,246,454	$2,053,721	$1,742,638	$1,628,513	$1,579,769

Loans Acquired

On February 27, 2015, we completed the acquisition of Liberty and issued 5,181,337 shares of the Company’s common stock valued at approximately $212.2 million as of February 27, 2015 in exchange for all outstanding shares of Liberty common stock. Included in the acquisition were loans with a fair value of $780.7 million.

On February 27, 2015, we also completed the acquisition of Community First and issued 6,552,915 shares of the Company’s common stock valued at approximately $268.3 million as of February 27, 2015, plus $9,974 in cash in exchange for all outstanding shares of Community First common stock. We also issued $30.9 million of preferred stock in exchange for all outstanding shares of Community First preferred stock. Included in the acquisition were loans with a fair value of $1.1 billion.

On August 31, 2014, we completed the acquisition of Delta Trust, and issued 1,629,515 shares of the Company's common stock valued at approximately $65.0 million as of August 29, 2014, plus $2.4 million in cash in exchange for all outstanding shares of Delta Trust common stock. Included in the acquisition were loans with a fair value of $311.7 million and foreclosed assets with a fair value of $1.8 million.

On November 25, 2013, we completed the acquisition of Metropolitan, in which the Company purchased all the stock of Metropolitan for $53.6 million in cash. The acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code. Included in the acquisition were loans with a fair value of $457.4 million and foreclosed assets with a fair value of $42.9 million.

On September 30, 2013, we acquired a $9.8 million credit card portfolio for a premium of $1.3 million.

On September 14, 2012, the Company acquired certain assets and assumed substantially all of the deposits and certain other liabilities of Truman in an FDIC-assisted transaction that generated a pre-tax bargain-purchase gain of $1.1 million. On October 19, 2012, the Company acquired certain assets and assumed certain deposits and other liabilities of Excel in an FDIC-assisted transaction that generated a pre-tax purchase gain of $2.3 million. Loans comprise the majority of the assets acquired. The majority of the loans acquired, along with the majority of the foreclosed assets acquired, were subject to loss share agreements with the FDIC whereby Simmons Bank was indemnified against 80% of losses.

On September 15, 2015, we entered into an agreement with the FDIC to terminate all loss share agreements. Under the early termination, all rights and obligations of the Company and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated. As a result, we have reclassified loans previously covered by FDIC loss share to acquired loans not covered and reclassified foreclosed assets previously covered by FDIC loss share to foreclosed assets not covered.

Table 8 reflects the carrying value of all acquired loans:

Table 8: Loans Acquired

	Years Ended December 31				
(In thousands)	2015	2014	2013	2012	2011
Consumer					
Credit cards	$--	$--	$8,116	$--	$--
Other consumer	75,606	8,514	15,242	1,847	23
Total consumer	75,606	8,514	23,358	1,847	23
Real Estate					
Construction	77,119	46,911	29,936	19,172	23,515
Single family residential	501,002	175,970	87,861	90,795	26,825
Other commercial	854,068	390,877	449,285	160,148	102,198
Total real estate	1,432,189	613,758	567,082	270,115	152,538
Commercial					
Commercial	154,533	56,134	71,857	18,950	5,514
Agricultural	10,573	4,507	--	2,694	--
Total commercial	165,106	60,641	71,857	21,644	5,514
Total loans acquired (1)	$1,672,901	$682,913	$662,297	$293,606	$158,075

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(1) Loans acquired are reported net of a $954,000 allowance at December 31, 2015 and 2014.

Approximately $2.0 billion of the loans acquired in the Liberty, Community First, Metropolitan and Delta Trust acquisitions were evaluated and are being accounted for in accordance with ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans.

We evaluated the remaining loans purchased in conjunction with the acquisitions of Liberty, Community First, Metropolitan and Delta Trust for impairment in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Because some loans we evaluated, previously covered by loss share agreements, were determined to have experienced impairment in the estimated credit quality or cash flows during 2014, we recorded a provision to establish a $954,000 allowance for loan losses for covered purchased impaired loans. With the termination of our FDIC loss share agreements, the $954,000 allowance has been reclassified as allowance on acquired loans, not covered by loss share.

Some purchased impaired loans were determined to have experienced additional impairment upon disposition or foreclosure in 2015. During 2015, we recorded $736,000 provision for these loans with a subsequent charge-off, resulting in no increase to the allowance for loan losses for purchased impaired loans at December 31, 2015. See Note 2 and Note 5 of the Notes to Consolidated Financial Statements for further discussion of loans acquired.

Table 9 reflects the remaining maturities and interest rate sensitivity of loans at December 31, 2015.

Table 9: Maturity and Interest Rate Sensitivity of Loans

(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years	Total
Consumer	$87,354	$353,773	$20,147	$461,274
Real estate	898,639	2,048,344	690,197	3,637,180
Commercial	423,482	338,427	51,876	813,785
Other	2,897	3,108	1,111	7,116
Total	$1,412,372	$2,743,652	$763,331	$4,919,355
Predetermined rate	$1,090,454	$2,367,374	$460,503	$3,918,331
Floating rate	321,918	376,278	302,828	1,001,024
Total	$1,412,372	$2,743,652	$763,331	$4,919,355

Asset Quality

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and nonaccrual loans) and certain other loans identified by management that are still performing.

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

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

Total non-performing assets, excluding all loans acquired and foreclosed assets covered by FDIC loss share agreements, increased by $5.9 million from December 31, 2014, to December 31, 2015. Foreclosed assets held for sale (legacy and acquired, not covered) decreased by $36,000. During 2015, $6.1 million of previously closed branch buildings and land was reclassified to OREO from premises held for sale. There was no deterioration or further write-down of these properties. This increase was partially offset by the reduction in other foreclosed assets of $6.0 million. Under ASC Topic 360, there is a one year maximum holding period to classify premises as held for sale. Nonaccrual loans increased by $5.7 million during 2015, primarily CRE loans. We remain aggressive in the identification, quantification and resolution of problem loans.

Total non-performing assets, excluding all loans acquired and foreclosed assets covered by FDIC loss share agreements, decreased by $16.2 million from December 31, 2013, to December 31, 2014. Total non-performing loans increased by $3.8 million from December 31, 2013 to December 31, 2014, while foreclosed assets held for sale, excluding all acquired foreclosed assets, decreased by $19.9 million during the period as we were able to rid ourselves of several significant non-performing assets through liquidation in 2014.

Total non-performing assets, excluding all loans acquired and foreclosed assets covered by FDIC loss share agreements, increased by $28.5 million from December 31, 2012, to December 31, 2013. The increase in non-performing assets is related to the Metropolitan acquisition, in which we acquired $42.9 million in non-covered foreclosed assets. Total non-performing loans decreased by $2.9 million from December 31, 2012 to December 31, 2013, while foreclosed assets held for sale, excluding all acquired foreclosed assets, decreased by $2.2 million during the period.

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

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

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

Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full; or, if an obligation yields a market interest rate and no longer has any concession regarding payment amount or amortization, then it is not considered a TDR at the beginning of the calendar year after the year in which the improvement takes place. Our TDR balance increased to $5.6 million at December 31, 2015, compared to $3.2 million at December 31, 2014 primarily related to two larger CRE loans. The majority of our TDRs are in the CRE portfolio.

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

We continue to maintain good asset quality, compared to the industry. The allowance for loan losses as a percent of total loans was 0.97% as of December 31, 2015. Non-performing loans equaled 0.58% of total loans. Non-performing assets were 0.85% of total assets. The allowance for loan losses was 166% of non-performing loans. Our net charge-offs to total loans for 2015 were 0.24%. Excluding credit cards, the net charge-offs to total loans were 0.16%. Net credit card charge-offs to total credit card loans for 2015 were 1.28%, compared to 1.27% in 2014.

We do not own any securities backed by subprime mortgage assets, and offer no mortgage loan products that target subprime borrowers.

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Table 10 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned (excluding all loans acquired and excluding other real estate covered by FDIC loss share agreements).

Table 10: Non-performing Assets

	Years Ended December 31				
(In thousands, except ratios)	2015	2014	2013	2012	2011
Nonaccrual loans [(1)]	$17,714	$12,038	$6,261	$9,123	$12,907
Loans past due 90 days or more (principal or interest payments):					
Government guaranteed student loans [(2)]	--	--	2,264	2,234	2,483
Other loans	1,191	961	687	681	785
Total loans past due 90 days or more	1,191	961	2,951	2,915	3,268
Total non-performing loans	18,905	12,999	9,212	12,038	16,175
Other non-performing assets:					
Foreclosed assets held for sale	44,820	44,856	64,820	33,352	22,887
Other non-performing assets	211	97	75	221	--
Total other non-performing assets	45,031	44,953	64,895	33,573	22,887
Total non-performing assets	$63,936	$57,952	$74,107	$45,611	$39,062
Performing TDRs	$3,031	$2,233	$9,497	$11,015	$11,391
Allowance for loan losses to non-performing loans	166 %	223 %	298 %	232 %	186 %
Non-performing loans to total loans	0.58	0.63	0.53	0.74	1.02
Non-performing loans to total loans (excluding government guaranteed student loans) [(2)]	0.58	0.63	0.40	0.60	0.87
Non-performing assets to total assets [(3)]	0.85	1.25	1.69	1.29	1.18
Non-performing assets to total assets (excluding government guaranteed student loans) [(2)] [(3)]	0.85	1.25	1.64	1.23	1.10

(1) Includes nonaccrual TDRs of approximately $2.5 million, $1.0 million, $0.7 million, $3.1 million and $5.2 million at December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

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

(3) Excludes all loans acquired and excludes other real estate acquired, covered by FDIC loss share agreements, except for their inclusion in total assets.

There was no interest income on the nonaccrual loans recorded for the years ended December 31, 2015, 2014 and 2013.

At December 31, 2015, impaired loans, net of government guarantees and acquired loans, were $18.2 million compared to $14.7 million at December 31, 2014. On an ongoing basis, management evaluates the underlying collateral on all impaired loans and allocates specific reserves, where appropriate, in order to absorb potential losses if the collateral were ultimately foreclosed.

Allowance for Loan Losses

Overview

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310-10, *Receivables*, and allowance allocations calculated in accordance with ASC Topic 450-20, *Loss Contingencies*. Accordingly, the methodology is based on our internal grading system, specific impairment analysis, qualitative and quantitative factors.

As mentioned above, allocations to the allowance for loan losses are categorized as either specific allocations or general allocations.

Specific Allocations

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loan, including scheduled principal and interest payments. For a collateral dependent loan, our evaluation process includes a valuation by appraisal or other collateral analysis. This valuation is compared to the remaining outstanding principal balance of the loan. If a loss is determined to be probable, the loss is included in the allowance for loan losses as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the difference between the expected and contractual future cash flows of the loan.

General Allocations

The general allocation is calculated monthly based on management's assessment of several factors such as (1) historical loss experience based on volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) concentrations of credit within the loan portfolio, (6) the experience, ability and depth of lending management and staff and (7) other factors and trends that will affect specific loans and categories of loans. We establish general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, we have established a reserve for unfunded commitments, classified in other liabilities. This reserve is maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to our methodology for determining the allowance for loan losses. Net adjustments to the reserve for unfunded commitments are included in other non-interest expense.

An analysis of the allowance for loan losses for the last five years is shown in table 11.

Table 11: Allowance for Loan Losses

(In thousands)	2015	2014	2013	2012	2011
Balance, beginning of year	$29,028	$27,442	$27,882	$30,108	$26,416
Loans charged off					
Credit card	3,107	3,188	3,263	3,516	4,703
Other consumer	1,672	1,638	1,561	1,198	1,890
Real estate	1,580	2,684	1,628	4,095	3,165
Commercial	1,415	1,044	382	543	1,411
Total loans charged off	7,774	8,554	6,834	9,352	11,169
Recoveries of loans previously charged off					
Credit card	890	896	901	858	979
Other consumer	538	470	591	575	604
Real estate	203	1,566	592	1,383	981
Commercial	180	326	192	170	621
Total recoveries	1,811	3,258	2,276	2,986	3,185
Net loans charged off	5,963	5,296	4,558	6,366	7,984
Provision for loan losses (1)	8,286	6,882	4,118	4,140	11,676
Balance, end of year(2)	$31,351	$29,028	$27,442	$27,882	$30,108
Net charge-offs to average loans (3)	0.24 %	0.30 %	0.27 %	0.40 %	0.49 %
Allowance for loan losses to period-end loans (3)	0.97 %	1.41 %	1.57 %	1.71 %	1.91 %
Allowance for loan losses to net charge-offs (3)	525.76%	548.11%	602.06%	438.05%	377.10%

(1) Provision for loan losses of $736,000 attributable to loans acquired, was excluded from this table for 2015 (total year-to-date provision for loan losses is $9,022,000). The $736,000 was subsequently charged-off, resulting in no increase in the allowance related to loans acquired. Provision for loan losses of $363,000 attributable to acquired loans, covered by FDIC loss share, was excluded from this table for the year ended December 31, 2014 (total provision for loan losses for the year ended December 31, 2014 is $7,245,000).

(2) Allowance for loan losses at December 31, 2015 and 2014 includes $954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses at December 31, 2015 and 2014 was $32,305,000 and $29,982,000, respectively.

(3) Excludes all acquired loans.

Provision for Loan Losses

The amount of provision added to the allowance each year was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loss experience. It is management's practice to review the allowance on a monthly basis, and after considering the factors previously noted, to determine the level of provision made to the allowance.

Allowance for Loan Losses Allocation

Prior to the fourth quarter of 2012, we measured the appropriateness of the allowance for loan losses in its entirety using (a)ASC 450-20 which includes quantitative (historical loss rates) and qualitative factors (management adjustment factors) such as (1) lending policies and procedures, (2) economic outlook and business conditions, (3) level and trend in delinquencies, (4) concentrations of credit and (5) external factors and competition; which are combined with the historical loss rates to create the baseline factors that are allocated to the various loan categories; (b) specific allocations on impaired loans in accordance with ASC 310-10; and (c) the unallocated amount.

The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as (1) trends in volume, maturity and composition, (2) national, state and local economic trends and conditions, (3) the experience, ability and depth of lending management and staff and (4) other factors and trends that will affect specific loans and categories of loans, such as a heightened risk in agriculture, credit card and commercial real estate loan portfolios.

As of December 31, 2012, we refined our allowance calculation. As part of the refinement process, we evaluated the criteria previously applied to the entire loan portfolio, and used to calculate the unallocated portion of the allowance, and applied those criteria to each specific loan category. For example, the impact of national, state and local economic trends and conditions was evaluated by and allocated to specific loan categories.

As a result of this refined allowance calculation, the Company allocated (i) $1.8 million previously included as unallocated allowance to its credit card portfolio segment, (ii) $5.3 million previously included as unallocated allowance to its real estate portfolio segment, including (a) $3.2 million to commercial real estate and (b) $2.1 million to 1-4 family real estate and (iii) $1.6 million previously included as unallocated allowance to its commercial portfolio segment, including (a) $1.3 million to agricultural and (b) $0.3 million to other commercial. These allocations totaling $8.7 million were previously included in our unallocated allowance prior to the fourth quarter of 2012.

The Company may also consider additional qualitative factors in future periods for allowance allocations, including, among other factors, (1) seasoning of the loan portfolio, (2) the offering of new loan products, (3) specific industry conditions affecting portfolio segments and (4) the Company’s expansion into new markets. As a result of the refined allowance calculation, the allocation of our allowance may not be comparable with periods prior to December 31, 2012.

The following table sets forth the sum of the amounts of the allowance for loan losses attributable to individual loans within each category, or loan categories in general and, prior to December 31, 2012, the unallocated allowance. As previously discussed, we refined our allowance calculation during 2012 such that we no longer maintain unallocated allowance. The table also reflects the percentage of loans in each category to the total loan portfolio, excluding loans acquired, for each of the periods indicated. These allowance amounts have been computed using the Company’s internal grading system, specific impairment analysis, qualitative and quantitative factor allocations. The amounts shown are not necessarily indicative of the actual future losses that may occur within individual categories.

Table 12: **Allocation of Allowance for Loan Losses**

	December 31														
	2015			2014			2013			2012			2011		
(In thousands)	Allowance Amount	% of loans[(1)]		Allowance Amount	% of loans[(1)]		Allowance Amount	% of loans[(1)]		Allowance Amount	% of loans[(1)]		Allowance Amount	% of loans[(1)]	
Credit cards	$3,893	5.5	%	$5,445	9.1	%	$5,430	10.6	%	$7,211	11.4	%	$5,513	12.0	%
Other consumer	1,853	6.4	%	1,427	5.0	%	1,758	7.2	%	1,574	8.6	%	1,638	9.9	%
Real estate	19,522	67.9	%	15,161	65.9	%	16,885	66.9	%	15,453	65.3	%	10,117	63.4	%
Commercial	5,985	20.0	%	6,962	19.8	%	3,205	15.1	%	3,446	14.4	%	2,063	14.4	%
Other	98	0.2	%	33	0.2	%	164	0.2	%	198	0.3	%	209	0.3	%
Unallocated	--			--			--			--			10,568		

Total (2)	$31,351	100.0%	$29,028	100.0%	$27,442	100.0%	$27,882	100.0%	$30,108	100.0%

(1) Percentage of loans in each category to total loans, excluding loans acquired.

(2) Allowance for loan losses at December 31, 2015 and 2014 includes $954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses at December 31, 2015 and 2014 was $32,305,000 and $29,982,000, respectively.

Investments and Securities

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

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

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

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

Held-to-maturity and available-for-sale investment securities were $705.4 million and $821.4 million, respectively, at December 31, 2015, compared to the held-to-maturity amount of $777.6 million and available-for-sale amount of $305.3 million at December 31, 2014.

As of December 31, 2015, $237.1 million, or 33.6%, of the held-to-maturity securities were invested in obligations of U.S. government agencies, 97.0% of which will mature in less than five years. In the available-for-sale securities, $124.2 million, or 15.1%, were in U.S. Treasury and U.S. government agency securities, 90.5% of which will mature in less than five years.

In order to reduce our income tax burden, $440.1 million, or 62.5%, of the held-to-maturity securities portfolio, as of December 31, 2015, was invested in tax-exempt obligations of state and political subdivisions. In the available-for-sale securities, there was $9.9 million invested in tax-exempt obligations of state and political subdivisions. A significant portion of the state and political subdivision debt obligations are non-rated bonds and represent relatively small Arkansas, Kansas, Illinois, Missouri, Tennessee and Texas issues, which are evaluated on an ongoing basis. There are no securities of any one state or political subdivision issuer exceeding ten percent of our stockholders' equity at December 31, 2015.

We had approximately $24.8 million, or 3.5% of the held-to-maturity portfolio invested in mortgaged-backed securities at December 31, 2015. In the available-for-sale securities, approximately $647.4 million, or 78.8% were invested in mortgaged-backed securities. Investments with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost and are reported as other available for sale securities.

As of December 31, 2015, the held-to-maturity investment portfolio had gross unrealized gains of $9.8 million and gross unrealized losses of $1.8 million.

We had $350,000 of gross realized gains and $43,000 of realized losses from the sale of available for sale securities during the year ended December 31, 2015. We had $199,000 of gross realized gains and $191,000 of realized losses from the sale of available for sale securities during the year ended December 31, 2014. As part of the acquisition strategy related to Truman and Excel, we liquidated the acquired mortgage-backed securities, resulting in $193,000 of net realized losses during 2013.

Trading securities, which include any security held primarily for near-term sale, are carried at fair value. Gains and losses on trading securities are included in other income. Our trading account is established and maintained for the benefit of investment banking. The trading account is typically used to provide inventory for resale and is not used to take advantage of short-term price movements.

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time we expect to receive full value for the securities. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Furthermore, as of December 31, 2015, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2015, management believes the impairments detailed in the table below are temporary.

Table 13 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 13: Investment Securities

	Years Ended December 31							
	2015				2014			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$237,139	$ 582	$ (1,395)	$236,326	$418,914	$ 929	$ (4,055)	$415,788
Mortgage-backed securities	24,774	86	(290)	24,570	29,743	56	(411)	29,388
State and political subdivisions	440,676	9,138	(123)	449,691	328,310	7,000	(573)	334,737
Other securities	2,784	--	--	2,784	620	--	--	620
Total	$705,373	$ 9,806	$ (1,808)	$713,371	$777,587	$ 7,985	$ (5,039)	$780,533
Available-for-Sale								
U.S. Treasury	$4,000	$ --	$ (6)	$3,994	$4,000	$ 1	$ (9)	$3,992
U.S. Government agencies	121,017	118	(898)	120,237	275,381	15	(2,580)	272,816
Mortgage-backed securities	650,619	937	(4,130)	647,426	1,579	--	(7)	1,572

State and political subdivisions	9,762	112	--	9,874	6,536	7	(3)	6,540
Other securities	40,394	420	(938)	39,876	19,985	386	(8)	20,363
Total	$825,792	$ 1,587	$ (5,972)	$821,407	$307,481	$ 409	$ (2,607)	$305,283

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Table 14 reflects the amortized cost and estimated fair value of securities at December 31, 2015, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis, assuming a 39.225% tax rate) of such securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 14: Maturity Distribution of Investment Securities

	December 31, 2015							
(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	No fixed maturity	Total Amortized Cost	Par Value	Fair Value
Held-to-Maturity								
U.S. Government agencies	$8,029	$222,111	$6,999	$--	$--	$237,139	$238,054	$236,326
Mortgage-backed securities	--	--	--	--	24,774	24,774	25,047	24,570
State and political subdivisions	20,710	92,626	120,763	206,577	--	440,676	437,729	449,691
Other securities	--	328	33	2,423	--	2,784	2,824	2,784
Total	$28,739	$315,065	$127,795	$209,000	$24,774	$705,373	$703,654	$713,371
Percentage of total	4.1 %	44.7 %	18.1 %	29.6 %	3.5 %	100.0 %		
Weighted average yield	1.5 %	1.5 %	2.9 %	3.4 %	2.2 %	2.3 %		
Available-for-Sale								
U.S. Government agencies	$22,500	$86,887	$8,700	$2,930	$--	$121,017	$121,280	$120,237
U.S. Government treasury	4,000	--	--	--	--	4,000	4,000	3,994
Mortgage-backed securities	--	--	--	--	650,619	650,619	632,896	647,426
State and political subdivisions	1,631	924	4,774	2,433	--	9,762	9,505	9,874
Other securities	412	1,100	253	--	38,629	40,394	40,257	39,876
Total	$28,543	$88,911	$13,727	$5,363	$689,248	$825,792	$807,938	$821,407
Percentage of total	3.5 %	10.8 %	1.6 %	0.6 %	83.5 %	100.0 %		
	0.5 %	1.3 %	2.4 %	1.2 %	2.2 %	2.0 %		

Weighted average
yield

Deposits

Deposits are our primary source of funding for earning assets and are primarily developed through our network of 149 financial centers. We offer a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. Our core deposits consist of all deposits excluding time deposits of $100,000 or more and brokered deposits. As of December 31, 2015, core deposits comprised 89.7% of our total deposits.

We continually monitor the funding requirements at each subsidiary bank along with competitive interest rates in the markets it serves. Because of our community banking philosophy, subsidiary bank executives in the local markets establish the interest rates offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet the funding requirements. We believe we are paying a competitive rate when compared with pricing in those markets.

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

Our total deposits as of December 31, 2015 were $6.086 billion, an increase of $2.225 billion, or 57.6%, from $3.861 billion at December 31, 2014. The increase in deposits is due primarily to the First State and Liberty Bank acquisitions. We have also continued our strategy to move more volatile time deposits to less expensive, revenue enhancing transaction accounts throughout 2015. Non-interest bearing transaction accounts increased $391.0 million to $1.3 billion at December 31, 2015, compared to $889.3 million at December 31, 2014. Interest bearing transaction and savings accounts were $3.486 billion at December 31, 2015, a $1.5 billion increase compared to $2.006 billion on December 31, 2014. Total time deposits increased approximately $354.8 million to $1.320 billion at December 31, 2015, from $965.2 million at December 31, 2014. In an attempt to utilize some of our excess liquidity, we have priced deposits in a manner to encourage a reduction in non-relationship time deposits. We had $1.4 million and $7.4 million of brokered deposits at December 31, 2015 and 2014, respectively.

Table 15 reflects the classification of the average deposits and the average rate paid on each deposit category which is in excess of 10 percent of average total deposits for the three years ended December 31, 2015.

Table 15: Average Deposit Balances and Rates

	December 31					
	2015		2014		2013	
(In thousands)	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Non-interest bearing transaction accounts	$1,133,951	--	$820,490	--	$588,374	--
Interest bearing transaction and savings deposits	3,304,654	0.24 %	1,886,217	0.16 %	1,490,457	0.17 %
Time deposits						
$100,000 or more	511,105	0.62 %	470,798	0.66 %	372,830	0.72 %
Other time deposits	833,657	0.52 %	570,181	0.51 %	487,083	0.67 %
Total	$5,783,367	0.26 %	$3,747,686	0.24 %	$2,938,744	0.29 %

The Company's maturities of large denomination time deposits at December 31, 2015 and 2014 are presented in table 16.

Table 16: Maturities of Large Denomination Time Deposits

Time Certificates of Deposit
($100,000 or more)
December 31

(In thousands)	2015 Balance	Percent	2014 Balance	Percent
Maturing				
Three months or less	$138,605	22.2 %	$122,008	28.1 %
Over 3 months to 6 months	127,481	20.4 %	76,613	17.6 %
Over 6 months to 12 months	98,506	15.7 %	108,591	25.0 %
Over 12 months	261,163	41.7 %	127,085	29.3 %
Total	$625,755	100.0%	$434,297	100.0%

Fed Funds Purchased and Securities Sold under Agreements to Repurchase

Federal funds purchased and securities sold under agreements to repurchase were $99.4 million at December 31, 2015, as compared to $110.6 million at December 31, 2014.

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

Other Borrowings and Subordinated Debentures

Our total debt was $222.9 million and $135.3 million at December 31, 2015 and 2014, respectively. The outstanding balance for December 31, 2015 includes $40.0 million in FHLB short-term advances.

The outstanding long-term debt balance for December 31, 2015 includes $70.0 million in FHLB long-term advances, $52.3 million in notes payable and $60.6 million of trust preferred securities. The outstanding long-term debt balance for December 31, 2014 includes $71.6 million in FHLB long-term advances, $43.1 million in notes payable and $20.6 million of trust preferred securities.

During October 2015, we borrowed $52.3 million from correspondent banks at a rate of 3.85% with quarterly principal and interest payments. The debt has a 10 year amortization with a 5 year balloon payment due in October 2020. We used $36 million of this borrowing to refinance the debt issued during the fourth quarter of 2013.

The additional increase in debt was a result of our Community First and Liberty acquisitions and the assumption of the debt from those entities.

Aggregate annual maturities of debt at December 31, 2015 are presented in table 17.

Table 17: Maturities of Debt

(In thousands)	Year	Annual Maturities
	2016	$ 65,926
	2017	14,798
	2018	26,016
	2019	7,645
	2020	36,381
	Thereafter	72,093
	Total	$ 222,859

Capital

Overview

At December 31, 2015, total capital reached $1.077 billion. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At December 31, 2015, our common equity to asset ratio was 13.8% compared to 10.6% at year-end 2014. The increase is primarily a result of increased earnings, organic and from the Community First, Liberty and Ozark Trust acquisitions.

Capital Stock

On February 27, 2009, at a special meeting, our shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of preferred stock, $0.01 par value. The aggregate liquidation preference of all shares of preferred stock cannot exceed $80,000,000.

On February 27, 2015, as part of the acquisition of Community First, the Company issued 30,852 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A (“Simmons Series A Preferred Stock”) in exchange for the outstanding shares of Community First Senior Non-Cumulative Perpetual Preferred Stock, Series C (“Community First Series C Preferred Stock”). The preferred stock is held by the United States Department of the Treasury (“Treasury”) as the Community First Series C Preferred Stock was issued when Community First entered into a Small Business Lending Fund Securities Purchase Agreement with the Treasury. The Simmons Series A Preferred Stock qualifies as Tier 1 capital and will pay quarterly dividends. The rate will remain fixed at 1% through February 18, 2016, at which time it will convert to a fixed rate of 9%. On January 29, 2016, the Company redeemed all of the Simmons Series A Preferred Stock, including accrued and unpaid dividends.

On March 4, 2014 the Company filed a shelf registration statement with the Securities and Exchange Commission ("SEC"). Subsequently, on June 18, 2014, we filed Amendment No. 1 to the shelf registration statement. When declared effective, the shelf registration statement will allow us to raise capital from time to time, up to an aggregate of $300 million, through the sale of common stock, preferred stock, stock warrants, stock rights or a combination thereof, subject to market conditions. Specific terms and prices are determined at the time of any offering under a separate prospectus supplement that the Company is required to file with the SEC at the time of the specific offering.

Stock Repurchase

During 2007, the Company approved a stock repurchase program which authorized the repurchase of up to 700,000 shares of common stock. On July 23, 2012, we announced the substantial completion of the existing stock repurchase program and the adoption by our Board of Directors of a new stock repurchase program. The current program authorizes the repurchase of up to 850,000 additional shares of Class A common stock, or approximately 5% of the shares outstanding. 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. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that we intend to repurchase. We may discontinue purchases at any time that management determines additional purchases are not warranted. We intend to use the repurchased shares to satisfy stock option exercises, payment of future stock awards and dividends and general corporate purposes.

We had no stock repurchases during 2014 or 2015.

Cash Dividends

We declared cash dividends on our common stock of $0.92 per share for the twelve months ended December 31, 2015, compared to $0.88 per share for the twelve months ended December 31, 2014. The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all. See Item 5, Market for Registrant's Common Equity and Related Stockholder Matters, for additional information regarding cash dividends.

Parent Company Liquidity

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

Risk-Based Capital

Our subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2015, we meet all capital adequacy requirements to which we are subject.

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

Our risk-based capital ratios at December 31, 2015 and 2014 are presented in table 18 below:

Table 18: Risk-Based Capital

	December 31			
(In thousands, except ratios)	2015	2014		
Tier 1 capital				
Stockholders’ equity	$ 1,076,855	$ 494,319		
Trust preferred securities	60,570	20,000		
Goodwill and other intangible assets	(331,931)	(112,545)		
Unrealized gain on available-for-sale securities, net of income taxes	2,665	1,336		
Total Tier 1 capital	808,159	403,110		
Tier 2 capital				
Qualifying unrealized gain on available-for-sale equity securities	--	2		
Qualifying allowance for loan losses	2008	2007		
(In thousands, except percentages)				
Selling and marketing	$ 82,185	$ 71,489	$ 10,696	15%
As a percentage of revenue	33%	35%		

The increase in selling and marketing expense in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 was primarily due to an increase in compensation and benefits of $8.6 million as a result of an increase in our sales and marketing headcount, which includes additional direct sales, telesales and field support personnel required to service our increased customer base as a result of the NETg acquisition, as well as incremental commissions resulting from increased order intake and billings from our larger base business and from the acquired NETg customer base. In addition, we incurred incremental marketing costs of $1.2 million to support our larger customer base, which includes the expense associated with our efforts to retain customers acquired in the NETg acquisition. The decrease in selling and marketing expense as a percentage of revenue in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 reflects the growth of revenue partially offset by the aforementioned factors.

	NINE MONTHS ENDED OCTOBER 31, 2008		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	2008	2007		
(In thousands, except percentages)				
General and administrative	$ 27,454	$ 25,572	$ 1,882	7%
As a percentage of revenue	11%	13%		

The increase in general and administrative expense in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 was primarily due to an increase of $3.4 million of professional fees primarily related to our share capital reduction initiative aimed at increasing distributable profits in our Irish parent entity as well as a feasibility analysis related to our business realignment strategy. This was partially offset by a reduction in bad debt expense of $0.5 million resulting from improved collection efforts on accounts receivable balances compared to the fiscal 2008 third quarter, as well as a reduction in depreciation of fixed assets of $0.7 million, which was due primarily to certain fixed assets related to the NETg acquisition becoming fully depreciated by the end of fiscal 2008 and lower facility charges of $0.3 million. The decrease in general and administrative expense as a percentage of revenue in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 reflects the growth of revenue partially offset by the aforementioned factors.

Amortization of intangible assets increased $0.5 million, or 7%, to $8.5 million in the nine months ended October 31, 2008 from $8.0 million in the nine months ended October 31, 2007. This was primarily due to the amortization of the intangible assets acquired in the acquisition of NETg being included for the entire nine month period of fiscal 2009 versus less than six months in fiscal 2008, partially offset by certain intangible assets becoming fully amortized since October 31, 2007.

Merger and integration related expenses decreased $10.3 million, or 93%, to $0.8 million in the nine months ended October 31, 2008 from $11.1 in the nine months ended October 31, 2007. This was primarily due to the significant charges in last year’s second and third quarter when the NETg acquisition was consummated, and the near completion of efforts undertaken to integrate NETg’s operations into ours during fiscal 2009.

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In the nine months ended October 31, 2008, we did not incur material SEC investigation expenses as compared to the $1.3 million in the nine months ended October 31, 2007. This is due to a decrease in legal activities related to the SEC's informal inquiry into the pre-merger option granting practices at SmartForce.

	NINE MONTHS ENDED OCTOBER 31, 2008		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	2008	2007		
(In thousands, except percentages)				
Other expense, net	$ (282)	$ (1,026)	$ (744)	(73)%
As a percentage of revenue	(0)%	(1)%		
Interest income	1,440	2,990	(1,550)	(52)%
As a percentage of revenue	1%	1%		
Interest expense	(10,116)	(7,741)	2,375	31%
As a percentage of revenue	(4)%	(4)%		

Other Expense, Net

The change in other expense, net in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 was primarily due to foreign currency fluctuations. Due to our multi-national operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies used in our business.

Interest Income

The reduction of interest income in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 was primarily due to a reduction in our short-term investments and lower interest rates.

Interest Expense

The increase in interest expense in the nine months ended October 31, 2008 versus the nine months ended October 31, 2007 was primarily due to the interest expense on the debt incurred for the acquisition of NETg being incurred for the full nine months through October 31, 2008 versus only six months through October 31, 2007. This was partially offset by $55.3 million in prepayments made during fiscal 2009 to reduce debt.

Provision for Income Taxes

	NINE MONTHS ENDED OCTOBER 31, 2008		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	2008	2007		
(In thousands, except percentages)				
Provision (benefit) for income taxes	$ 18,790	$ (7,886)	$ 26,676	(338)%
As a percentage of revenue	8%	(4)%		

For the nine months ended October 31, 2008, the effective tax rate of 38.5% was higher than the Irish statutory rate of 12.5% primarily due to earnings realized in higher tax jurisdictions outside of Ireland. For the nine month period ended October 31, 2007, the $8.2 million tax benefit was comprised of a $25 million deferred tax benefit related to the reduction in our deferred tax asset valuation allowance, which was partially offset by the effects of certain purchase accounting tax adjustments related to the NETg acquisition.

Discontinued Operations

Income from discontinued operations was $1.9 million in the nine months ended October 31, 2008 versus $0.2 million during the nine months ended October 31, 2007. This increase was primarily due to the acquirer of our former NETg Press business prepaying the remaining portion of the purchase price for the NETg Press business during the nine months ended October 31, 2008, which resulted in a gain from the disposal of $2.0 million, net of income tax.

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LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2008, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled $73.6 million. This compares to $89.6 million at January 31, 2008.

Net cash provided by operating activities of $75.4 million for the nine months ended October 31, 2008 was primarily due to a decrease in accounts receivable of $92.8 million. Net cash provided by operating activities was also a result of net income from continuing operations of $30.0 million, which included the impact of non-cash expenses for depreciation and amortization and amortization of intangible assets of $17.6 million, non-cash provision for income taxes of $15.7 million and share-based compensation expense of $4.5 million. These amounts were partially offset by a decrease in accrued expenses of $23.4 million as well as a decrease in deferred revenue of $68.6 million. These decreases in accounts receivable, accrued expenses and deferred revenue are primarily a result of the seasonality of our operations, with the fourth quarter of our fiscal year historically generating the most activity, including order intake and billing.

Net cash provided by investing activities was $0.7 million for the nine months ended October 31, 2008, which includes the maturities of investments, net of purchases, generating a cash inflow of approximately $4.8 million. This was partially offset by the purchases of capital assets of approximately $4.1 million.

Net cash used in financing activities was $91.1 million for the nine months ended October 31, 2008. During this period, we made principal payments on our debt of $55.3 million and purchased shares having a value of $56.5 million under our shareholder-approved share repurchase program. These uses of cash were partially offset by proceeds of $19.5 million received from the exercise of share options under our various share option programs and share purchases made under our 2004 Employee Share Purchase Plan.

Cash provided from discontinued operations for the nine months ended October 31, 2008 included the gross proceeds of $6.9 million from the sale of NETg Press.

We had working capital of approximately $6.0 million as of October 31, 2008 and approximately $30.4 million as of January 31, 2008. The decrease in working capital was primarily due to principal debt payments of $55.3 million and the purchase of treasury shares having a value of $56.5 million under our shareholder-approved share repurchase program. This was partially offset by net income from continuing operations of $30.0 million, which includes non-cash charges for depreciation and amortization of $17.6 million, share-based compensation expense of $4.5 million and a non-cash tax charge of $15.7 million. Additionally, we received proceeds of $19.5 million from the exercise of share options under our various share option programs and from share purchases made under our 2004 Employee Share Purchase Plan.

As of January 31, 2008, we had U.S. NOL carryforwards of approximately $258.3 million. These NOLs represent the gross carrying value of operating loss carryforwards. The NOL carryforwards, which are subject to potential limitations based upon change in control provisions of Section 382 of the Internal Revenue Code, are available to reduce future taxable income, if any, through 2025. Included in the $258.3 million of U.S. NOL carryforwards is approximately $121.3 million of U.S. NOL carryforwards that were acquired in the SmartForce Merger and the purchase of Book 24x7. Also included in the $258.3 million at January 31, 2008 is approximately $36.3 million of NOL carryforwards in the United States resulting from disqualifying dispositions. We will realize the benefit of these losses through increases to shareholder’s equity in the periods in which the losses are utilized to reduce tax payments. Additionally, we had approximately $193.0 million of NOL carryforwards in jurisdictions outside of the U.S. Included in the $193.0 million is approximately $142.2 million of NOL carryforwards, which were acquired in the SmartForce

Merger, the purchase of Books24x7 and the purchase of NETg foreign entities. We will realize the benefits of these acquired NOL carryforwards through reductions to goodwill and non-goodwill intangible assets during the period that the losses are utilized. We also had U.S. federal tax credit carryforwards of approximately $2.5 million at January 31, 2008.

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We lease certain of our facilities and certain equipment and furniture under operating lease agreements that expire at various dates through 2023. In addition, we have a term loan which will be paid out over the next 5 years. Future minimum lease payments, net of estimated sub-rentals, under these agreements and the debt repayments schedule are as follows (in thousands):

		Payments Due By Period			
Contractual Obligations	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating Lease Obligations	$ 13,185	$ 4,442	$ 5,504	$ 3,239	$ -
Debt Obligations	143,697	1,455	2,910	139,332	-
Total Obligations	$ 156,882	$ 5,897	$ 8,414	$ 142,571	$ -

We do not have any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating transactions that are not required to be reflected on our balance sheet.

In May 2007, we entered into a credit agreement with certain lenders providing for a $225.0 million senior credit facility comprised of a $200 million term loan facility and a $25.0 million revolving credit facility. On July 7, 2008, we entered into an amendment to the credit agreement. The primary purpose of the amendment was to expand our ability to make additional repurchases of shares. The expanded repurchase ability under the amendment is conditioned on the absence of an event of default and a requirement that (i) the leverage ratio shall be no greater than 2.75:1.0 as of the most recently completed fiscal quarter ending prior to the date of such repurchase and (ii) that we make a prepayment of the term loan under the credit agreement in an amount equal to the dollar amount of any such repurchase. Such term loan prepayments will not, however, be required in connection with the first $24.0 million of repurchases made from and after July 7, 2008.

Please see Note 10 of The Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K as filed with the SEC on March 31, 2008 and our 8-K filed July 11, 2008, for a detailed description of the credit agreement, as amended.

We will continue to invest in research and development and sales and marketing in order to execute our business plan and achieve expected revenue growth. To the extent that our execution of the business plan results in increased sales, we expect to experience corresponding increases in deferred revenue, cash flow and prepaid expenses. Capital expenditures for the fiscal year ended January 31, 2009 are expected to be approximately $5.0 million to $7.0 million.

We expect that the principal sources of funding for our operating expenses, capital expenditures, debt payment obligations and other liquidity needs will be a combination of our available cash and cash equivalents and short-term investments, and funds generated from future cash flows from operating activities. We believe our current funds and expected cash flows from operating activities will be sufficient to fund our operations, including our debt repayment obligations, for at least the next 12 months. However, there are several items that may negatively impact our available sources of funds. In addition, our cash needs may increase due to factors such as unanticipated developments in our business or the marketplace for our products in general or significant acquisitions (in addition to and including NETg). The amount of cash generated from operations will be dependent upon the successful execution of our business plan. Although we do not foresee the need to raise additional capital, any unanticipated economic or business events could require us to raise additional capital to support our operations.

EXPLANATION OF USE OF NON-GAAP FINANCIAL RESULTS

In addition to our audited and unaudited financial results in accordance with United States generally accepted accounting principles (GAAP), to assist investors we may on occasion provide certain non-GAAP financial results as an alternative means to explain our periodic results. The non-GAAP financial results typically exclude non-cash or one-time charges or benefits.

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Our management uses the non-GAAP financial results internally as an alternative means for assessing our results of operations. By excluding non-cash charges such as share-based compensation, amortization of purchased intangible assets, impairment of goodwill and purchased intangible assets, management can evaluate our operations excluding these non-cash charges and can compare its results on a more consistent basis to the results of other companies in our industry. By excluding charges such as restructuring charges (benefits) and merger and integration related expenses, our management can compare our ongoing operations to prior quarters where such items may be materially different and to ongoing operations of other companies in our industry who may have materially different unusual charges. Our management recognizes that non-GAAP financial results are not a substitute for GAAP results, but believes that non-GAAP measures are helpful in assisting them in understanding and managing our business.

Our management believes that the non-GAAP financial results may also provide useful information to investors. Non-GAAP results may also allow investors and analysts to more readily compare our operations to prior financial results and to the financial results of other companies in the industry who similarly provide non-GAAP results to investors and analysts. Investors may seek to evaluate our business performance and the performance of our competitors as they relate to cash. Excluding one-time and non-cash charges may assist investors in this evaluation and comparisons.

In addition, certain covenants in our credit agreement are based on non-GAAP financial measures, such as adjusted EBITDA, and evaluating and presenting these measures allows us and our investors to assess our compliance with the covenants in our credit agreement and thus our liquidity situation.

We intend to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules and regulations.

ITEM 3. — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of October 31, 2008, we did not use derivative financial instruments for speculative or trading purposes.

INTEREST RATE RISK

Our general investing policy is to limit the risk of principal loss and to ensure the safety of invested funds by limiting market and credit risk. We currently use a registered investment manager to place our investments in highly liquid money market accounts and government-backed securities. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Interest income is sensitive to changes in the general level of U.S. interest rates. Based on the short-term nature of our investments, we have concluded that there is no significant market risk exposure.

In order to limit our exposure to interest rate changes associated with our term loan, we entered into an interest rate swap agreement with an initial notional amount of $160 million which amortizes over a period consistent with our anticipated payment schedule. This strategy uses an interest rate swap to effectively convert $160 million in variable rate borrowings into fixed rate liabilities at a 5.1015% effective interest rate. The interest rate swap is considered to be a hedge against changes in the amount of future cash flows associated with interest payments on a variable rate loan.

FOREIGN CURRENCY RISK

Due to our multi-national operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues or pay expenses and the U.S. dollar. Our expenses are not necessarily incurred in the currency in which revenue is generated, and, as a result, we are required from time to time to convert currencies to meet our obligations. These currency conversions are subject to exchange rate fluctuations, in particular with respect to changes in the value of the Euro, Canadian dollar, Australian dollar, New Zealand dollar, Singapore dollar, and pound sterling relative to the U.S. dollar, which could adversely affect our business and our results of operations. During the nine months ended October 31, 2008 and 2007, we incurred a foreign currency exchange gain of $0.3 million and a foreign currency exchange loss of $0.5 million, respectively.

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ITEM 4. — CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2008. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of October 31, 2008, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended October 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. — LEGAL PROCEEDINGS

See Part I Item 3 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2008 for a discussion of legal proceedings. There were no material developments in these proceedings during the quarter ended October 31, 2008.

ITEM 1A. – RISK FACTORS

Investors should carefully consider the risks described below before making an investment decision with respect to our shares. While the following risk factors have been updated to reflect developments subsequent to the filing of our Annual Report on Form 10-K for the fiscal year ended January 31, 2008, there have been no material changes to the risk factors included in that report.

RISKS RELATED TO THE OPERATION OF OUR BUSINESS

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY, LIMITING YOUR ABILITY TO EVALUATE HISTORICAL FINANCIAL RESULTS AND INCREASING THE LIKELIHOOD THAT OUR RESULTS WILL FALL BELOW MARKET ANALYSTS’ EXPECTATIONS, WHICH COULD CAUSE THE PRICE OF OUR ADSs TO DROP RAPIDLY AND SEVERELY.

We have in the past experienced fluctuations in our quarterly operating results, and we anticipate that these fluctuations will continue. As a result, we believe that our quarterly revenue, expenses and operating results are likely to vary significantly in the future. If in some future quarters our results of operations are below the expectations of public market analysts and investors, this could have a severe adverse effect on the market price of our ADSs.

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Our operating results have historically fluctuated, and our operating results may in the future continue to fluctuate, as a result of factors, which include, without limitation:

- the size and timing of new/renewal agreements and upgrades;
- royalty rates;
- the announcement, introduction and acceptance of new products, product enhancements and technologies by us and our competitors;
- the mix of sales between our field sales force, our other direct sales channels and our telesales channels;
- general conditions in the U.S. or the international economy;
- the loss of significant customers;
- delays in availability of new products;
- product or service quality problems;
- seasonality — due to the budget and purchasing cycles of our customers, we expect our revenue and operating results will generally be strongest in the second half of our fiscal year and weakest in the first half of our fiscal year;
- the spending patterns of our customers;
- litigation costs and expenses;
- non-recurring charges related to acquisitions;
- growing competition that may result in price reductions; and
- currency fluctuations.

Most of our expenses, such as rent and most employee compensation, do not vary directly with revenue and are difficult to adjust in the short-term. As a result, if revenue for a particular quarter is below our expectations, we could not proportionately reduce operating expenses for that quarter. Any such revenue shortfall would, therefore, have a disproportionate effect on our expected operating results for that quarter.

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PAST AND FUTURE ACQUISITIONS, INCLUDING OUR ACQUISITION OF NETG, MAY NOT PRODUCE THE BENEFITS WE ANTICIPATE AND COULD HARM OUR CURRENT OPERATIONS.

One aspect of our business strategy is to pursue acquisitions of businesses or technologies that will contribute to our future growth. On May 14, 2007, we acquired NETg from The Thomson Corporation. However, we may not be successful in identifying or consummating future attractive acquisition opportunities. Moreover, any acquisitions we do consummate, may not produce benefits commensurate with the purchase price we pay or our expectations for the acquisition. In addition, acquisitions involve numerous risks, including:

- difficulties in integrating the technologies, operations, financial controls and personnel of the acquired company;
- difficulties in retaining or transitioning customers and employees of the acquired company;
- diversion of management time and focus;
- incurrence of unanticipated expenses associated with the acquisition or the assumption of unknown liabilities or unanticipated financial, accounting or other problems of the acquired company; and
- accounting charges related to the acquisition, including restructuring charges, write-offs of in-process research and development costs, and subsequent impairment charges relating to goodwill or other intangible assets acquired in the transaction.

DEMAND FOR OUR PRODUCTS AND SERVICES MAY BE ESPECIALLY SUSCEPTIBLE TO ADVERSE ECONOMIC CONDITIONS.

Our business and financial performance may be damaged by adverse financial conditions affecting our target customers or by a general weakening of the economy. Companies may not view training products and services as critical to the success of their businesses. If these companies experience disappointing operating results, whether as a result of adverse economic conditions, competitive issues or other factors, they may decrease or forego education and training expenditures before limiting their other expenditures or in conjunction with lowering other expenses.

INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES, WHICH MAY RESULT IN REDUCED REVENUE AND GROSS PROFITS AND LOSS OF MARKET SHARE.

The market for corporate education and training solutions is highly fragmented and competitive. We expect the market to become increasingly competitive due to the lack of significant barriers to entry. In addition to increased competition from new companies entering into the market, established companies are entering into the market through acquisitions of smaller companies, which directly compete with us, and this trend is expected to continue. We may also face competition from publishing companies, vendors of application software and human resource outsourcers, including those vendors with whom we have formed development and marketing alliances.

Our primary sources of direct competition are:

- third-party suppliers of instructor-led information technology, business, management and professional skills education and training;
- technology companies that offer learning courses covering their own technology products;

- suppliers of computer-based training and e-learning solutions;
- internal education, training departments and HR outsourcers of potential customers; and
- value-added resellers and network integrators.

Growing competition may result in price reductions, reduced revenue and gross profits and loss of market share, any one of which would have a material adverse effect on our business. Many of our current and potential competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater name recognition, and we expect to face increasing pricing pressure from competitors as managers demand more value for their training budgets. Accordingly, we may be unable to provide e-learning solutions that compare favorably with new instructor-led techniques, other interactive training software or new e-learning solutions.

WE RELY ON A LIMITED NUMBER OF THIRD PARTIES TO PROVIDE US WITH EDUCATIONAL CONTENT FOR OUR COURSES AND REFERENCEWARE, AND OUR ALLIANCES WITH THESE THIRD PARTIES MAY BE TERMINATED OR FAIL TO MEET OUR REQUIREMENTS.

We rely on a limited number of independent third parties to provide us with the educational content for a majority of our courses based on learning objectives and specific instructional design templates that we provide to them. We do not have exclusive arrangements or long-term contracts with any of these content providers. If one or more of our third party content providers were to stop working with us, we would have to rely on other parties to develop our course content. In addition, these providers may fail to develop new courses or existing courses on a timely basis. We cannot predict whether new content or enhancements would be available from reliable alternative sources on reasonable terms. In addition, our subsidiary, Books24x7 relies on third party publishers to provide all of the content incorporated into its Referenceware products. If one or more of these publishers were to terminate their license with us, we may not be able to find substitute publishers for such content. In addition, we may be forced to pay increased royalties to these publishers to continue our licenses with them.

In the event that we are unable to maintain or expand our current development alliances or enter into new development alliances, our operating results and financial condition could be materially adversely affected. Furthermore, we will be required to pay royalties to some of our development partners on products developed with them, which could reduce our gross margins. We expect that cost of revenues may fluctuate from period to period in the future based upon many factors, including the revenue mix and the timing of expenses associated with development alliances. In addition, the collaborative nature of the development process under these alliances may result in longer development times and less control over the timing of product introductions than for e-learning offerings developed solely by us. Our strategic alliance partners may from time to time renegotiate the terms of their agreements with us, which could result in changes to the royalty or other arrangements, adversely affecting our results of operations.

The independent third party strategic partners we rely on for educational content and product marketing may compete with us, harming our results of operations. Our agreements with these third parties generally do not restrict them from developing courses on similar topics for our competitors or from competing directly with us. As a result, our competitors may be able to duplicate some of our course content and gain a competitive advantage.

OUR SUCCESS DEPENDS ON OUR ABILITY TO MEET THE NEEDS OF THE RAPIDLY CHANGING MARKET.

The market for education and training software is characterized by rapidly changing technology, evolving industry standards, changes in customer requirements and preferences and frequent introductions of new products and services embodying new technologies. New methods of providing interactive education in a technology-based format are being developed and offered in the marketplace, including intranet and Internet offerings. In addition, multimedia and other product functionality features are being added to educational software. Our future success will depend upon the extent to which we are able to develop and implement products which address these emerging market requirements on a cost effective and timely basis. Product development is risky because it is difficult to foresee developments in technology coordinate technical personnel and identify and eliminate design flaws. Any significant delay in releasing new products could have a material adverse effect on the ultimate success of our products and could reduce sales of predecessor products. We may not be successful in introducing new products on a timely basis. In addition, new products introduced by us may fail to achieve a significant degree of market acceptance or, once accepted, may fail to sustain viability in the market for any significant period. If we are unsuccessful in addressing the changing needs of the marketplace due to resource, technological or other constraints, or in anticipating and responding adequately to changes in customers’ software technology and preferences, our business and results of operations would be materially adversely affected. We, along with the rest of the industry, face a challenging and competitive market for IT spending that has resulted in reduced contract value for our formal learning product lines. This pricing pressure has a negative impact on revenue for these product lines and may have a continued or increased adverse impact in the future.

THE E-LEARNING MARKET IS A DEVELOPING MARKET, AND OUR BUSINESS WILL SUFFER IF E-LEARNING IS NOT WIDELY ACCEPTED.

The market for e-learning is a new and emerging market. Corporate training and education have historically been conducted primarily through classroom instruction and have traditionally been performed by a company's internal personnel. Many companies have invested heavily in their current training solutions. Although technology-based training applications have been available for several years, they currently account for only a small portion of the overall training market.

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Accordingly, our future success will depend upon the extent to which companies adopt technology-based solutions for their training activities, and the extent to which companies utilize the services or purchase products of third-party providers. Many companies that have already invested substantial resources in traditional methods of corporate training may be reluctant to adopt a new strategy that may compete with their existing investments. Even if companies implement technology-based training or e-learning solutions, they may still choose to design, develop, deliver or manage all or part of their education and training internally. If technology-based learning does not become widespread, or if companies do not use the products and services of third parties to develop, deliver or manage their training needs, then our products and service may not achieve commercial success.

NEW PRODUCTS INTRODUCED BY US MAY NOT BE SUCCESSFUL.

An important part of our growth strategy is the development and introduction of new products that open up new revenue streams for us. Despite our efforts, we cannot assure you that we will be successful in developing and introducing new products, or that any new products we do introduce will meet with commercial acceptance. The failure to successfully introduce new products will not only hamper our growth prospects but may also adversely impact our net income due to the development and marketing expenses associated with those new products.

THE SUCCESS OF OUR E-LEARNING STRATEGY DEPENDS ON THE RELIABILITY AND CONSISTENT PERFORMANCE OF OUR INFORMATION SYSTEMS AND INTERNET INFRASTRUCTURE.

The success of our e-learning strategy is highly dependent on the consistent performance of our information systems and Internet infrastructure. If our Web site fails for any reason or if it experiences any unscheduled downtimes, even for only a short period, our business and reputation could be materially harmed. We have in the past experienced performance problems and unscheduled downtime, and these problems could recur. We currently rely on third parties for proper functioning of computer infrastructure, delivery of our e-learning applications and the performance of our destination site. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquake, financial patterns of hosting providers and similar events. Any system failures could adversely affect customer usage of our solutions and user traffic results in any future quarters, which could adversely affect our revenue and operating results and harm our reputation with corporate customers, subscribers and commerce partners. Accordingly, the satisfactory performance, reliability and availability of our Web site and computer infrastructure are critical to our reputation and ability to attract and retain corporate customers, subscribers and commerce partners. We cannot accurately project the rate or timing of any increases in traffic to our Web site and, therefore, the integration and timing of any upgrades or enhancements required to facilitate any significant traffic increase to the Web site are uncertain. We have in the past experienced difficulties in upgrading our Web site infrastructure to handle increased traffic, and these difficulties could recur. The failure to expand and upgrade our Web site or any system error, failure or extended down time could materially harm our business, reputation, financial condition or results of operations.

BECAUSE MANY USERS OF OUR E-LEARNING SOLUTIONS WILL ACCESS THEM OVER THE INTERNET, FACTORS ADVERSELY AFFECTING THE USE OF THE INTERNET OR OUR CUSTOMERS' NETWORKING INFRASTRUCTURES COULD HARM OUR BUSINESS.

Many of our customer's users access our e-learning solutions over the Internet or through our customers' internal networks. Any factors that adversely affect Internet usage could disrupt the ability of those users to access our e-learning solutions, which would adversely affect customer satisfaction and therefore our business.

For example, our ability to increase the effectiveness and scope of our services to customers is ultimately limited by the speed and reliability of both the Internet and our customers' internal networks. Consequently, the emergence and growth of the market for our products and services depends upon the improvements being made to the entire Internet as well as to our individual customers' networking infrastructures to alleviate overloading and congestion. If these improvements are not made, and the quality of networks degrades, the ability of our customers to use our products and services will be hindered and our revenue may suffer.

Additionally, a requirement for the continued growth of accessing e-learning solutions over the Internet is the secure transmission of confidential information over public networks. Failure to prevent security breaches into our products or our customers' networks, or well-publicized security breaches affecting the Internet in general could significantly harm our growth and revenue. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise of technology we use to protect content and transactions, our products or our customers' proprietary information in our databases. Anyone who is able to circumvent our security measures could misappropriate proprietary and confidential information or could cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to address problems caused by security breaches. The privacy of users may also deter people from using the Internet to conduct transactions that involve transmitting confidential information.

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WE DEPEND ON A FEW KEY PERSONNEL TO MANAGE AND OPERATE THE BUSINESS AND MUST BE ABLE TO ATTRACT AND RETAIN HIGHLY QUALIFIED EMPLOYEES.

Our success is largely dependent on the personal efforts and abilities of our senior management. Failure to retain these executives, or the loss of certain additional senior management personnel or other key employees, could have a material adverse effect on our business and future prospects. We are also dependent on the continued service of our key sales, content development and operational personnel and on our ability to attract, train, motivate and retain highly qualified employees. In addition, we depend on writers, programmers, Web designers and graphic artists. We may be unsuccessful in attracting, training, retaining or motivating key personnel. The inability to hire, train and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our business, new product development efforts and future business prospects.

OUR BUSINESS IS SUBJECT TO CURRENCY FLUCTUATIONS THAT COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Due to our multinational operations, our operating results are subject to fluctuations based upon changes in the exchange rates between the currencies in which revenue is collected or expenses are paid. In particular, the value of the U.S. dollar against the Euro, pound sterling, Canadian dollar, Australian dollar, New Zealand dollar, Singapore dollar and related currencies will impact our operating results. Our expenses will not necessarily be incurred in the currency in which revenue is generated, and, as a result, we will be required from time to time to convert currencies to meet our obligations. These currency conversions are subject to exchange rate fluctuations, and changes to the value of these currencies and other currencies relative to the U.S. dollar could adversely affect our business and results of operations.

WE MAY BE UNABLE TO PROTECT OUR PROPRIETARY RIGHTS. UNAUTHORIZED USE OF OUR INTELLECTUAL PROPERTY MAY RESULT IN DEVELOPMENT OF PRODUCTS OR SERVICES THAT COMPETE WITH OURS.

Our success depends to a degree upon the protection of our rights in intellectual property. We rely upon a combination of patent, copyright, and trademark laws to protect our proprietary rights. We have also entered into, and will continue to enter into, confidentiality agreements with our employees, consultants and third parties to seek to limit and protect the distribution of confidential information. However, we have not signed protective agreements in every case.

Although we have taken steps to protect our proprietary rights, these steps may be inadequate. Existing patent, copyright, and trademark laws offer only limited protection. Moreover, the laws of other countries in which we market our products may afford little or no effective protection of our intellectual property. Additionally, unauthorized parties may copy aspects of our products, services or technology or obtain and use information that we regard as proprietary. Other parties may also breach protective contracts we have executed or will in the future execute. We may not become aware of, or have adequate remedies in the event of, a breach. Litigation may be necessary in the future to enforce or to determine the validity and scope of our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Even if we were to prevail, such litigation could result in substantial costs and diversion of management and technical resources.

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OUR WORLDWIDE OPERATIONS ARE SUBJECT TO RISKS WHICH COULD NEGATIVELY IMPACT OUR FUTURE OPERATING RESULTS.

We expect that international operations will continue to account for a significant portion of our revenues and are subject to inherent risks, including:

- difficulties or delays in developing and supporting non-English language versions of our products and services;
- political and economic conditions in various jurisdictions;
- difficulties in staffing and managing foreign subsidiary operations;
- longer sales cycles and account receivable payment cycles;
- multiple, conflicting and changing governmental laws and regulations;
- foreign currency exchange rate fluctuations;
- protectionist laws and business practices that may favor local competitors;
- difficulties in finding and managing local resellers;
- potential adverse tax consequences; and
- the absence or significant lack of legal protection for intellectual property rights.

Any of these factors could have a material adverse effect on our future operations outside of the United States, which could negatively impact our future operating results.

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OUR SALES CYCLE MAY MAKE IT DIFFICULT TO PREDICT OUR OPERATING RESULTS.

The period between our initial contact with a potential customer and the purchase of our products by that customer typically ranges from three to twelve months or more. Factors that contribute to our long sales cycle include:

- our need to educate potential customers about the benefits of our products;
- competitive evaluations by customers;
- the customers' internal budgeting and approval processes;
- the fact that many customers view training products as discretionary spending, rather than purchases essential to their business; and
- the fact that we target large companies, which often take longer to make purchasing decisions due to the size and complexity of the enterprise.

These long sales cycles make it difficult to predict the quarter in which sales may occur. Delays in sales could cause significant variability in our revenue and operating results for any particular period.

OUR BUSINESS COULD BE ADVERSELY AFFECTED IF OUR PRODUCTS CONTAIN ERRORS.

Software products as complex as ours contain known and undetected errors or "bugs" that result in product failures. The existence of bugs could result in loss of or delay in revenue, loss of market share, diversion of product development resources, injury to reputation or damage to efforts to build brand awareness, any of which could have a material adverse effect on our business, operating results and financial condition.

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RISKS RELATED TO LEGAL PROCEEDINGS

WE ARE THE SUBJECT OF AN INVESTIGATION BY THE SEC.

The Boston District Office of the States Securities and Exchange Commission (“SEC”) informed us in January 2007 that we are the subject of an informal investigation concerning option granting practices at SmartForce for the period beginning April 12, 1996 through July 12, 2002. These grants were made prior to the September 6, 2002 merger of SkillSoft Corporation and SmartForce PLC. We have produced documents in response to requests from the SEC.

We have cooperated with the SEC in this matter. At the present time, we are unable to predict the outcome of this matter or its potential impact on our operating results or financial position. However, we may incur substantial costs in connection with the SEC option granting practices investigation, and this investigation could cause a diversion of management time and attention. In addition, we could be subject to penalties, fines or regulatory sanctions or claims by our former officers, directors or employees for indemnification of costs they may incur in connection with the SEC investigation. Any or all of those issues could adversely affect our business, operating results and financial position.

CLAIMS THAT WE INFRINGE UPON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS COULD RESULT IN COSTLY LITIGATION OR ROYALTY PAYMENTS TO THIRD PARTIES, OR REQUIRE US TO REENGINEER OR CEASE SALES OF OUR PRODUCTS OR SERVICES.

Third parties have in the past and could in the future claim that our current or future products infringe their intellectual property rights. Any claim, with or without merit, could result in costly litigation or require us to reengineer or cease sales of our products or services, any of which could have a material adverse effect on our business. Infringement claims could also result in an injunction barring the sale of our products or require us to enter into royalty or licensing agreements. Licensing agreements, if required, may not be available on terms acceptable to the combined company or at all.

From time to time we learn of parties that claim broad intellectual property rights in the e-learning area that might implicate our offerings. These parties or others could initiate actions against us in the future.

WE COULD INCUR SUBSTANTIAL COSTS RESULTING FROM PRODUCT LIABILITY CLAIMS RELATING TO OUR CUSTOMERS’ USE OF OUR PRODUCTS AND SERVICES.

Many of the business interactions supported by our products and services are critical to our customers’ businesses. Any failure in a customer’s business interaction or other collaborative activity caused or allegedly caused in the future by our products and services could result in a claim for substantial damages against us, regardless of our responsibility for the failure. Although we maintain general liability insurance, including coverage for errors and omissions, there can be no assurance that existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim.

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WE COULD BE SUBJECTED TO LEGAL ACTIONS BASED UPON THE CONTENT WE OBTAIN FROM THIRD PARTIES OVER WHOM WE EXERT LIMITED CONTROL.

It is possible that we could become subject to legal actions based upon claims that our course content infringes the rights of others or is erroneous. Any such claims, with or without merit, could subject us to costly litigation and the diversion of our financial resources and management personnel. The risk of such claims is exacerbated by the fact that our course content is provided by third parties over whom we exert limited control. Further, if those claims are successful, we may be required to alter the content, pay financial damages or obtain content from others.

SOME OF OUR INTERNATIONAL SUBSIDIARIES HAVE NOT COMPLIED WITH REGULATORY REQUIREMENTS RELATING TO THEIR FINANCIAL STATEMENTS AND TAX RETURNS.

We operate our business in various foreign countries through subsidiaries organized in those countries. Due to our restatement of the historical SmartForce financial statements, some of our subsidiaries have not filed their audited statutory financial statements and have been delayed in filing their tax returns in their respective jurisdictions. As a result, some of these foreign subsidiaries may be subject to regulatory restrictions, penalties and fines and additional taxes.

RISKS RELATED TO OUR ADSs

THE MARKET PRICE OF OUR ADSs MAY FLUCTUATE AND MAY NOT BE SUSTAINABLE.

The market price of our ADSs has fluctuated significantly since our initial public offering and is likely to continue to be volatile. In addition, in recent years the stock market in general, and the market for shares of technology stocks in particular, have experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of our ADSs may continue to experience significant fluctuations in the future, including fluctuations that are unrelated to our performance. As a result of these fluctuations in the price of our ADSs, it is difficult to predict what the price of our ADSs will be at any point in the future, and you may not be able to sell your ADSs at or above the price that you paid for them.

SALES OF LARGE BLOCKS OF OUR ADSs COULD CAUSE THE MARKET PRICE OF OUR ADSs TO DROP SIGNIFICANTLY, EVEN IF OUR BUSINESS IS DOING WELL.

Some shareholders own 5% or more of our outstanding shares. We cannot predict the effect, if any, that public sales of these shares will have on the market price of our ADSs. If our significant shareholders, or our directors and officers, sell substantial amounts of our ADSs in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our ADSs, even if there is no relationship between such sales and the performance of our business.

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ITEM 2. — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On April 8, 2008, our shareholders approved the repurchase of up to 10,000,000 of our ADSs. On September 24, 2008 our shareholders approved an increase in the number of shares that may be repurchased to 25,000,000. Under the approved share purchase program, we entered into a share purchase agreement, pursuant to which we and certain of our subsidiaries are entitled to purchase our ADSs. ADSs that are repurchased by us or our subsidiaries under the share purchase program shall, at the option of our Board of Directors, be either cancelled upon their purchase or held as treasury shares.

During the three months ended October 31, 2008, certain of our subsidiaries repurchased our ADSs as follows:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share $	(c) Total Number of Shares Purchased as Part of Publicly Announced or Program (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program
August 1, 2008 - August 31, 2008	985,680	$ 10.18	985,680	6,290,601
September 1, 2008 - September 30, 2008	1,000,000	10.40	1,000,000	20,290,601
October 1, 2008 - October 31, 2008	1,000,000	8.60	1,000,000	19,290,601
Total	2,985,680	$ 9.73	2,985,680	19,290,601

(1) We repurchased ADSs pursuant to a share repurchase program that was approved by our shareholders on April 8, 2008 and amended on September 24, 2008.

(2) Our shareholders approved the repurchase by us of up to 25,000,000 ADSs at a per share purchase price which complies with the requirements of Rule 10b-18. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire on March 23, 2010 or when we have repurchased all shares authorized for repurchase thereunder.

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ITEM 3. — DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

We held our 2008 annual general meeting of shareholders (the "AGM") on September 24, 2008. Under the terms of our arrangements with The Bank of New York, The Bank of New York is entitled to vote or cause to be voted all of our ordinary shares represented by ADSs on behalf of, and in accordance with the instructions received from, the ADS holders. There were no broker non-votes or votes withheld with respect to any matter submitted to a vote of the ordinary shareholders at the AGM.

The following is a brief description of each matter submitted to a vote of the ordinary shareholders and a summary of the votes tabulated with respect to each such matter at the AGM, as well as a summary of the votes cast by The Bank of New York based on the ADR facility:

(1) Receipt and consolidation of the consolidated financial statements for the fiscal year ended January 31, 2008 and the Report of Directors and Auditors thereon.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	115,152,262	646	41,158

(2A) Re-election of Mr. Charles E. Moran, who retired by rotation, as a director.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	114,701,478	477,706	14,882

(2B) Re-election of Dr. Ferdinand von Prondzynski, who retired by rotation, as a director.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	114,824,744	355,760	13,562

The term of office for each of P. Howard Edelstein, Stewart K.P. Gross, James S. Krzwicki and William F. Meagher, Jr. continued after the AGM.

(3) Authorization of the Audit Committee of the Board of Directors to fix the remuneration of our auditor for the fiscal year ending January 31, 2009.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	115,048,481	140,108	5,477

(4) Amendment of the share purchase agreement, dated as of April 9, 2008, among SkillSoft Public Limited Company, CBT (Technology) Limited, SkillSoft Finance Limited, SkillSoft Corporation and Credit Suisse Securities (USA) LLC.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	114,997,249	22,799	174,018

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ITEM 5. — OTHER INFORMATION

Not applicable.

ITEM 6. — EXHIBITS

See the Exhibit Index attached hereto.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SKILLSOFT PUBLIC LIMITED COMPANY	
Date: December 9, 2008	By:	/s/ Thomas J. McDonald Thomas J. McDonald Chief Financial Officer

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EXHIBIT INDEX

31.1	Certification of SkillSoft PLC's Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15(d)-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of SkillSoft PLC's Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15(d)-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of SkillSoft PLC's Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of SkillSoft PLC's Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.