Section 1: 10-K (FORM 10-K)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______.

Commission File Number 0-22759

BANK OF THE OZARKS, INC.
(Exact name of registrant as specified in its charter)

ARKANSAS	**71-0556208**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
17901 CHENAL PARKWAY, P. O. BOX 8811, LITTLE ROCK, ARKANSAS	**72231-8811**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (501) 978-2265

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	NASDAQ Global Select Market

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

None
(Title of Class)

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 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 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller company (as defined by Rule 12b-2 of the Exchange Act).

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $486,024,002.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 18, 2011
Common Stock, par value $0.01 per share	17,093,490

Documents incorporated by reference: Parts I, II, III and IV of this Form 10-K incorporate certain information by reference from the Registrant's Annual Report to Shareholders for the year ended December 31, 2010 and the Registrant's Proxy Statement for the 2011 annual meeting.

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BANK OF THE OZARKS, INC.
FORM 10-K
December 31, 2010

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PART I

Item 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors, the section captioned "Forward-Looking Information," and other cautionary statements set forth elsewhere in this report.

General

Bank of the Ozarks, Inc. (the "Company") is an Arkansas business corporation registered under the Bank Holding Company Act of 1956. The Company owns an Arkansas state chartered subsidiary bank, Bank of the Ozarks (the "Bank"). At December 31, 2010 the Company, through the Bank, conducted banking operations through 90 offices, including 66 offices in Arkansas, seven in Texas, ten in Georgia, three in Florida, two in North Carolina, and one each in South Carolina and Alabama. Subsequent to December 31, 2010, the Company opened its eighth and ninth Texas offices and acquired two additional Georgia offices. The Company also owns Ozark Capital Statutory Trust II, Ozark Capital Statutory Trust III, Ozark Capital Statutory Trust IV and Ozark Capital Statutory Trust V, all 100%-owned finance subsidiary business trusts formed in connection with the issuance of certain subordinated debentures and related trust preferred securities, and, indirectly through the Bank, a subsidiary engaged in the development of real estate. At December 31, 2010 the Company had total assets of $3.27 billion, total loans and leases, including loans covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements, of $2.35 billion, total deposits of $2.54 billion and total common stockholders' equity of $320 million. Net interest income for 2010 was $124 million, net income available to common stockholders was $64 million and diluted earnings per common share were $3.75.

The Company provides a wide range of retail and commercial banking services. Deposit services include checking, savings, money market, time deposit and individual retirement accounts. Loan services include various types of real estate, consumer, commercial, industrial and agricultural loans and various leasing services. The Company also provides mortgage lending; treasury management services for businesses, individuals and non-profit entities including wholesale lock box services; remote deposit capture services; trust and wealth management services for businesses, individuals and non-profit entities including financial planning, money management, custodial services and corporate trust services; real estate appraisals; credit-related life and disability insurance; ATMs; telephone banking; on-line and mobile banking services including electronic bill pay; debit cards, gift cards and safe deposit boxes, among other products and services. Through third party providers, the Company offers credit cards for consumers and businesses, processing of merchant credit card transactions, and full service investment brokerage services. While the Company provides a wide variety of retail and commercial banking services, it operates in only one segment. No revenues are derived from foreign countries and no single external customer comprises more than 10% of the Company's revenues.

De Novo Growth

With five banking offices in 1994, the Company commenced an expansion strategy, via *de novo* branching, into selected Arkansas markets. Since embarking on this strategy, the Company has added one or more new banking offices each year.

Prior to 1994 the Company's offices were located in two relatively rural counties in northern and western Arkansas. The Company's *de novo* branching strategy initially focused on opening new branches in small communities in counties contiguous to its then existing offices. As the Company continued to open additional offices, it generally expanded into larger communities throughout much of northern, western and central Arkansas.

In 1998 and 1999 the Company expanded into Arkansas' then three largest cities, Little Rock, Fort Smith and North Little Rock. Subsequently a majority of the Company's Arkansas expansion has been in these cities, surrounding communities and in other Arkansas counties which are among the top ten counties in Arkansas in terms of bank deposits. While the Company has opened a few additional offices in smaller Arkansas communities since 1998, the Company's primary focus on larger communities has resulted in a larger portion of the Company's business coming from these more urban and suburban Arkansas markets.

In 2001 the Company opened a loan production office in Charlotte, North Carolina and in 2004 the Company opened the first three of its Texas banking offices. Since their opening, the Company's loan production office in North Carolina and its Texas offices have contributed significantly to its growth.

The Company is continuing its growth and *de novo* branching strategy, although it has slowed the pace of new office openings in recent years. During 2009 the Company added a new banking office in downtown Little Rock, Arkansas, added a new banking office in Allen, Texas and closed a small office in North Little Rock, Arkansas where the leased space became unavailable. During 2010 the Company opened its third office in Benton, Arkansas. During the first quarter of 2011, the Company opened its eighth and ninth Texas offices, which are located in metro-Dallas, and expects to open one additional metro-Dallas office during the second quarter of 2011.

Opening new offices is subject to availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty. The Company may increase or decrease its expected number of new office openings as a result of a variety of factors including the Company's financial results, changes in economic or competitive conditions, strategic opportunities or other factors.

FDIC-Assisted Acquisitions

During 2010 and continuing in 2011, the Company has focused its growth and expansion efforts primarily on FDIC-assisted acquisitions of failed banks. As a result of these efforts, the Company has completed five such acquisitions and has expanded its branch network into Georgia, Florida, South Carolina, North Carolina and Alabama.

On March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Unity National Bank ("Unity") with five offices in Georgia, including two in Cartersville and one each in Rome, Adairsville and Calhoun.

On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Woodlands Bank ("Woodlands") with eight offices, including two in South Carolina, two in North Carolina, one in Georgia and three in Alabama. On October 26, 2010, the Company closed four of the Woodlands offices, and in December 2010 the Company relocated two offices. The Company also renegotiated the leases on the remaining two offices. As a result at December 31, 2010, the Company operated one office each in Bluffton, South Carolina; Wilmington, North Carolina; Savannah, Georgia; and Mobile, Alabama.

On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Horizon Bank ("Horizon") with four offices in Florida, including two in Bradenton and one each in Palmetto and Brandon. On December 23, 2010, the Company closed the office in Brandon, Florida.

On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Chestatee State Bank ("Chestatee") with four offices in Georgia, including two in Dawsonville and one each in Cumming and Marble Hill.

On January 14, 2011, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which the Bank acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Oglethorpe Bank ("Oglethorpe") with two offices in Georgia, including Brunswick and St. Simons Island.

Loans comprise the majority of the assets acquired in these acquisitions and all but $8.7 million of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against losses on covered loans and covered other real estate owned ("covered loans"). In conjunction with each of these acquisitions, the Bank entered into loss share agreements with the FDIC such that the Bank and the FDIC will share in the losses on assets covered under the loss share agreements. Pursuant to the terms of the loss share agreements for the Unity acquisition, on losses up to $65.0 million, the FDIC will reimburse the Bank for 80% of losses. On losses exceeding $65.0 million, the FDIC will reimburse the Bank for 95% of losses. Under the terms of the loss share agreements for the Woodlands acquisition, the FDIC will reimburse the Bank for 80% of losses. Pursuant to the terms of the loss share agreements for the Horizon acquisition, the FDIC will reimburse the Bank on single family residential loans and related foreclosed real estate for (i) 80% of losses up to $11.8 million, (ii) 30% of losses between $11.8 million and $17.9 million and (iii) 80% of losses in excess of $17.9 million. For non-single family residential loans and related foreclosed real estate, the FDIC will reimburse the Bank for (i) 80% of losses up to $32.3 million, (ii) 0% of losses between $32.3 million and $42.8 million and (iii) 80% of losses in excess of $42.8 million. Under the terms of the loss share agreements for the Chestatee and Oglethorpe acquisitions, the FDIC will reimburse the Bank for 80% of losses.

The loss share agreements applicable to single family residential mortgage loans and related foreclosed real estate provide for FDIC loss sharing and the Bank's reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which each applicable loss share agreement was entered. The loss share agreements applicable to commercial loans and related foreclosed real estate provide for FDIC loss sharing for five years from the date on which each applicable loss share agreement was entered and the Bank's reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

To the extent that actual losses incurred by the Bank are less than (i) $65 million on the Unity assets covered under the loss share agreements, (ii) $107 million on the Woodlands assets covered under the loss share agreements, (iii) $60 million on the Horizon assets covered under the loss share agreements, (iv) $66 million on the Chestatee assets covered under the loss share agreements and (v) $66 million on the Oglethorpe assets covered under the loss share agreements, the Bank may be required to reimburse the FDIC for certain amounts under the clawback provisions of the loss share agreements.

The terms of the purchase and assumption agreements for the Unity, Woodlands, Horizon, Chestatee and Oglethorpe acquisitions provide for the FDIC to indemnify the Bank against certain claims, including claims with respect to assets, liabilities or any affiliate not acquired or otherwise assumed by the Bank and with respect to claims based on any action by Unity's, Woodland's, Horizon's, Chestatee's or Oglethorpe's directors, officers or employees.

Future Growth Strategy

The Company expects to continue growing through both its *de novo* branching strategy, and, to the extent available, FDIC-assisted acquisitions. With respect to its *de novo* branching strategy, the Company anticipates the expansion of its Arkansas branch network is substantially complete with no more than four additional Arkansas offices to be added in the next few years. Accordingly, future *de novo* branches are expected to be focused in other states, primarily Texas and secondarily in North Carolina, Georgia, Florida, Alabama and South Carolina. With respect to FDIC-assisted acquisitions, the Company is focusing primarily on opportunities in the Southeast and South Central portions of the United States that are either immediately accretive to net income and diluted earnings per share, or strategic in location, or both.

Lending and Leasing Activities

The Company's primary source of income is interest earned from its loan and lease portfolio and its investment securities portfolio. Administration of the Company's lending function is the responsibility of the Chief Executive Officer ("CEO") and certain senior lenders. Such lenders perform their lending duties subject to the oversight and policy direction of the Company's and Bank's board of directors and loan committee. Loan or lease authority is granted to the CEO and certain senior officers by the board of directors. The loan or lease authority of other lending officers is assigned by the CEO. Loans and leases and aggregate loan and lease relationships exceeding $3 million and up to the limits established by the Company's board of directors are authorized and approved by the loan committee.

Interest rates charged by the Bank vary with degree of risk, type, size, complexity, repricing frequency and other relevant factors associated with the loan or lease. Competition from other financial services companies also impacts interest rates charged on loans and leases.

The Company's designated compliance and loan review officers are primarily responsible for the Bank's compliance and loan review functions. Periodic reviews are performed to evaluate asset quality and the effectiveness of loan and lease administration. The results of such evaluations are included in reports which describe any identified deficiencies, recommendations for improvement and management's proposed action plan for curing or addressing identified deficiencies and recommendations. Such reports are provided to and reviewed by the Company's and Bank's audit committee. Additionally, the reports issued by the loan review function are provided to and reviewed by the Company's and Bank's loan committee.

In underwriting loans and leases, primary emphasis is placed on the borrower's or lessee's financial condition, including its ability to generate cash flow to support its debt or lease obligations and other cash expenses. Additionally substantial consideration is given to collateral value and marketability as well as the borrower's or lessee's character, reputation and other relevant factors.

The Company's loan portfolio includes most types of real estate loans, consumer loans, commercial and industrial loans, agricultural loans and other types of loans. A majority, but not all, of the properties collateralizing the Company's loan portfolio are located within the trade areas of the Company's offices. The Company's lease portfolio consists primarily of small ticket direct financing commercial equipment leases. The equipment collateral securing the Company's lease portfolio is located throughout the United States.

Real Estate Loans. The Company's portfolio of real estate loans, including loans covered by FDIC loss share agreements, includes loans secured by residential 1-4 family, non-farm/non-residential, agricultural, construction/land development, multifamily residential (five or more family) properties and other land loans. Non-farm/non-residential loans include those secured by real estate mortgages on owner-occupied commercial buildings of various types, leased commercial, retail and office buildings, hospitals, nursing and other medical facilities, hotels and motels, and other business and industrial properties. Agricultural real estate loans include loans secured by farmland and related improvements, including some loans guaranteed by the Farm Service Agency. Real estate construction/land development loans include loans secured by vacant land, loans with original maturities of 60 months or less to finance land development or construction of industrial, commercial, residential or farm buildings or additions or alterations to existing structures. Included in the Company's residential 1-4 family loans are home equity lines of credit.

The Company offers a variety of real estate loan products that are generally amortized over five to thirty years, payable in monthly or other periodic installments of principal and interest, and due and payable in full (unless renewed) at a balloon maturity generally within one to seven years. Certain loans may be structured as term loans with adjustable interest rates (adjustable daily, monthly, semi-annually, annually, or at other regular adjustment intervals usually not to exceed five years). Many of the Company's adjustable rate loans have established "floor" and "ceiling" interest rates.

Residential 1-4 family loans are underwritten primarily based on the borrower's ability to repay, including prior credit history, and the value of the collateral. Other real estate loans are underwritten based on the ability of the property, in the case of income producing property, or the borrower's business to generate sufficient cash flow to amortize the debt. Secondary emphasis is placed upon collateral value, financial wherewithal of any guarantors and other factors. Loans collateralized by real estate have generally been originated with loan-to-appraised-value ratios of not more than 89% for residential 1-4 family, 85% for other residential and other improved property, 80% for construction loans secured by commercial, multifamily and other non-residential properties, 75% for land development loans and 65% for raw land loans.

The Company typically requires mortgage title insurance in the amount of the loan and hazard insurance on improvements. Documentation requirements vary depending on loan size, type, degree of risk, complexity and other relevant factors.

Consumer Loans. The Company's portfolio of consumer loans generally includes loans to individuals for household, family and other personal expenditures. Proceeds from such loans are used to, among other things, fund the purchase of automobiles, recreational vehicles, boats, mobile homes and for other similar purposes. Consumer loans made by the Company are generally collateralized and have terms typically ranging up to 72 months, depending upon the nature of the collateral, size of the loan, and other relevant factors.

Consumer loans are attractive to the Company because they generally have higher interest rates. Such loans, however, pose additional risks of collectability and loss when compared to certain other types of loans. The borrower's ability to repay is of primary importance in the underwriting of consumer loans.

Commercial and Industrial Loans and Leases. The Company's commercial and industrial loan portfolio, including loans covered by FDIC loss share agreements, consists of loans for commercial, industrial and professional purposes including loans to fund working capital requirements (such as inventory, floor plan and receivables financing), purchases of machinery and equipment and other purposes. The Company offers a variety of commercial and industrial loan arrangements, including term loans, balloon loans and lines of credit with the purpose and collateral supporting a particular loan determining its structure. These loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. As a general practice, the Company obtains as collateral a lien on furniture, fixtures, equipment, inventory, receivables or other assets. The Company's leases are primarily equipment leases for commercial, industrial and professional purposes, have terms generally ranging up to 48 months and are collateralized by a lien on the leased property.

Commercial and industrial loans and leases typically are underwritten on the basis of the borrower's or lessee's ability to make repayment from the cash flow of its business and generally are collateralized by business assets. As a result, such loans and leases involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans and leases.

Agricultural (Non-Real Estate) Loans. The Company's portfolio of agricultural (non-real estate) loans, including loans covered by FDIC loss share agreements, includes loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops. The Company's agricultural (non-real estate) loans are generally secured by farm machinery, livestock, crops, vehicles or other agri-related collateral. A portion of the Company's portfolio of agricultural (non-real estate) loans is comprised of loans to individuals which would normally be characterized as consumer loans but for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

Deposits

The Company offers an array of deposit products consisting of non-interest bearing checking accounts, interest bearing transaction accounts, business sweep accounts, savings accounts, money market accounts, time deposits and individual retirement accounts. Rates paid on such deposits vary among the deposit categories due to different terms and conditions, individual deposit size, services rendered and rates paid by competitors on similar deposit products. The Company acts as depository for a number of state and local governments and government agencies or instrumentalities. Such public funds deposits are often subject to competitive bid and in many cases must be secured by the Company's pledge of investment securities or a letter of credit.

The Company's deposits come primarily from within the Company's trade area. As of December 31, 2010 the Company had $58 million in "brokered deposits," defined as deposits which, to the knowledge of the Company, have been placed with the Bank by a person who acts as a broker in placing these deposits on behalf of others or are otherwise deemed to be "brokered" by bank regulatory authority rules and regulations. Brokered deposits are typically from outside the Company's primary trade area, and such deposit levels may vary from time to time depending on competitive interest rate conditions and other factors.

Other Banking Services

Mortgage Lending. The Company offers a broad array of residential mortgage products including long-term fixed and variable rate loans to be sold on a servicing-released basis in the secondary market. The Company originates residential mortgage loans to be resold on the secondary market primarily through its banking offices located in Arkansas' larger markets, most of its Texas banking offices and in certain of its recently acquired Georgia offices. Most residential mortgage loans originated in the Company's smaller markets are either fixed rate loans which balloon periodically, typically every one to seven years, or variable rate loans and are retained by the Company in its loan portfolio.

Trust and Wealth Management Services. The Company offers a broad array of trust and wealth management services from its headquarters in Little Rock, Arkansas, with additional staff in Rogers, Arkansas. These trust and wealth management services include personal trusts, custodial accounts, investment management accounts, retirement accounts, corporate trust services including trustee, paying agent and registered transfer agent services, and other incidental services. As of December 31, 2010 total trust assets were approximately $1.01 billion compared to approximately $870 million as of December 31, 2009 and approximately $630 million as of December 31, 2008.

Treasury Management Services. The Company offers treasury management products which are designed to provide a high level of specialized support to the treasury operations of business and public funds customers. Treasury management has four basic functions: collection, disbursement, management of cash and information reporting. The Company's treasury management services include automated clearing house services (e.g. direct deposit, direct payment and electronic cash concentration and disbursement), wire transfer, zero balance accounts, current and prior day transaction reporting, lock box services, remote deposit capture services, automated credit line transfer, investment sweep accounts, reconciliation services, positive pay services, credit line analysis and account analysis.

On-line Banking. The Company offers an on-line banking service for both business customers and consumers. Through this service customers can access their account information, pay bills, transfer funds, view images of cancelled checks, reorder checks, buy U.S. Savings Bonds, change addresses, issue stop payment requests, receive detailed statements and handle other banking business electronically. Businesses are offered more advanced features which allow them to handle most treasury management functions electronically and access their account information on a more timely basis, including having the ability to download transaction history into QuickBooks© for instant reconciliation. The Company also provides businesses and consumers the option to electronically receive monthly bank statements and provides a 13-month archive of monthly statements and cancelled check images.

Market Area and Competition

The Company's market areas include primarily the northern, western and central portions of Arkansas, the metropolitan Dallas, Texas area, the Texarkana area (including areas in Texas and Arkansas) and the metropolitan Charlotte, North Carolina area. Additionally, as a result of the Company's five FDIC-assisted acquisitions, the Company's market areas have been expanded into northern Georgia; Wilmington, North Carolina; Bluffton, South Carolina; Savannah, Georgia; Bradenton and Palmetto, Florida; Brunswick and St. Simons Island, Georgia; and Mobile, Alabama. A summary of the amount and percentage of the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, by state of originating office, is included in the Company's 2010 Annual Report on page 19. A summary of the amount and percentage of the Company's deposits, by state of originating office, is included in the Company's 2010 Annual Report on page 38.

The banking industry in the Company's market areas is highly competitive. In addition to competing with other commercial and savings banks and savings and loan associations, the Company competes with credit unions, finance companies, leasing companies, mortgage companies, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and many other financial service firms. Competition is based on interest rates offered on deposit accounts, interest rates charged on loans and leases, fees and service charges, the quality and scope of the services rendered, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits, as well as other factors.

A substantial number of the commercial banks operating in the Company's market area are branches or subsidiaries of much larger organizations affiliated with statewide, regional or national banking companies and as a result may have greater resources and lower costs of funds than the Company. Additionally the Company faces competition from a large number of community banks, including *de novo* community banks, many of which have senior management who were previously with other local banks or investor groups with strong local business and community ties. Despite the highly competitive environment, management believes the Company will continue to be competitive because of its strong commitment to quality customer service, convenient local branches, active community involvement and competitive products and pricing.

Employees

At December 31, 2010 the Company employed 881 full-time equivalent employees. None of the Company's employees were represented by any union or similar group. The Company has not experienced any labor disputes or strikes arising from any organized labor groups. The Company believes its employee relations are good.

Executive Officers of Registrant

The following is a list of the executive officers of the Company:

George Gleason, age 57, Chairman and Chief Executive Officer. Mr. Gleason has served the Company or the Bank as Chairman, Chief Executive Officer and/or President since 1979. He holds a B.A. in Business and Economics from Hendrix College and a J.D. from the University of Arkansas.

Mark Ross, age 55, Vice Chairman, President and Chief Operating Officer. Mr. Ross joined the Company in 1980 and has served in several key positions, becoming President in 1986, joining the Board of Directors in 1992, and adding the responsibilities of Vice Chairman and Chief Operating Officer to his duties as President in 2002. Mr. Ross holds a B.A. in Business Administration from Hendrix College.

Greg McKinney, age 42, Chief Financial Officer and Chief Accounting Officer. Mr. McKinney joined the Company in 2003 and served as Executive Vice President and Controller until 2010. On December 31, 2010, Paul Moore retired as the Company's Chief Financial Officer and Chief Accounting Officer with such role immediately assumed by Mr. McKinney. From 2001 to 2003 Mr. McKinney served as a member of the financial leadership team of a publicly-traded software development and data management company. For most of the year 2000, Mr. McKinney served as a senior audit manager of a local C.P.A. firm. From 1991 to 2000 he held various positions with a big-four public accounting firm, leaving as senior audit manager when the firm closed its Little Rock office. Mr. McKinney is a C.P.A. and holds a B.S. in Accounting from Louisiana Tech University.

Scott Hastings, age 53, President of the Bank's Leasing Division since 2003. From 2001 to 2002 he served as division president of the leasing division of a large diversified national financial services firm. From 1995 to 2001 he served in several key positions including President, Chief Operating Officer and Director of a large regional bank's leasing subsidiary. Mr. Hastings holds a B.A. degree from the University of Arkansas-Little Rock.

Gene Holman, age 63, President of the Bank's Mortgage Division since 2004. Prior to 2004 Mr. Holman served as President and Chief Operating Officer of a competitor mortgage company and held various senior management positions with that company during his 21-year tenure. Mr. Holman has 36 years of real estate and mortgage banking experience. Mr. Holman is a C.P.A. and received a B.S.B.A. in Accounting from the University of Mississippi.

Rex Kyle, age 54, President of the Bank's Trust and Wealth Management Division since 2004. Prior to 2004 Mr. Kyle was Senior Vice President and Chief Administrative Officer in the trust division of a competitor bank. Mr. Kyle has 31 years experience as a banking trust professional providing a wide array of asset management and trust services for individuals, businesses and government entities. He holds a B.S. and M.S. in Agricultural Economics and a J.D. from Texas A&M University.

Darrel Russell, age 57, President of the Bank's Central Division since 2001 and since March 2007 co-chairman of the Loan Committee. He joined the Bank in 1983 and served as Executive Vice President of the Bank from 1997 to 2001 and Senior Vice President of the Bank from 1992 to 1997. Prior to 1992 Mr. Russell served in various positions with the Bank. He received a B.S.B.A. in Banking and Finance from the University of Arkansas.

Tyler Vance, age 36, Executive Vice President of Retail Banking since 2009. Mr. Vance joined the Company in 2006 and served as Senior Vice President from 2006 to 2009. From 2001 to 2006 Mr. Vance served as CFO of a competitor bank. From 1996 to 2000, Mr. Vance held various positions with a big-four public accounting firm. Mr. Vance is a C.P.A. and holds a B.A. in Accounting from Ouachita Baptist University. Mr. Vance was designated an executive officer of the Company by its Board of Directors effective January 19, 2010.

Messrs. Gleason, Ross, McKinney and Vance serve in the same positions with both the Company and the Bank. All other listed officers are officers of the Bank.

SUPERVISION AND REGULATION

In addition to the generally applicable state and federal laws governing businesses and employers, bank holding companies and banks are extensively regulated under both federal and state law. With few exceptions, state and federal banking laws have as their principal objective either the maintenance of the safety and soundness of the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") or the protection of consumers or classes of consumers, rather than the specific protection of the shareholders of the Company. Bank holding companies and banks that fail to conduct their operations in a safe and sound basis or in compliance with applicable laws can be compelled by the regulators to change the way they do business and may be subject to regulatory enforcement actions, including restrictions imposed on their operations. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to those particular statutory and regulatory provisions. Any change in applicable laws or regulations may have an adverse effect on the results of operation and financial condition of the Company and the Bank.

Primary Federal Regulators

The primary federal banking regulatory authority for the Company is the Board of Governors of the Federal Reserve System (the "FRB"), acting pursuant to its authority to regulate bank holding companies. The primary federal regulatory authority of the Bank is the FDIC because the Bank is an insured depository institution which is not a member bank of the Federal Reserve System.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The goals of the Dodd-Frank Act include restoring public confidence in the financial system following the financial and credit crises, preventing another financial crisis and allowing regulators to identify failings in the system before another crisis can occur. Further, the Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation by taking a systemic view of regulation rather than focusing on prudential regulation of individual financial institutions. However, the Dodd-Frank Act itself may be more appropriately considered as a blueprint for regulatory change, as many of the provisions in the Dodd-Frank Act require that regulatory agencies draft implementing regulations. In many cases, such implementing regulations have not yet been promulgated and it may be, in some cases, years before the study and rulemaking processes called for by the Dodd-Frank Act are concluded. Among other significant developments, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system, and in an effort to end the notion that any financial institution is "too big to fail," gives federal regulators new authority to take control of and liquidate systemically important but distressed financial firms. The Dodd-Frank Act additionally creates a new independent federal regulator, the Consumer Financial Protection Bureau (the "CFPB"), which will exclusively draft rules for designated federal consumer protection laws and which will share examination, supervision and enforcement authority with other federal regulators. Despite its broad scope, the Dodd-Frank Act generally does not provide significant regulatory reform regarding Fannie Mae, Freddie Mac or the Federal Home Loan Bank System. The Dodd-Frank Act is expected to have a significant impact on the Company's business operations as its provisions take effect. Among the provisions that are likely to affect the Company or the Bank are the following:

Deposit Insurance. The Dodd-Frank Act permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, and extends unlimited deposit insurance to most noninterest-bearing transaction accounts until December 31, 2012. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of an institution, rather than on the deposit base of such institution. The Dodd-Frank Act (i) requires the FDIC to increase the DIF's reserve ratio from 1.15% to 1.35% of insured deposits by September 30, 2020, (ii) removes the upper limit of 1.5% on the DIF's designated reserve ratio, which is a long-term target ratio, and (iii) requires the FDIC to offset the effect on insured depository institutions with total consolidated assets of less than $10 billion. The Dodd-Frank Act also eliminates the requirement that the FDIC pay dividends from the DIF when the reserve ratio is between 1.35% and 1.5%, and continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5%. However, the FDIC is granted sole discretion in determining whether to suspend or limit the declaration or payment of dividends.

Corporate Governance. The Dodd-Frank Act and the implementing regulations thereunder require publicly traded companies to give shareholders a non-binding vote on (i) executive compensation, commonly referred to as a "say-on-pay" vote, at their first annual meeting taking place after January 21, 2011 and at least once every three years thereafter and (ii) on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. As of August 2010, the SEC has adopted such a rule, which would require public companies to provide shareholders with access to the proxy statement for their nominees;

however, the SEC has agreed to an indefinite stay of the effectiveness of the rule until litigation surrounding its implementation has been resolved. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Consumer Financial Protection Bureau; Mortgage Origination. The Dodd-Frank Act creates a new, independent federal agency, the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various designated federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB is charged with protecting consumers from unfair or deceptive financial products, acts or practices and the Company expects that the CFPB, once it is fully operational, will take an aggressive stance in consumer protection matters. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions, including the Company and the Bank, will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by the current federal banking regulators for consumer compliance purposes.

The Dodd-Frank Act prohibits creditors from making residential mortgage loans unless the creditor makes a good faith determination, based on verified and documented information that, at the time loan was consummated, the consumer had the reasonable ability to repay the loan, according to its terms, as well as all applicable taxes, insurance and assessments and further authorizes the CFPB to establish certain minimum standards regarding same. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB or if anti-steering prohibitions, discussed below, are violated.

The Dodd-Frank Act also contains a series of new mortgage loan origination standards including prohibiting mortgage originators, which includes loan officers of banks, from receiving from any person, or any person from paying such mortgage originator, directly or indirectly, compensation that varies based on terms of a loan other than the principal amount of the loan. In addition, the CFPB is required to prescribe regulations prohibiting mortgage originators from (i) steering any consumer to a loan that (a) the consumer lacks the reasonable ability to repay, or (b) has predatory characteristics or effects such as equity stripping, excessive fees or abusive terms; (ii) steering any consumer from a “qualified mortgage” to a non-qualified mortgage when the consumer qualifies for a qualified mortgage; (iii) abusive or unfair lending practices that promote disparities among consumers of equal creditworthiness but of different race, ethnicity, gender, or age, and (iv) engaging in certain other conduct. In September 2010 and independent of the Dodd-Frank Act’s requirements, the FRB enacted similar regulations regarding anti-steering and loan originator compensation, and these regulations will eventually be supplemented or revised by the rules to be promulgated pursuant to the Dodd-Frank Act. Although there are many elements of a “qualified mortgage,” and the CFPB has the authority to revise the definition of a qualified mortgage as it deems appropriate, one element which must be satisfied to be a qualified mortgage is that total points and fees payable in connection with a loan may not exceed 3% of the total loan amount. The Dodd-Frank Act also prohibits prepayment penalties for all loans that are not qualified mortgages and, for qualified mortgages, prepayment penalties must be phased out over a three-year period following consummation of the loan. Lenders will also be required to offer a loan without a prepayment penalty if they offer a loan with a prepayment penalty. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Transactions with Affiliates and Insiders. Effective July 21, 2011, the Dodd-Frank Act will apply Section 23A of the Federal Reserve Act and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated. The Dodd-Frank Act will additionally prohibit an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the institution’s disinterested directors.

Interstate Branching. The Dodd-Frank Act authorizes national and state banks to establish *de novo* branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, as provided in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act"), banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely, but will still need to adhere to the applicable state law requirements of the host state.

Holding Company Capital Requirements. The Dodd-Frank Act requires the FRB to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to insured depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company that has less than $15 billion in assets. The Company appears to meet this exception, and the Company believes its trust preferred securities will be "grandfathered" under the Dodd-Frank Act and will continue to be eligible for treatment as Tier 1 Capital. Additionally, the Dodd-Frank Act requires bank holding company capital levels to be countercyclical so that during times of economic expansion, capital requirements increase and during times of economic contraction such capital requirements decrease.

The Dodd-Frank Act contains many other provisions which may affect the Company or the Bank. Accordingly, the topics discussed above are only a representative sample of the types of regulatory issues in the Dodd-Frank Act that have an impact on the Company and the Bank.

Other Recent Legislative and Regulatory Initiatives to Address Current Financial and Economic Conditions.

The U.S. Congress, the U.S. Department of the Treasury ("Treasury"), and federal banking regulators took broad action beginning in the third quarter of 2008 to strengthen the capital and liquidity positions of financial institutions in the U.S. and to address volatility in the financial markets and the financial services industry.

Under the Emergency Economic Stabilization Act of 2008 ("EESA"), signed into law in October 2008, Treasury has the authority, among other things, to purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

Subsequent to EESA's enactment, Treasury announced the availability, through the Troubled Asset Relief Program ("TARP") created as part of EESA, of its voluntary Capital Purchase Program ("CPP") for qualifying public financial institutions such as U.S.-controlled banks, savings associations, and certain bank and savings and loan holding companies. Under CPP, Treasury used $250 billion of its $700 billion available under the EESA to purchase $125 billion of preferred stock in nine major financial institutions. The remaining $125 billion was used for the purchase of preferred stock in qualifying U.S.-controlled banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities. In May 2009, the FRB issued a final rule providing that senior perpetual preferred stock of a financial institution participating in the CPP, and sold to Treasury pursuant to EESA, qualifies without limit as Tier 1 capital of the institution.

In December, 2008, the Company and Treasury entered into a Letter Agreement including the Securities Purchase Agreement — Standard Terms incorporated therein (the "Purchase Agreement") pursuant to which the Company issued to Treasury, in exchange for aggregate consideration of $75,000,000, (i) 75,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a warrant to purchase up to 379,811 shares of the Company's common stock at an exercise price of $29.62 per share (the "Warrant"), subject to certain anti-dilution and other adjustments.

In November, 2009, the Company redeemed the Series A Preferred Stock from Treasury, and returned to Treasury the original investment amount of $75,000,000 plus accrued and unpaid dividends thereon. In addition, in accordance with Treasury's guidelines to repurchase warrants, the Company agreed to repurchase the Warrant from Treasury at a purchase price of $2,650,000. The Company repurchased the Warrant from Treasury on November 24, 2009, and is no longer a participant in the CPP or TARP programs.

The Company's issuance of Series A Preferred Stock to Treasury under the TARP's CPP made it subject to the enforcement and oversight authority of the Office of the Special Inspector General for TARP ("Special Inspector General"). The Special Inspector General retains authority to audit and investigate all aspects of TARP even after the capital received by the Company under the CPP was repaid to Treasury. The Special Inspector General has also acted to coordinate oversight functions of other relevant inspectors general by forming the TARP Inspector General Council. Although the Company has not had any Special Inspector General investigations concerning compliance with TARP, the Company remains subject to requests by the Special Inspector General for documentation pertaining to the Company's compliance with TARP requirements prior to its repayment of the capital received under the CPP.

Pursuant to authority granted to it under EESA, in October 2008, the FRB adopted an interim final rule amending Regulation D (Reserve Requirements of Depository Institutions) and directed the Federal Reserve Banks to pay interest on required reserve balances (that is, balances held to satisfy depository institutions' reserve requirements) and on excess balances (balances held in excess of required reserve balances and clearing balances). Since publication of the interim final rule, the FRB has frequently modified the method for determining the rates to be paid on required reserve balances and on excess balances. The rate of interest required to be paid on both required reserve balances and on excess balances is, as of late January 2011, set at 0.25%. Such rates may be reset by the FRB from time to time.

Deposit Insurance on Non-interest Bearing Transaction Accounts. In October 2008, the FDIC announced a new program — the Temporary Liquidity Guarantee Program ("TLGP") — that provided unlimited deposit insurance on funds in non-interest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. Eligible institutions were permitted to opt out of the TLGP, though the Bank did not elect to do so. Though the extended expiration date of the TLGP was December 31, 2010 and such program did terminate, as of December 31, 2010, the Dodd-Frank Act created a new insurance program providing unlimited deposit insurance coverage for most non-interest bearing transaction accounts until December 31, 2012.

In a further expansion of deposit insurance coverage for non-interest bearing transaction accounts, in January 2011, the FDIC adopted updated final rules for deposits held in Interest on Lawyers Trust Accounts ("IOLTAs"). While these accounts had been covered by the expired TLGP and were not initially included in the Dodd-Frank Act, the updated final rules changed the definition of non-interest bearing transaction accounts to include IOLTAs. While Negotiable Order of Withdrawal accounts ("NOW accounts") were also excluded from deposit insurance coverage under the Dodd-Frank Act, the FDIC has yet to, and may never, adopt any rules to extend similar coverage to NOW accounts.

Comprehensive Financial Stability Plan of 2009. During February 2009, the Secretary of the Treasury announced a comprehensive financial stability plan (the "Financial Stability Plan"), which built upon existing programs, and earmarked the second $350 billion of unused funds originally authorized under EESA. The major elements of the Financial Stability Plan include: (i) a capital assistance program that will invest in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a new public-private investment fund that will leverage public and private capital with public financing to purchase up to $500 billion to $1 trillion of legacy "toxic assets" from financial institutions, and (iv) assistance for homeowners by providing up to $75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs. In addition, all banking institutions with assets over $100 billion were required to undergo a comprehensive "stress test" to determine if they had sufficient capital to continue lending and to absorb losses that could result from a decline in the economy that is more severe than was projected. Institutions receiving assistance under the Financial Stability Plan are subject to higher transparency and accountability standards, including restrictions on dividends, acquisitions and executive compensation and additional disclosure requirements.

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), among other things, amended in its entirety the provisions of EESA dealing with executive compensation of financial institutions participating in the TARP or CPP programs. For so long as the Series A Preferred Stock was outstanding, the Company was subject to numerous Recovery Act provisions, which included restrictions on bonus and incentive compensation, severance compensation and so-called "golden parachutes" to the Company's executive officers, and provided for "clawbacks" or mandatory repayments of bonuses, retention awards or incentive compensation payments to a larger group of employees if it were later determined that such compensation payments were based on materially inaccurate financial results, as well as concerning other matters regarding executive compensation policies and practices. Upon the Company's November 2009 repurchase of its Series A Preferred Stock and the redemption of the Warrant from Treasury, the Company ceased participating in the CPP. Except for the mandate regarding clawbacks for compensation paid or accrued while Treasury held the Series A Preferred Stock and any future investigations by the Special Inspector General as described above, the Company is no longer subject to the executive compensation restrictions and related mandates imposed by EESA and the Recovery Act.

The Making Home Affordable Program. During March 2009, Treasury announced the "Making Home Affordable" program (the "MHA") intended to provide assistance to homeowners by, among other things, introducing new refinancing and loan modification programs. The refinancing program is intended to allow homeowners who have loans either owned or guaranteed by Freddie Mac or Fannie Mae, and who have seen the value of their homes decline, to refinance their existing mortgages thereby providing them with lower mortgage payments. As part of the new loan modification program, which is intended to prevent residential mortgage foreclosures and resulting loss of home ownership, Treasury issued guidelines designed to enable mortgagors and their mortgage holders to modify existing loans and reduce homeowners' monthly mortgage payments, thereby reducing the risk of foreclosure.

The actions described above under the captions "Dodd-Frank Wall Street Reform and Consumer Protection Act" and "Other Recent Legislative and Regulatory Initiatives to Address Current Financial and Economic Conditions," together with additional actions announced by Treasury and other regulatory agencies, continue to evolve. It is not clear at this time what will be the long-term impact on the financial markets and the financial services industry of the Dodd-Frank Act, EESA, TARP, TLGP, MHA or any of the other liquidity, funding and home ownership initiatives of Treasury and other bank regulatory agencies that have been previously announced, nor any additional programs that may be initiated in the future. However, given the sweeping nature of the Dodd-Frank Act, the Company expects that its regulatory compliance costs will increase over time.

Other Federal Legislation

Bank Holding Company Act. The Company is subject to supervision by the FRB under the provisions of the Bank Holding Company Act of 1956, as amended (the "BHCA"). The BHCA restricts the types of activities in which bank holding companies may engage and imposes a range of supervisory requirements on their activities, including regulatory enforcement actions for violations of laws and policies. The BHCA limits the activities of the Company and any companies controlled by it to the activities of banking, managing and controlling banks, furnishing or performing services for its subsidiaries, and any other activity that the FRB determines to be incidental to or closely related to banking. These restrictions also apply to any company in which the Company owns 5% or more of the voting securities.

Before a bank holding company engages in any non-bank-related activity, either by acquisition or commencement of *de novo* operations, it must comply with the FRB's notification and approval procedures. In reviewing these notifications, the FRB considers a number of factors, including the expected benefits to the public versus the risks of possible adverse effects. In general, the potential benefits include greater convenience to the public, increased competition and gains in efficiency, while the potential risks include undue concentration of resources, decreased or unfair competition, conflicts of interest and unsound banking practices.

Under the BHCA, a bank holding company must obtain FRB approval before engaging in acquisitions of banks or bank holding companies. In particular, the FRB must generally approve the following actions by a bank holding company:

- the acquisition of ownership or control of more than 5% of the voting securities of any bank or bank holding company;
- the acquisition of all or substantially all of the assets of a bank; and
- the merger or consolidation with another bank holding company.

In considering any application for approval of an acquisition or merger, the FRB is required to consider various competitive factors, the financial and managerial resources of the companies and banks concerned, the convenience and needs of the communities to be served, the effectiveness of the applicant in combating money laundering activities, and the applicant's record of compliance with the Community Reinvestment Act of 1977 (the "CRA"). The CRA generally requires financial institutions to take affirmative action to ascertain and meet the credit needs of its entire community, including low and moderate income neighborhoods.

Pursuant to the Dodd-Frank Act, the FRB is now required to also consider the extent to which a proposed acquisition, merger, or consolidation would increase the systemic risk of the banking system. The Dodd-Frank Act also amended the BHCA to require that bank holding companies be well-capitalized and well-managed before acquiring control of a bank in another state; previously, bank holding companies were only required to be adequately managed and adequately capitalized. Bank regulations regard a bank holding company as well-capitalized if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater. The Attorney General of the United States may, within 30 days after approval of an acquisition by the FRB, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts.

Source of Strength Doctrine. The Dodd-Frank Act codifies and expands the existing FRB policy that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks. Under the Dodd-Frank Act, the term “source of financial strength” is defined to mean the “ability of a company that directly or indirectly controls an insured depository institution to provide financial assistance to such insured depository institution in the event of the financial distress of the insured depository institution.” Implementing regulations of the Dodd-Frank Act source of strength provisions, however, have not yet been promulgated. It is the FRB’s existing 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 and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. Consistent with this, the FRB has stated that, as a matter of prudent banking, a bank holding company should generally not maintain a given rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the organization’s capital needs, asset quality, and overall financial condition.

Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act (the “GLBA”), a bank holding company that elects to become a “financial holding company” will be permitted to engage in any activity that the FRB, in consultation with the Secretary of the Treasury, determines by regulation or order is (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. In addition to traditional lending activities, the GLBA specifies the following activities as financial in nature:

- acting as principal, underwriter, agent or broker for insurance;
- underwriting, dealing in or making a market in securities;
- merchant banking activities; and
- providing financial and investment advice.

A bank holding company may become a financial holding company only if all depository institution subsidiaries of the holding company are well-capitalized, well-managed and have at least a satisfactory rating under the CRA. A financial holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. The Company has no current plans to elect to become a financial holding company. As long as the Company elects not to become a financial holding company, it will remain subject to the current restrictions of the BHCA.

The GLBA provides that state banks, such as the Bank, may invest in financial subsidiaries that engage as the principal in activities that would only be permissible for a national bank to conduct in a financial subsidiary. This authority is generally subject to the same conditions that apply to national bank investments in financial subsidiaries.

Under the consumer privacy provisions mandated by the GLBA, when establishing a customer relationship a financial institution must give the consumer certain privacy-related information, such as when the institution will disclose nonpublic, personal information to unaffiliated third parties, what type of information it may share and what types of affiliates may receive the information. The institution must also provide customers with annual privacy notices, a reasonable means for preventing the disclosure of information to third parties, and the opportunity to opt out of many features of the institution’s disclosure policies at any time.

USA Patriot Act. Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001 (the "Patriot Act") increased the obligations of financial institutions, including banks, to identify their customers, watch for and report suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, and share information with other financial institutions. The Patriot Act also amended the BHCA and the Bank Merger Act to require federal banking regulatory authorities to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application to expand operations. Financial institutions, including banks, are required under final rules implementing Section 326 of the Patriot Act to establish procedures for collecting standard information from customers opening new accounts and verifying the identity of these new account holders within a reasonable period of time.

Fair and Accurate Credit Transactions Act of 2003. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") permanently extended the national credit reporting standards of the Fair Credit Reporting Act of 1978, and permits consumers, including customers of the Bank, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires financial institutions, including banks, to notify a customer if the institution provides negative information about the customer to a national credit reporting agency or if the credit that is granted to the customer is on less favorable terms than those generally available. Banks must also comply with rules and guidelines established by their federal banking regulators to help detect identity theft and to securely dispose of consumer information derived from a consumer report.

Deposit Insurance. The FDIC insures the deposits of the Bank to the extent provided by law. Prior to 2007, under the FDIC's risk-based insurance system, depository institutions were assessed premiums based upon the institution's capital position and other supervisory factors. Effective January 1, 2007, the FDIC began using a new approach to assess premiums. The FDIC places each depository institution in one of four risk categories using a two-step process, based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Within the lowest risk category, known as Risk Category I, rates will vary based on each institution's CAMELS component ratings, certain financial ratios (for most institutions), and long-term debt issuer ratings (for large institutions that have such a rating).

In light of the decline in the last few years of the DIF reserve ratio and continuing concerns regarding the number of bank failures and the solvency of the DIF, the FDIC has continued to evaluate and impose additional deposit insurance assessments. In October 2008, the FDIC established the Federal Deposit Insurance Corporation Restoration Plan (the "Restoration Plan"). The Restoration Plan was initially a five-year recapitalization plan for the DIF. The Restoration Plan was subsequently amended to extend the period of the Restoration Plan until September 30, 2020.

Throughout 2009, the FDIC amended the Restoration Plan. Under the amended Restoration Plan, the FDIC initially extended the target date from 2013 to 2016 to raise the DIF reserve ratio to 1.15%. The amended Restoration Plan was accompanied by a final rule that set assessment rates and made adjustments to recognize how the assessment system differentiates for risk. Changes to the assessment system include higher rates for institutions that rely significantly on secured liabilities, which would increase the FDIC's loss in the event of institutional failure without providing additional assessment revenue. Under the final rule, assessments are higher for institutions that rely significantly on brokered deposits. However, for well-managed and well-capitalized institutions, such higher assessments are only assessed when accompanied by rapid asset growth, as defined by the FDIC. The final rule also provided incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. Under the final rule, beginning in April 2009 banks in Risk Category I began paying initial base rates ranging from 12 cents per $100 to 16 cents per $100 on an annual basis. Banks in Risk Categories II, III and IV began paying initial base rates of 22 cents per $100, 32 cents per $100 and 45 cents per $100, respectively, on an annual basis. All rates were to increase uniformly by 3 basis points effective January 1, 2011. However in October 2010, the FDIC adopted a further amended Restoration Plan in which the FDIC decided to forego the uniform 3 basis point increase and determined to maintain the current schedule of assessment rates for all institutions. In addition, as required by the Dodd-Frank Act, the FDIC will pursue further rulemaking in 2011 regarding the method that will be used to reach a DIF reserve ratio of 1.35% by September 30, 2020 and how to offset the effect on insured depository institutions with total consolidated assets of less than $10 billion. In a December 2010 regulation, the FDIC set the DIF's designated reserve ratio, or long-term target, at 2%.

In addition to revising the Restoration Plan, and in an effort to keep the DIF solvent, the FDIC has recently imposed emergency special assessments and required prepayment of assessments. The FDIC adopted a final rule which imposed a 5 basis points special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, not to exceed 10 bps of domestic deposits. The Company's special assessment was paid in September 2009. In November 2009, the FDIC adopted a final rule requiring insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012, along with each institution's risk-based deposit insurance assessment for the third quarter of 2009. The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of 3 basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at an annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 30, 2013, as applicable. The FDIC's December 2009 collection of the assessment prepayment will not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. For example, the FDIC approved a new final rule in February, 2011 that changes the assessment base from domestic deposits to average assets minus average tangible equity, adopts a new large-bank pricing assessment scheme, and sets a target size for the DIF. The changes will go into effect beginning with the second quarter of 2011 and will be payable at the end of September 2011.

Insured depository institutions are further assessed premiums for Financing Corporation ("FICO") bond debt service. The FICO assessment rate for DIF ranged between a high of 1.06 basis points for the first quarter of 2010, to a low of 1.04 basis points for the fourth quarter of 2010. For the first quarter of 2011, the FICO assessment rate for the DIF is 1.02 basis points resulting in a premium of $0.0102 per $100 of DIF-eligible deposits.

Capital Adequacy Requirements. The FRB monitors the capital adequacy of bank holding companies such as the Company, and the FDIC monitors the capital adequacy of the Bank. The federal bank regulators use a combination of risk-based guidelines and leverage ratios to evaluate capital adequacy.

Under the risk-based capital guidelines, bank regulators assign a risk weight to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a "risk-weighted" asset base. The minimum ratio of total risk-based capital to risk-weighted assets is 8.0%. At least half of the risk-based capital must consist of Tier 1 capital, which is comprised of common stock, additional paid-in capital, retained earnings, certain types of preferred stock, a limited amount of trust preferred securities and qualifying minority interests in the equity capital accounts of consolidated subsidiaries, and excludes goodwill and various intangible assets. However, on December 30, 2008, the federal banking regulators issued a final rule providing that a banking organization may reduce the amount of goodwill deducted from Tier 1 capital by the amount of any deferred tax liability associated with that goodwill. The remainder, or Tier 2 capital, may consist of amounts of trust preferred securities and other preferred stock excluded from Tier 1 capital, certain hybrid capital instruments and other debt securities and an allowance for loan and lease losses not to exceed 1.25% of risk-weighted assets. The sum of Tier 1 capital and Tier 2 capital is "total risk-based capital."

The leverage ratio is a company's Tier 1 capital divided by its adjusted average total consolidated assets. The minimum required leverage ratio is 3.0% of Tier 1 capital to adjusted average assets for institutions with the highest regulatory rating of 1 under the CAMELS component rating system. All other institutions must maintain a minimum leverage ratio of 4.0%. For a tabular summary of the Company's and the Bank's risk-weighted capital and leverage ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operation-Capital Compliance" and Note 18 to the Company's consolidated financial statements.

In January 2010, the FRB adopted a final rule to amend its general risk-based capital adequacy and advanced risk-based capital adequacy framework and to address the accounting treatment of special purpose entities, known as "variable interest entities" often used in securitizations. The new rule requires variable interest entities to be treated as consolidated for risk-based capital purposes. Although the Company does not believe it currently has any variable interest entities required to be consolidated under GAAP, it is possible that such an entity could be used in future business operations.

Bank regulators from time to time consider raising or otherwise modifying the capital requirements of banking organizations beyond current levels. As an example, in September 2009, Treasury in its policy statement “Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms” stated that “A principal lesson of the recent crisis is that stronger, higher capital requirements for banking firms are absolutely essential.” In December 2010, federal bank regulators sought public comment on proposed rulemakings that would revise the market risk capital rules for banking organizations with significant trading authority as well as to amend the advanced risk-based capital adequacy standards (known as the advanced approaches rules generally applicable to global banking institutions). In addition, federal bank regulators are, as of December 2010, also seeking public comment on changes to the general risk-based capital rules for depository institutions to provide limited flexibility, consistent with Section 171 of the Dodd-Frank Act, to recognize the relative risk of certain assets generally not held by depository institutions. Such changes to the general risk-based capital rules for insured depository institutions, particularly regarding new minimum leverage and risk-based capital requirements, will serve as a “floor” for the capital requirements applicable to depository institution holding companies. Although federal bank regulators’ recent focus has been on addressing systemic risk by targeting global banking firms’ capital adequacy requirements, as the structure of the capital adequacy framework continues to be the subject of federal regulatory consideration, there is a possibility that greater capital adequacy requirements could be imposed on all participants in the domestic banking industry. Accordingly, the Company is unable to predict whether higher or otherwise modified capital requirements will be imposed, the amount or timing of any such increases or modifications and the potential effect of any future mandated use of increased risk-sensitive capital requirements. Therefore, the Company cannot predict what effect such changes to the existing capital requirements may have on it or on the Bank.

Enforcement Authority. The FRB has enforcement authority over bank holding companies and non-banking subsidiaries to forestall activities that represent unsafe or unsound practices or constitute violations of law. It may exercise these powers by issuing cease-and-desist orders or through other actions. The FRB may also assess civil penalties in amounts up to $1 million for each day’s violation against companies or individuals who violate the BHCA or related regulations. The FRB can also require a bank holding company to divest ownership or control of a non-banking subsidiary or require such subsidiary to terminate its non-banking activities. Certain violations may also result in criminal penalties.

The FDIC possesses comparable authority under the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation Improvement Act of 1991 (the “FDICIA”) and other statutes with respect to the Bank. In addition, the FDIC can terminate insurance of accounts, after notice and hearing, upon a finding that the insured institution is or has engaged in any unsafe or unsound practice that has not been corrected, is in an unsafe and unsound condition to continue operations, or has violated any applicable law, regulation, rule, or order of, or condition imposed by the appropriate supervisors.

The FDICIA required federal banking agencies to broaden the scope of regulatory corrective action taken with respect to depository institutions that do not meet minimum capital and related requirements and to take such actions promptly in order to minimize losses to the FDIC. In connection with FDICIA, federal banking agencies established capital measures (including both a leverage measure and a risk-based capital measure) and specified for each capital measure the levels at which depository institutions will be considered well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. If an institution becomes classified as undercapitalized, the appropriate federal banking agency will require the institution to submit an acceptable capital restoration plan and can suspend or greatly limit the institution’s ability to effect numerous actions including capital distributions, acquisitions of assets, the establishment of new branches and the entry into new lines of business.

Examination. The FRB may examine the Company and any or all of its subsidiaries. The FDIC examines and evaluates insured banks approximately every 12 months, and it may assess the institution for its costs of conducting the examinations. The FDIC has a reciprocal agreement with the Arkansas State Bank Department whereby each will accept the other’s examination reports in certain cases. The Bank generally undergoes FDIC and state examinations on a joint basis.

Reporting Obligations. As a bank holding company, the Company must file with the FRB an annual report and such additional information as the FRB may require pursuant to the BHCA. The Bank must submit to federal and state regulators annual audit reports prepared by independent auditors. The Company’s annual report, which includes the report of the Company’s independent auditors, can be used to satisfy this requirement. The Bank must submit quarterly, to the FDIC, Reports of Condition and Income (referred to in the banking industry as a Call Report).

Other Regulation. The Company's status as a registered bank holding company under the BHCA does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws. The Company is subject to the jurisdiction of the Securities and Exchange Commission and of state securities regulatory authorities for matters relating to the offer and sale of its securities.

The Bank's loan operations are subject to certain federal laws applicable to credit transactions, including, among others, the federal Truth In Lending Act of 1968, as amended ("TILA") governing disclosures of credit terms to consumer borrowers, the Home Mortgage Disclosure Act of 1975 requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves, the Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit, the FCRA governing the use and provision of information to credit reporting agencies, the Fair Debt Collection Practices Act governing the manner in which consumer debts may be collected by collection agencies, the Fair Housing Act prohibiting discriminatory practices relative to real estate related transactions, including the financing of housing and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. In addition, in November 2008, the United States Department of Housing and Urban Development published new final rules under the Real Estate Settlement and Procedures Act of 1974 ("RESPA"). The RESPA rules, which became effective in January 2009, are intended to afford consumers greater protection pertaining to federally related mortgage loans by requiring, among other things, improved and streamlined good faith estimate forms including clear summary information and improved disclosure of yield spread premiums. The Bank's loan operations will also be subject to the many requirements governing mortgages and lending practices set forth in the Dodd-Frank Act discussed above.

The Bank may from time to time submit a bid to the FDIC to acquire assets and assume liabilities of a failed depository institution, commonly referred to as a "failed bank." A bank typically goes into failure if it is unable to meet the capital or other safety and soundness requirements imposed on it by regulators under a prompt corrective action order. A bank "fails" when its chartering authority closes the bank and appoints the FDIC as receiver. Prior to the bank's closure the FDIC will conduct a bid process among potential acquirers, which are typically other banks. All qualified bidders, after being contacted by the FDIC and executing confidentiality agreements, will have access to the information package placed by the FDIC on a secure website. The FDIC typically uses a standard form of purchase and assumption agreement in which the bidder bids to purchase some or all of the assets of a failed bank and assume some or all of the liabilities, including insured deposits. The winning bid is selected by the FDIC on the basis of which bid will result in the least cost to the DIF, as required by the Federal Deposit Insurance Act. A failed bank will typically be closed at the end of business on Friday and the successful bidder-acquirer usually reopens the institution the next business day as a branch or group of branches of the acquirer. During 2010, the Bank acquired four non-Arkansas banks, one each in South Carolina and Florida, and two in Georgia. In January 2011, the Bank acquired a third Georgia bank.

The deposit operations of the Bank also are subject to, among other laws and regulations, the Right to Financial Privacy Act of 1978, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, the Electronic Funds Transfer Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services, the Truth in Savings Act requiring depository institutions to disclose the terms of deposit accounts to consumers, the Expedited Funds Availability Act requiring financial institutions to make deposited funds available according to specified time schedules and to disclose funds availability policies to consumers, and the Check Clearing for the 21st Century Act ("Check 21"), designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. Check 21 created a new negotiable instrument called a substitute check and permits but does not require banks to truncate original checks, process check information electronically, and deliver substitute checks to banks that wish to continue receiving paper checks.

State Regulation

The Company and the Bank are subject to examination and regulation by the Arkansas State Bank Department. Examinations of the Bank are typically conducted annually but may be extended to 24 months if an interim examination is performed by the FDIC. The Arkansas State Bank Department may also examine the activities of the Company in conjunction with their examination of the Bank. The extent of such examination will depend upon the complexity of the Company, the level of debt owed by the Company, and other criteria as determined by the Arkansas State Bank Department. Additionally, because the Company owns an Arkansas state-chartered bank, the Company is also required to submit certain reports filed with the FRB to the Arkansas State Bank Department.

Arkansas usury laws, historically very restrictive, have been preempted by federal law in recent years with respect to first lien residential real estate loans and certain loans guaranteed by the Small Business Administration. Additionally, the GLBA preempted the application of the Arkansas Constitution’s usury limits to the Bank effective November 12, 1999. Subsequently, in a test case involving undisputed facts, the Court of Appeals for the Eighth Circuit affirmed the U.S. District Court’s ruling that the preemptive provisions of the GLBA are valid under the United States Constitution. In November 2010 Arkansas voters approved an amendment to the Arkansas Constitution that, among other things, removed limitations on interest charged by banks in Arkansas, and instead allowed any insured depository institution having its main office in Arkansas to charge the maximum rate of interest applicable to insured depository institutions as effective March 1, 2009. Although litigation over this recently passed state constitutional amendment is continuing, based on earlier court decisions the Bank may charge interest at rates over and above the former limitations provided under Arkansas state law.

Under the Arkansas Banking Code of 1997, the acquisition by the Company of more than 25% of any class of the outstanding capital stock of any bank located in Arkansas would require approval of the Arkansas State Bank Commissioner (the “Bank Commissioner”). Further, no bank holding company may acquire any bank if after such acquisition the holding company would control, directly or indirectly, banks having 25% of the total bank deposits (excluding deposits from other banks and public funds) in the State of Arkansas. In addition, a bank holding company cannot own more than one bank subsidiary if any of its bank subsidiaries has been chartered for less than five years.

Since February 2009, the Bank Commissioner has had the authority, with the consent of the Governor of the State of Arkansas, to declare a state of emergency and temporarily modify or suspend banking laws and regulations in communities where such a state of emergency exists. By written order, the Bank Commissioner may also authorize a bank to close its offices and any day when such bank offices are closed will be treated as a legal holiday and any director, officer or employee of such bank shall not incur any liability. To date no such state of emergency has been declared to exist by the Bank Commissioner.

Bank Subsidiary

The lending and investment authority of the Bank is derived from Arkansas law. The lending power is generally subject to certain restrictions, including the amount which may be lent to a single borrower.

Regulations of the FDIC and the Arkansas State Bank Department limit the ability of the Bank to pay dividends to the Company without the prior approval of such agencies. FDIC regulations prevent insured state banks from paying any dividends from capital and allow the payment of dividends only from net profits then on hand after deduction for losses and bad debts. The Arkansas State Bank Department currently limits the amount of dividends that the Bank can pay the Company to 75% of the Bank’s net profits after taxes for the current year plus 75% of its retained net profits after taxes for the immediately preceding year.

Arkansas law requires state chartered banks to maintain such reserves as are required by the applicable federal regulatory agency. Federal banking laws require all insured banks to maintain reserves against their checking and transaction accounts (primarily checking accounts, NOW and Super NOW checking accounts). Because reserves must generally be maintained in cash, non-interest bearing accounts or in accounts that earn only a nominal amount of interest, the effect of the reserve requirements is to increase the Bank’s cost of funds.

Federal law substantially restricts transactions between financial institutions and their affiliates, particularly their non-financial institution affiliates. As a result, the Bank is sharply limited in making extensions of credit to the Company or any non-bank subsidiary, in investing in the stock or other securities of the Company or any non-bank subsidiary, in buying the assets of, or selling assets to, the Company and/or in taking such stock or securities as collateral for loans to any borrower. The Bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates, including the Company. In addition, limits are placed on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Most of these loans and certain other transactions must be secured in prescribed amounts. The Bank is also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated companies. The Bank is subject to restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Proposed Legislation For Bank Holding Companies And Banks

In addition to ongoing evaluation of capital adequacy guidelines, certain proposals affecting the banking industry have been discussed from time to time. Such proposals have included, but are not limited to, the following: regulation of all insured depository institutions by a single “super” federal regulator; limitations on the number of accounts protected by the federal deposit insurance funds and further modification of the coverage limit on deposits. During 2011, numerous regulatory agencies will be promulgating rules and regulations to implement the Dodd-Frank Act. It is uncertain which, if any, of the proposals discussed above in this Supervision and Regulation section, or other proposals not discussed herein, may become law and what effect such proposals or the remaining regulations to be promulgated to implement the Dodd-Frank Act will have on the Company and the Bank.

Available Information

The Company makes available, free of charge, through the Investor Relations section of its Internet website at www.bankozarks.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission. Also the Company’s Corporate Governance Principles, Corporate Code of Ethics, Audit Committee Charter, Information Systems Steering Committee Charter, Personnel and Compensation Committee Charter, Nominating and Governance Committee Charter, Loan Committee Charter, Trust Committee Charter and ALCO and Investments Committee Charter are available under the Investor Relations section on its website.

Forward-Looking Information

This Annual Report on Form 10-K, the Management’s Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein, other filings made by the Company with the Securities and Exchange Commission and other oral and written statements or reports by the Company and its management include certain forward-looking statements including, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions; plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future; revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, mortgage lending and trust income, gains (losses) on investment securities and sales of other assets; gains on FDIC-assisted transactions; non-interest expense; efficiency ratio; anticipated future operating results and financial performance; asset quality, including the effects of current economic and real estate market conditions; nonperforming loans and leases; nonperforming assets; net charge-offs; net charge-off ratio; provision for loan and lease losses; past due loans and leases; litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities including plans for making additional FDIC-assisted acquisitions and plans for opening new offices; opportunities and goals for future market share growth; expected capital expenditures; loan, lease and deposit growth; changes in covered assets; changes in the volume, yield and value of the Company’s investment securities portfolio; availability of unused borrowings and other similar forecasts and statements of expectation. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “look,” “seek,” “may,” “will,” “could,” “trend,” “target,” “goal,” and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs, plans and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management due to certain risks, uncertainties and assumptions. Certain factors that may affect operating results of the Company include, but are not limited to, potential delays or other problems in implementing the Company's growth and expansion strategy including delays in identifying satisfactory sites, hiring qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to enter into additional FDIC-assisted transactions; the ability to attract new deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates; competitive factors and pricing pressures, including their effect on the Company's net interest margin; general economic, unemployment, credit market and real estate market conditions, including their effect on the creditworthiness of borrowers and lessees, collateral values, the value of investment securities and asset recovery values, including the value of the FDIC loss share receivable and related covered assets; changes in legal and regulatory requirements; changes in regular or special assessments by the FDIC for deposit insurance; recently enacted and potential legislation and regulatory actions, including legislation intended to stabilize economic conditions and credit markets, increase regulation of the financial services industry and protect homeowners or consumers; changes in U.S. government monetary and fiscal policy; adoption of new accounting standards or changes in existing standards; and adverse results in future litigation as well as other factors described in this and other Company reports and statements. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in the forward-looking statements.

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Item 1A. RISK FACTORS

An investment in shares of the Company's common stock involves certain risks. The following risks and other information in this report or incorporated in this report by reference, including the Company's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," should be carefully considered in the evaluation of the Company before investing in shares of its common stock. These risks may adversely affect the Company's financial condition, results of operations or liquidity. Many of these risks are out of the Company's direct control, though efforts are made to manage those risks while optimizing financial results. These risks are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also adversely affect the Company's business and operation. This report is qualified in its entirety by all these risk factors.

RISKS RELATED TO OUR BUSINESS

Our Profitability is Dependent on Our Banking Activities.

Because the Company is a bank holding company, its profitability is directly attributable to the success of the Bank. The Company's banking activities compete with other banking institutions on the basis of service, convenience and price. Due in part to both regulatory changes and consumer demands, banks have experienced increased competition from other entities offering similar products and services. The Company relies on the profitability of the Bank and dividends received from the Bank for payment of its operating expenses, satisfaction of its obligations and payment of dividends. (See Note 18 to the consolidated financial statements contained in the Company's 2010 Annual Report incorporated into Item 8, Part II of this report for a discussion of dividend restrictions.) As is the case with other similarly situated financial institutions, the profitability of the Bank, and therefore the Company, will be subject to the fluctuating cost and availability of funds, changes in the prime lending rate and other interest rates, changes in economic conditions in general and, because of the location of its banking offices, changes in economic conditions in the southeastern and south central United States in particular.

We Depend on Key Personnel for Our Success.

The Company's operating results and ability to adequately manage its growth and minimize loan and lease losses are highly dependent on the services, managerial abilities and performance of its current executive officers and other key personnel. The Company has an experienced management team that the board of directors believes is capable of managing and growing the Bank. The Company does not have employment contracts with its executive officers and key personnel. Losses of or changes in its current executive officers or other key personnel and their responsibilities may disrupt the Company's business and could adversely affect the Company's financial condition, results of operations and liquidity. Additionally, the Company's ability to retain its current executive officers and other key personnel may be further impacted by existing and proposed legislation and regulations affecting the financial services industry. There can be no assurance that the Company will be successful in retaining its current executive officers or other key personnel.

Our Operations are Significantly Affected by Interest Rate Levels.

The Company's profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans, leases, loans covered by FDIC loss share agreements and investment securities and interest expense paid on deposits, other borrowings and subordinated debentures. The Company is affected by changes in general interest rate levels and changes in the differential between short-term and long-term interest rates, both of which are beyond its control. Interest rate risk can result from mismatches between the dollar amount of repricing or maturing assets and liabilities, as well as from mismatches in the timing and rate at which assets and liabilities reprice. Although the Company has implemented procedures it believes will reduce the potential effects of changes in interest rates on its results of operations, these procedures may not always be successful. In addition, any substantial, unexpected or prolonged change in market interest rates could adversely affect the Company's financial condition, results of operations and liquidity.

The Fiscal and Monetary Policies of the Federal Government and its Agencies Could Have a Material Adverse Effect on Our Earnings.

The FRB regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which may affect net interest income and net interest margin. Changes in the supply of money and credit can also materially decrease the value of financial assets held by the Company, such as debt securities. The FRB's policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans and leases. Changes in such policies are beyond the Company's control and difficult to predict; consequently, the impact of these changes on the Company's activities and results of operations is difficult to predict.

Our Business Depends on the Condition of the Local and Regional Economies Where We Operate.

A majority of the Company's business is located in Arkansas and Texas. As a result the Company's financial condition and results of operations may be significantly impacted by changes in the Arkansas and Texas economies. Further slowdown in economic activity, deterioration in housing markets or increases in unemployment and under-employment in Arkansas and Texas may have a significant and disproportionate impact on consumer confidence and the demand for the Company's products and services, result in an increase in non-payment of loans and leases and a decrease in collateral value, and significantly impact the Company's deposit funding sources. Any of these events could have an adverse impact on the Company's financial position, results of operations and liquidity. Additionally, given the Company's increasing presence in the southeastern United States, slowdown in economic activity, deterioration in housing markets or increases in unemployment and under-employment in those areas could also adversely impact the Company.

Our Business May Suffer if There are Significant Declines in the Value of Real Estate.

The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. There continues to be a lack of sustained improvement in economic activity and housing markets and elevated levels of unemployment and under-employment in many of the Company's markets, resulting in declining prices and excess inventories of houses to be sold in these markets. If the value of the real estate serving as collateral for the Company's loan and lease portfolio were to decline materially, a significant part of its loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, the Company may not be able to realize the value of security anticipated at the time of originating the loan, which in turn could have an adverse effect on the Company's provision for loan and lease losses and its financial condition, results of operations and liquidity.

Most of the Company's foreclosed assets held for sale are comprised of real estate properties. The Company carries these properties at their estimated fair values less estimated selling costs. While the Company believes the carrying values for such assets are reasonable and appropriately reflect current market conditions, there can be no assurance that the amount of proceeds realized upon disposition of foreclosed assets held for sale will approximate the carrying value of such assets. If the proceeds are less than the carrying value of foreclosed assets held for sale, the Company will record a loss on the disposition of such assets, which in turn could have an adverse effect on the Company's financial position and results of operations.

We are Subject to Environmental Liability Risk Associated With Lending Activities.

A significant portion of the Company's loan and lease portfolio is secured by real property. In the ordinary course of business, the Company may foreclose on and take title to real properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. The Company has policies and procedures that require either formal or informal evaluation of environmental risks and liabilities on real property before originating any loan or foreclosure action, except for (i) loans originated for sale in the secondary market secured by 1-4 family residential properties and (ii) certain loans where the real estate collateral is second lien collateral. These policies, procedures and evaluations may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have an adverse effect on the Company's financial condition, results of operations and liquidity.

If We Do Not Properly Manage Our Credit Risk, Our Business Could Be Seriously Harmed.

There are substantial risks inherent in making any loan or lease, including, but not limited to –

- risks resulting from changes in economic and industry conditions;
- risks inherent in dealing with individual borrowers;
- risks resulting from uncertainties as to the future value of collateral; and
- the risk of non-payment of loans and leases.

Although the Company attempts to minimize its credit risk through prudent loan and lease underwriting procedures and by monitoring concentrations of its loans and leases, there can be no assurance that these underwriting and monitoring procedures will reduce these risks. Moreover, as the Company expands into relatively new markets, credit administration and loan and lease underwriting policies and procedures may need to be adapted to local conditions. The inability of the Company to properly manage its credit risk or appropriately adapt its credit administration and loan and lease underwriting policies and procedures to local market conditions or changing economic circumstances could have an adverse impact on its provision for loan and lease losses and its financial condition, results of operations and liquidity.

We Make and Hold in Our Loan and Lease Portfolio a Significant Number of Construction/Land Development, Non-Farm/Non-Residential and Other Real Estate Loans.

The Company's loan and lease portfolio is comprised of a significant amount of real estate loans, including a large number of construction/land development and non-farm/non residential loans. The Company's real estate loans, excluding loans covered by FDIC loss share agreements, comprised 87.6% of its total loans and leases, excluding loans covered by FDIC loss share agreements, at December 31, 2010. In addition, excluding loans covered by FDIC loss share agreements, the Company's construction/land development and non-farm/non-residential loans, which are a subset of its real estate loans, comprised 26.8% and 36.5%, respectively, of the Company's total loan and lease portfolio at December 31, 2010. Real estate loans, including construction/land development and non-farm/non-residential loans, pose different risks than do other types of loan and lease categories. The Company believes it has established appropriate underwriting procedures for its real estate loans, including construction/land development and non-farm/non-residential loans, and has established appropriate allowances to cover the credit risk associated with such loans. However, there can be no assurance that such underwriting procedures are, or will continue to be, appropriate or that losses on real estate loans, including construction/land development and non-farm/non-residential loans, will not require additions to its allowance for loan and lease losses, and could have an adverse impact on the Company's financial position, results of operations or liquidity.

We Could Experience Deficiencies in Our Allowance for Loan and Lease Losses.

The Company maintains an allowance for loan and lease losses, established through a provision for possible loan and lease losses charged to expense, that represents the Company's best estimate of probable losses inherent in the existing loan and lease portfolio, excluding loans covered by FDIC loss share agreements. Although the Company believes that it maintains its allowance for loan and lease losses at a level adequate to absorb losses in its loan and lease portfolio, estimates of loan and lease losses are subjective and their accuracy may depend on the outcome of future events. Experience in the banking industry indicates that some portion of the Company's loans and leases may only be partially repaid or may never be repaid at all. Loan and lease losses occur for many reasons beyond the control of the Company. Accordingly, the Company may be required to make significant and unanticipated increases in the allowance for loan and lease losses during future periods which could materially affect the Company's financial position, results of operations and liquidity. Additionally, bank regulatory authorities, as an integral part of their supervisory functions, periodically review the Company's allowance for loan and lease losses. These regulatory authorities may require adjustments to the allowance for loan and lease losses or may require recognition of additional loan and lease losses or charge-offs based upon their judgment. Any increase in the allowance for loan and lease losses or charge-offs required by bank regulatory authorities could have an adverse effect on the Company's financial condition, results of operations and liquidity.

The Performance of Our Investment Securities Portfolio is Subject to Fluctuation Due to Changes in Interest Rates and Market Conditions, Including Credit Deterioration of the Issuers of Individual Securities.

Changes in interest rates can negatively affect the performance of most of the Company's investment securities. Interest rate volatility can reduce unrealized gains or create unrealized losses in the Company's portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond the Company's control. Fluctuations in interest rates can materially affect both the returns on and market value of the Company's investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

The Company's investment securities portfolio consists of a number of securities whose trading markets are "not active." As a result, management had to develop internal models or other methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that the Company could sell these investment securities at the price derived by the internal model or methodology, or that it could sell these investment securities at all, which could have an adverse effect on the Company's financial position, results of operation or liquidity.

Many state and local governments and other political subdivisions have experienced deterioration of financial condition in recent years due to declining tax revenues, increased demand for services and various other factors. As a result many bonds issued by state and local governments and other political subdivisions have experienced, and are continuing to experience, pricing pressure. To the extent the Company has any such securities in its portfolio from issuers who have experienced a deterioration of financial condition, or who may experience future deterioration of financial condition, the value of such securities may decline and could result in an other-than-temporary impairment charge, which could have an adverse effect on the Company's financial condition and results of operations.

Our Recent Results May Not Be Indicative of Our Future Results.

The Company may not be able to grow its business at the same rate of growth achieved in recent years or even grow its business at all. Additionally, in the future the Company may not have the benefit of several factors that have been favorable to the Company's business in past years, such as an interest rate environment where changes in rates occur at a relatively orderly and modest pace, the ability to find suitable expansion opportunities, including additional FDIC-assisted acquisitions, or otherwise to capitalize on opportunities presented by economic turbulence, or other factors and conditions. Numerous factors, such as weakening or deteriorating economic conditions, regulatory and legislative considerations, and competition may impede or restrict the Company's ability to expand its market presence or adversely impact its future operating results.

Our FDIC Deposit Insurance Premiums May Continue to Increase.

The FDIC has significantly increased premiums charged to all financial institutions for FDIC deposit insurance protection during recent years and such premiums may continue to increase in future years. The Company has historically paid at or near the lowest applicable premium rate under the FDIC's deposit insurance premium rate structure due to the Company's sound financial position. However, should bank failures continue to increase, deposit insurance premiums may continue to escalate further. These increased FDIC premiums could have an adverse impact on the Company's results of operations.

To Successfully Implement Our Growth and *De Novo* Branching Strategy, We Must Expand Our Operations in Both New and Existing Markets.

The Company intends to continue the expansion and development of its business by pursuing its growth and *de novo* branching strategy. Accordingly, the Company's growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by banking companies pursuing growth strategies. In order to successfully execute its growth strategy, the Company must, among other things:

- identify and expand into suitable markets;
- obtain regulatory and other approvals;
- identify and acquire suitable sites for new banking offices;

- attract and retain qualified bank management and staff;
- build a substantial customer base;
- maintain credit quality;
- attract sufficient deposits to fund anticipated loan and lease growth; and
- maintain adequate common equity and regulatory capital.

In addition to the foregoing factors, there are considerable costs involved in opening banking offices, and such new offices generally do not generate sufficient revenues to offset their costs until they have been in operation for some time. Therefore, any new banking offices the Company opens can be expected to negatively affect its operating results until those offices reach a size at which they become profitable. The Company could also experience an increase in expenses if it encounters delays in opening any new banking offices. Moreover, the Company cannot give any assurances that any new banking offices it opens will be successful, even after they have become established. If the Company does not manage its growth effectively, the Company's business, future prospects, financial condition and results of operations could be adversely affected.

The Company May Engage in FDIC-Assisted Transactions, Which Could Present Additional Risks To Its Business.

In the current economic environment, the Company has been and may be presented with additional opportunities to acquire the assets and assume liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in loan losses and losses on other covered assets and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are for failed banks and are structured in a manner that does not allow the Company the time normally associated with preparing for and evaluating an acquisition (including preparing for integration of an acquired institution), the Company may face additional risks when it engages in FDIC-assisted transactions. The assets that the Company acquires in such a transaction are generally more troubled than in a typical acquisition. The deposits that the Company assumes are generally higher priced than in a typical acquisition and therefore subject to higher attrition. Integration of operations may be more difficult in this type of acquisition than in a typical acquisition since key staff may have departed. Any inability to overcome these risks could have an adverse effect on the Company's ability to achieve its business objectives and maintain its market value and profitability.

The FDIC's initial approach to loss sharing provided for indemnification by the FDIC of the acquiring institution against loss equal to 80% of losses with respect to covered assets of the acquired institution up to a stated threshold and 95% of losses incurred by the acquiring institution with respect to such covered assets above the stated threshold. The FDIC modified its policy for transactions occurring after March 31, 2010 where the FDIC provides loss share assistance, and the indemnification in such transactions covers only 80% of all losses with respect to covered assets and no longer will cover 95% of such losses above a stated threshold. In August 2010, the FDIC further modified its policy for loss share assistance whereby the FDIC, depending on the size of the failing institution, may (i) establish up to three separate tranches for both single family residential real estate loans and for non-single family residential real estate loans and (ii) provides loss share assistance at varying levels for each of the tranches. In addition, certain consumer loans are not covered by FDIC loss sharing agreements. These modifications of the indemnification protection increase the risk of loss to acquiring institutions in FDIC-assisted transactions and could result in a material adverse effect on the Company's financial condition, results of operations or liquidity. There can be no assurance that the FDIC will not alter other terms of the loss share agreements in any future transactions, which could further increase the risks to the Company in the event it engages in any future FDIC-assisted transactions.

Moreover, if the Company seeks to participate in additional FDIC-assisted transactions, the Company can only participate in the bid process if it receives approval of bank regulators. There can be no assurance that the Company will be allowed to participate in the bid process, or what the terms of any such transaction might be or whether the Company would be successful in acquiring any bank or targeted assets. The Company may be required to raise additional capital as a condition to, or as a result of, participation in certain FDIC-assisted transactions. Any such transactions and related issuances of stock may have a dilutive effect on earnings per common share and share ownership.

Furthermore, to the extent the Company is allowed to, and chooses to, participate in future FDIC-assisted transactions, the Company may face competition from other financial institutions. To the extent that other competitors participate, the Company's ability to make acquisitions on favorable terms may be adversely affected. Additionally, if the Company acquires bank assets and operations through future FDIC-assisted transactions, the Company could encounter difficulties in achieving profitability of those operations.

Failure to Comply with the Terms of Loss Sharing Arrangements with the FDIC May Result in Significant Losses.

Any failure to comply with the terms of any loss share agreements the Bank has with the FDIC, or to properly service the loans and other real estate owned covered by any loss share agreements, may cause individual loans, large pools of loans or other covered assets to lose eligibility for reimbursement to the Bank from the FDIC. This could result in material losses that are currently not anticipated and could adversely affect the Company's financial condition, results of operations or liquidity.

Systems Conversions of Acquired Banks in FDIC-Assisted Acquisitions.

Subsequent to the acquisitions of failed banks in FDIC-assisted transactions, the various operating systems must be converted, in most cases, to the Bank's existing operating systems. These systems conversions require personnel with unique and specialized skills and require a significant amount of planning, coordination and effort of internal resources and third-party vendors. Any inability of the Company to hire or retain individuals with the appropriate skills or to effectively plan, coordinate and manage these systems conversions or any failure to effectively implement these systems conversions could have serious negative customer impact, exposing the Company and the Bank to reputational risk and adversely impacting the Company's financial condition, results of operations and liquidity.

Volatility and Disruptions in the Functioning of the Financial Markets and Related Liquidity Issues Could Continue or Worsen.

The U.S. and global financial markets have experienced significant volatility and disruption in recent years. The impact of this financial crisis, together with ongoing public concerns regarding the strength of financial institutions, has led to both significant distress in financial markets and issues relating to liquidity among financial institutions. As a result of concerns about the stability of the financial markets generally, the constriction in credit, the lack of public confidence in the financial sector, and the generally weak economic conditions, the Company can give no assurance that such circumstances will not have an adverse effect, which could be material, on its financial condition, results of operation and liquidity.

We Face Strong Competition in Our Markets.

Competition in many of the Company's banking markets is intense. The Company competes with other financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, leasing companies, money market mutual funds, asset-based non-bank lenders and other financial institutions and intermediaries, as well as non-financial institutions offering payroll, debit card and other services. Many of these competitors have an advantage over the Company through substantially greater financial resources, lending limits and larger distribution networks, and are able to offer a broader range of products and services. Other competitors, many of which are smaller than the Company, are privately held and thus benefit from greater flexibility in adopting or modifying growth or operational strategies than the Company. If the Company fails to compete effectively for deposit, loan, lease and other banking customers in the Company's markets, the Company could lose substantial market share, suffer a slower growth rate or no growth and its financial condition, results of operations and liquidity could be adversely affected.

The Soundness of Other Financial Institutions Could Adversely Affect Us.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more financial services institutions, or the financial services industry generally, may lead to further market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose the Company to credit risk in the event of default of its counterparty and could have a material adverse impact on the Company's financial position, results of operations and liquidity.

We Depend on the Accuracy and Completeness of Information About Customers.

In deciding whether to extend credit or enter into certain transactions, the Company relies on information furnished by or on behalf of customers, including financial statements, credit reports and other financial information. The Company may also rely on representations of those customers or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have an adverse impact on the Company's business, financial condition and results of operations.

We May Be Subject to Claims and Litigation Asserting Lender Liability.

From time to time, and particularly during periods of economic stress, customers, including real estate developers, may make claims or otherwise take legal action pertaining to the Company's performance of its responsibilities. These claims are often referred to as "lender liability" claims and are sometimes brought in an effort to increase leverage against the Company in workout negotiations. Lender liability claims frequently assert one or more of the following: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the Company's performance of its responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

We May Be Subject to General Claims and Litigation Liability.

In the ordinary course of business, the Company may be named as defendant or may otherwise face claims or legal action from a variety of sources including, among others, customers; vendors; regulatory agencies; federal, state or local governments; or employees. Such claims or legal action may include, among others, breach of contract, breach of fiduciary duty, discrimination, harassment, fraud and infringement of patents, copyrights or trademarks. Such claims or legal action may also make demands for substantial monetary damages and require substantial amounts of time and resources to defend. Should the Company be named as defendant or otherwise face such claims or legal actions, there can be no assurance that the Company would be successful in its defense against such actions, which could have a material adverse impact on the Company's financial position, results of operations and liquidity.

Our Internal Operations are Subject to a Number of Risks.

The Company's internal operations are subject to certain risks, including, but not limited to, information system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. The Company maintains a system of internal controls to mitigate the risks of many of these occurrences and maintains insurance coverage for certain risks. However, should an event occur that is not prevented or detected by the Company's internal controls, and is uninsured or in excess of applicable insurance limits, it could have an adverse impact on the Company's business, financial condition, results of operations and liquidity.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The future success of the Company will depend, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional operational efficiencies. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have an adverse impact on the Company's business, financial position, results of operations and liquidity.

The computer systems and network infrastructure in use by the Company could be vulnerable to unforeseen problems. The Company's operations are dependent upon the ability to protect its computer equipment against damage from fire, severe storm, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure of the Company's computer systems or network infrastructure that causes an interruption in operations could have an adverse effect on the Company's financial condition, results of operations and liquidity. In addition, the Company's operations are dependent upon its ability to protect the computer systems and network infrastructure against damage from physical break-ins, security breaches and other disruptive problems caused by Internet users or other users. Computer break-ins and other disruptions could jeopardize the security of information stored in and transmitted through the Company's computer systems and network, which may result in significant liability to the Company, as well as deter potential customers. Although the Company, with the help of third-party service providers, intends to continue to actively monitor and, where necessary, implement security technology and develop additional operational procedures to prevent damage or unauthorized access to its computer systems and network, there can be no assurance that these security measures or operational procedures will be successful. In addition, new developments or advances in computer capabilities or new discoveries in the field of cryptography could enable hackers to compromise or breach the security measures used by the Company to protect customer data. The Company's failure to maintain adequate security over its customers' personal and transactional information could expose the Company or the Bank to reputational risk and could have an adverse effect on the Company's financial condition, results of operations and liquidity.

We Rely on Certain External Vendors

The Company is reliant upon certain external vendors to provide products and services necessary to maintain its day-to-day operations. Accordingly, the Company's operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or the service level agreements. The Company maintains a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition and (iii) changes in the vendor's support for existing products and services. While the Company believes these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to the Company's operations, which could have a material adverse impact on the Company's business and its financial condition and results of operations.

We May Need to Raise Additional Capital in the Future to Continue to Grow, But That Capital May Not Be Available When Needed.

Federal and state bank regulators require the Company and the Bank to maintain adequate levels of capital to support operations. On December 31, 2010, the Company's and the Bank's regulatory capital ratios were at "well-capitalized" levels under bank regulatory guidelines. However, the Company's business strategy calls for the Company to continue to grow in its existing banking markets (internally and through opening additional offices) and to expand into new markets as appropriate opportunities arise. Growth in assets resulting from internal expansion and new banking offices at rates in excess of the rate at which the Company's capital is increased through retained earnings will reduce both the Company's and the Bank's capital ratios unless the Company and the Bank continue to increase capital. If the Company's or the Bank's capital ratios fell below "well-capitalized" levels, the FDIC deposit insurance assessment rate would increase until capital is restored and maintained at a "well-capitalized" level. Additionally, should the Company's or Bank's capital ratios fall below "well-capitalized" levels, certain funding sources could become more costly or could cease to be available to the Company until such time as capital is restored and maintained at a "well-capitalized" level. A higher assessment rate resulting in an increase in FDIC deposit insurance assessments, increased cost of funding or loss of funding sources could have an adverse affect on the Company's financial condition, results of operations and liquidity.

If, in the future, the Company needs to increase its capital to fund additional growth or satisfy regulatory requirements, its ability to raise that additional capital will depend on the Company's financial performance and on conditions at that time in the capital markets that are outside the Company's control. There is no assurance that the Company will be able to raise additional capital on terms favorable to it or at all. If the Company cannot raise additional capital when needed, the Company's ability to expand its operations through internal growth or to continue operations could be impaired.

Natural Disasters May Adversely Affect Us.

The Company's operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires, floods, hurricanes and earthquakes often occur. Such natural disasters could significantly impact the local population and economies and the Company's business, and could pose physical risks to the Company's properties. Although the Company's business is geographically dispersed throughout Arkansas, Texas and the southeastern United States, a significant natural disaster in or near one or more of the Company's markets could have a material adverse impact on the Company's financial condition, results of operations or liquidity.

Risk of Pandemic.

In recent years the outbreak of a number of diseases including Avian Bird Flu, H1N1, and various other "super bugs" have increased the risk of a pandemic. Should a pandemic occur in one or more of the markets where the Company's operations are located, the Company could experience a loss of business, a shortage of employees, or various other adverse effects which could have a material adverse impact on the Company's business and its financial condition and results of operations.

RISKS ASSOCIATED WITH OUR INDUSTRY

We are Subject to Extensive Government Regulation That Limits or Restricts Our Activities and Could Adversely Impact Our Operations.

The Company and the Bank operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Compliance with these regulations is costly and restricts certain activities, including payment of dividends, mergers and acquisitions, investments, interest rates charged for loans and leases, interest rates paid on deposits, locations of banking offices and various other activities and aspects of the Company's and Bank's operations. The Company and the Bank are also subject to capital guidelines established by regulators which require maintenance of adequate capital. Many of these regulations are intended to protect depositors, the public and the FDIC's DIF rather than shareholders.

The Sarbanes-Oxley Act of 2002 and the related rules and regulations issued by the SEC and the Nasdaq Stock Market, as well as numerous other regulations, including the Dodd-Frank Act and related amendments, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices, including the costs of completing the Company's external audit and maintaining its internal controls.

Government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, and increases the cost to the Company of complying with regulatory requirements. Additionally, the failure to comply with these various rules and regulations could subject the Company or the Bank to monetary penalties or sanctions or otherwise expose the Company or Bank to reputational risk and could adversely affect its results of operations.

Newly Enacted and Proposed Legislation and Regulations May Affect Our Operations and Growth.

To address the continuing turbulence in the U.S. economy and the banking and financial markets, the U.S. government has recently enacted a series of laws, regulations, guidelines and programs, many of which are discussed in the Supervision and Regulation section of this report.

Because of the recency and speed with which these and other regulatory measures have been enacted, the Company and the Bank are continuing to assess the impact of such regulatory measures on their business, financial condition, results of operations and liquidity. Additionally, in the routine course of regulatory oversight, proposals to change the laws and regulations governing the operations and taxation of, and federal deposit insurance premiums paid by, banks and other financial institutions and companies that control financial institutions are frequently raised in the U.S. Congress, state legislatures and before bank regulatory authorities.

The likelihood of significant changes in laws and regulations in the future and the impact that such changes might have on the Company or the Bank are impossible to determine. Similarly, proposals to change the accounting and financial reporting requirements applicable to banks and other depository institutions are frequently raised by the SEC, the federal banking agencies, the Internal Revenue Service and other authorities. Further, federal intervention in financial markets and the commensurate impact on financial institutions may adversely affect the Company's or the Bank's rights under contracts with such other institutions and the way in which the Company conducts business in certain markets. The likelihood and impact of any future changes in these accounting and financial reporting requirements and the impact these changes might have on the Company or the Bank are also impossible to determine at this time.

There Can Be No Assurance that Enacted Legislation or Any Proposed Federal Programs Will Stabilize the U.S. Financial System and Such Legislation and Programs May Adversely Affect Us.

Several federal acts, programs and guidelines have been either signed into law or promulgated by Congress, the Treasury or the FDIC in recent months and additional laws, regulations, programs and guidance are likely to continue to be enacted in the future. There can be no assurance, however, as to the actual impact that these acts, regulations, programs and guidelines or any other governmental program will have on the financial markets. The lack of stable financial markets or a worsening of current financial market conditions could materially and adversely affect the Company's business, financial condition, results of operations, and access to credit or the trading price of its common stock.

The Earnings of Financial Services Companies are Significantly Affected by General Business and Economic Conditions.

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond its control. Deterioration in economic conditions could result in an increase in loan and lease delinquencies and non-performing assets, decreases in loan and lease collateral values and a decrease in demand for products and services, among other things, any of which could have an adverse impact on the Company's financial condition, results of operations and liquidity.

Consumers May Decide Not to Use Local Banks to Complete their Financial Transactions.

Technology and other changes are allowing parties to complete, through alternative methods, financial transactions that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as local bank deposits in brokerage accounts, mutual funds with an Internet-only bank, or with virtually any bank in the country through on-line banking. Consumers can also complete transactions such as purchasing goods and services, paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower-cost deposits as a source of funds could have an adverse effect on the Company's financial condition, results of operations and liquidity.

RISKS ASSOCIATED WITH OUR COMMON STOCK

Our Common Stock Price is Affected by a Variety of Factors, Many of Which are Outside Our Control.

Stock price volatility may make it more difficult for investors to resell shares of the Company's common stock at times and prices they find attractive. The Company's common stock price can fluctuate significantly in response to a variety of factors, including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations or changes in recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;

- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving the Company or its competitors; and
- changes in governmental regulations.

General market fluctuations, industry factors and general economic and political conditions and events such as economic slowdowns, interest rate changes, credit loss trends and various other factors and events could adversely impact the price of the Company's common stock.

We Cannot Guarantee That We Will Pay Dividends to Common Shareholders in the Future.

The Company's principal business operations are conducted through the Bank. Cash available to pay dividends to the Company's common shareholders is derived primarily, if not entirely, from dividends paid by the Bank. The ability of the Bank to pay dividends, as well as the Company's ability to pay dividends to its common shareholders, will continue to be subject to and limited by the results of operations of the Bank and by certain legal and regulatory restrictions. Further, any lenders making loans to the Company or Bank may impose financial covenants that may be more restrictive than regulatory requirements with respect to the Company's payment of dividends to common shareholders. Accordingly, there can be no assurance that the Company will continue to pay dividends to its common shareholders in the future.

Certain State and/or Federal Laws May Deter Potential Acquirors and May Depress Our Stock Price.

Certain provisions of federal and state laws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. Under certain federal and state laws, a person, entity, or group must give notice to applicable regulatory authorities before acquiring a significant amount, as defined by such laws, of the outstanding voting stock of a bank holding company, including the Company's common shares. Regulatory authorities review the potential acquisition to determine if it will result in a change of control. The applicable regulatory authorities will then act on the notice, taking into account the resources of the potential acquiror, the potential antitrust effects of the proposed acquisition and numerous other factors. As a result, these statutory provisions may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

The Holders of Our Subordinated Debentures Have Rights That are Senior to Those of Our Common Shareholders.

At December 31, 2010 the Company had an aggregate of $64.9 million of floating rate subordinated debentures and related trust preferred securities outstanding. The Company guarantees payment of the principal and interest on the trust preferred securities, and the subordinated debentures are senior to shares of the Company's common stock. As a result, the Company must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on its common stock and, in the event of bankruptcy, dissolution or liquidation, the holders of the subordinated debentures must be satisfied before any distributions can be made to the holders of common stock. The Company has the right to defer distributions on its subordinated debentures and the related trust preferred securities for up to five years, during which time no dividends may be paid to holders of its common stock.

Our Directors and Executive Officers Own a Significant Portion of Our Stock.

The Company's directors and executive officers, as a group, beneficially owned 18.7% of its common stock as of February 18, 2011. As a result of their aggregate beneficial ownership, directors and executive officers have the ability, by voting their shares in concert, to significantly influence the outcome of matters submitted to the Company's shareholders for approval, including the election of its directors.

Our Common Stock Trading Volume May Not Provide Adequate Liquidity for Investors.

Although shares of the Company's common stock are listed on the NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of many larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the daily average trading volume of the Company's common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of the Company's common stock.

Our Common Stock is Not an Insured Deposit.

The Company's common stock is not a bank deposit and, therefore, losses in its value are not insured by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report, and is subject to the same market forces and investment risks that affect the price of common stock in any other company, including the possible loss of some or all principal invested.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

The Company serves its customers by offering a broad range of banking services from the following banking locations as of December 31, 2010:

Banking Facility [1]	Year Opened	Square Footage
Cumming, Georgia (Freedom Parkway) [2]	2010	5,000
Marble Hill, Georgia (Holcomb Way) [2]	2010	2,400
Dawsonville, Georgia (500 Highway 53 East) [2]	2010	2,400
Dawsonville, Georgia (6639 Highway 53 East) [2]	2010	11,200
Palmetto, Florida (8th Avenue) [3]	2010	3,731
Bradenton, Florida (53rd Avenue) 4)	2010	7,000
Bradenton, Florida (59th Street) [5]	2010	3,812
Benton (Alcoa Road)	2010	5,400
Bluffton, South Carolina (Sherington) [6]	2010	2,190
Savannah, Georgia (Stephenson) [7]	2010	3,216
Mobile, Alabama (Dauphin) [8]	2010	4,100
Wilmington, North Carolina (Military Cutoff) [9]	2010	7,162
Cartersville, Georgia (Joe Frank Harris Pkwy.)	2010	12,362
Adairsville, Georgia (Adairsville Hwy.)	2010	4,007
Rome, Georgia (Three Rivers)	2010	4,180
Cartersville, Georgia (Henderson)	2010	4,180
Calhoun, Georgia (Bryant Pkwy.)	2010	4,180
Allen, Texas (Bethany & Waters)	2009	6,176
Little Rock (Capitol Avenue)	2009	6,721
Little Rock (Rahling Road)	2008	89,048
Lewisville, Texas (Round Grove Rd.)	2008	4,352
Rogers (New Hope Road)	2007	9,312
Frisco, Texas (Preston & Lebanon)	2007	12,023
Fayetteville (Wedington Drive)	2007	2,784
Hot Springs (Malvern Avenue)	2007	3,575
Ozark (Porter Hillard Banking Center)	2006	9,600
Rogers (Pleasant Grove)	2006	2,784
Frisco, Texas (Lebanon & Tollway)	2006	3,575
Bella Vista (Sugar Creek Center)	2006	3,575
Bella Vista (Highlands Lancashire)	2006	3,575
Fayetteville (Crossover) [10]	2006	5,176
Hot Springs (Albert Pike)	2006	2,784
Springdale (Jones Road)	2006	2,784
Texarkana (Arkansas Blvd.)	2006	4,352
Texarkana, Texas (Richmond Road)	2006	3,016
Bentonville (Walton & Dodson)	2006	9,312
Hot Springs (Central).	2006	5,176
Rogers (47th & Olive)	2006	2,784
Texarkana, Texas (Summerhill)	2005	9,312
Bentonville (Highway 102)	2005	2,784
Russellville (3110 West Main)	2005	2,784
Benton (Highway 35)	2005	2,400
Mountain Home (Hwy. 62 East)	2005	2,784
North Little Rock (Camp Robinson Road)	2005	2,400
Mountain Home (Hwy. 5 North)	2005	5,176
Sherwood (Hwy. 107) [11]	2004	2,400
Little Rock (Rodney Parham & West Markham) [12]	2004	4,576
Dallas, Texas (Preston Sherry Plaza) [13]	2004	2,810
North Little Rock (East McCain)	2004	2,784

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Banking Facility [1]	Year Opened	Square Footage
Conway (East Oak Street)	2004	2,400
Russellville (East Parkway)	2004	2,800
Van Buren (Main Street)	2004	2,260
Cabot (South 2nd Street)	2004	2,800
Conway (Harkrider)	2004	2,400
Benton (Military Road)	2003	2,784
Fort Smith (Phoenix)	2003	2,250
Russellville (405 West Main)	2003	7,644
Little Rock (Taylor Loop & Cantrell)	2003	2,400
Bryant (Highway 5)	2003	2,784
Cabot (West Main)	2003	4,400
Conway (Prince & Salem)	2003	2,464
Hot Springs Village (Cranford's) [14]	2002	449
Conway (Old Morrilton Hwy.)	2002	4,350
Maumelle (Audubon Dr.)	2002	3,576
Lonoke (East Front)	2001	5,731
Little Rock (Otter Creek)	2001	2,400
Fort Smith (Zero)	2001	2,784
Yellville (West Old Main)	2000	2,716
Clinton (Hwy. 65 South)	1999	2,784
North Little Rock (North Hills) [15]	1999	4,350
Harrison (North Walnut)	1999	14,000
Fort Smith (Rogers)	1998	22,500
Little Rock (Cantrell)	1998	2,700
Little Rock (Chenal/Markham) [16]	1998	5,264
Little Rock (Rodney Parham)	1998	2,500
Little Rock (Chester)	1998	1,716
Bellefonte (Hwy. 65 South)	1997	1,444
Alma (Hwy. 71 North)	1997	4,200
Paris (East Walnut)	1997	3,100
Mulberry (Mulberry Hwy. 64 W.)	1997	1,875
Harrison (Hwy. 62 & 65 North)	1996	3,300
Clarksville (Rogers)	1995	3,300
Van Buren (Pointer Trail)	1995	2,520
Marshall (Hwy. 65 North) [17]	1995 (expanded 2005)	4,120
Clarksville (West Main)	1994	2,520
Ozark (Westside)	1993	2,520
Western Grove (Hwy. 123 & 65)	1976 (expanded 1991)	2,610
Altus (Franklin St.)	1972 (rebuilt 1998)	1,500
Ozark Operation Center (600 W. Commercial) [18]	1985 (expanded in 2010)	44,794
Jasper (East Church St.)	1967 (expanded 1984)	4,408

(1) Unless otherwise indicated, (i) the Company owns such banking locations and (ii) the locations are in Arkansas.

(2) The facilities are currently owned by the FDIC and the Company has an option, which expires on March 17, 2011, to purchase these facilities from the FDIC at appraised value. Management is currently evaluating these facilities and expects to exercise its option to purchase such facilities on or prior to its expiration.

(3) The Company leases this facility with an initial term of five years expiring May 18, 2015 with two renewal options of five years each.

(4) The ownership of this facility is under dispute between the holding company of the former Horizon Bank and the FDIC. Until this dispute is resolved, the Bank is currently occupying this facility on a month-to-month basis. If the FDIC, as Receiver of Horizon Bank, is successful in acquiring this facility, the Company expects to exercise its option to purchase such facility on or prior to its expiration.
(5) The Company leases this facility with an initial term of five years expiring February 9, 2016 with one renewal option of five years.
(6) The Company leases this facility with an initial term of two years expiring November 29, 2012 with four renewal options of two years each.
(7) The Company leases this facility with an initial term of three years expiring November 30, 2013 with two renewal options of three years each.
(8) The Company leases this facility with an initial term of thirty months expiring March 31, 2013 with two renewal options of two years each.
(9) The Company leases this facility with an initial term of three years expiring September 30, 2013 with two renewal options of three years each.
(10) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring May 13, 2024 with six renewal options of five years each.
(11) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring January 10, 2024 with four renewal options of five years each.
(12) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring October 31, 2023 with six renewal options of five years each.
(13) The Company leases this facility under an initial term of sixty-five months expiring March 31, 2016. This lease has no renewal options.
(14) The Company leases this facility, with an initial term of five years which expired July 31, 2007, subject to five renewal options of three years each. The Company is currently in the second, three-year automatic renewal option expiring July 31, 2013.
(15) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring May 31, 2019, subject to four renewal options of five years each.
(16) This building, which is owned by the Company and previously served as the Company's corporate headquarters, has 40,000 square feet of which 5,264 are currently used for retail banking operations. The Company leased the remaining portion of this facility to a single tenant for an initial 10-year term expiring November 30, 2019.
(17) The Company owns the building and leases the land at this location. The initial lease term is thirty years expiring February 28, 2024 with three renewal options of ten years each.
(18) In addition to this operations center, the Company owns two ancillary facilities located in Ozark, Arkansas. These facilities include a 4,200 square foot operations annex building which was acquired in 2005 and a 5,000 square foot warehouse building which was constructed in 1992. None of these facilities has a retail banking office.

In addition to the above banking locations, the Company has a loan production office located in Charlotte, North Carolina. The office is maintained in a leased facility with an original lease term of 48 months beginning April 20, 2009.

While management believes its existing banking locations are adequate for its present operations, the Company expects to continue its growth strategy through *de novo* branching and FDIC-assisted acquisitions of failed banks. During the first quarter of 2011, the Company opened two metro-Dallas offices and expects to open a third metro-Dallas office during the second quarter of 2011. On January 14, 2011 the Company acquired two offices in Georgia, including Brunswick and St. Simons Island, as a result of its FDIC-assisted acquisition of Oglethorpe.

Item 3. LEGAL PROCEEDINGS

The Company is party to various litigation matters arising in the ordinary course of business. Although the ultimate resolution of these matters cannot be determined at this time, management of the Company does not believe such matters, individually or in the aggregate, will have a material adverse effect on the future results of operations, financial condition or liquidity of the Company.

Item 4. RESERVED

PART II

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

The Company's Common Stock is listed on the NASDAQ Global Select Market under the symbol "OZRK" and as of February 18, 2011 the Company had 197 holders of record representing approximately 8,879 beneficial owners. The other information required by Item 201 of Regulation S-K is contained in the Company's 2010 Annual Report under the heading "Summary of Quarterly Results of Operations, Market Prices of Common Stock and Dividends" on page 48, in the Company's Proxy Statement (the "Proxy Statement") for the 2011 annual meeting under the heading "Equity Compensation Plan Information" on page 9, in the Company's 2010 Annual Report under the heading "Company Performance" on page 49 and in this Form 10-K under the heading "We Cannot Guarantee That We Will Pay Dividends to Common Shareholders in the Future" on page 31, which information is incorporated herein by this reference.

There were no sales of the Company's unregistered securities during the period covered by this report that have not been previously disclosed in the Company's quarterly reports on Form 10-Q or its current reports on Form 8-K.

During the fourth quarter of the fiscal year covered by this report, there were no purchases of the registrant's equity securities by, or on behalf of, the Company or any "affiliated purchaser," as defined in §240.10b-18(a)(3) of the Securities Exchange Act of 1934.

Item 6. SELECTED FINANCIAL DATA

The information required by Item 301 of Regulation S-K is contained in the Company's 2010 Annual Report under the heading "Selected Consolidated Financial Data" on page 9, which information is incorporated herein by this reference.

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

The information required by Item 303 of Regulation S-K is contained in the Company's 2010 Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 10 through 47, which information is incorporated herein by this reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 305 of Regulation S-K is contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2010 Annual Report under the heading "Interest Rate Risk" on pages 43 and 44, which information is incorporated herein by this reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Part 210 of Regulation S-X and by Item 302 of Regulation S-K is contained in the Company's 2010 Annual Report on pages 53 through 88 and under the heading "Summary of Quarterly Results of Operations, Market Prices of Common Stock and Dividends" on page 48, which information is incorporated herein by this reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which are defined under SEC rules as 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 required time periods. Based upon that evaluation, the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective.

(b) Internal Control over Financial Reporting.

The information required by Item 308(a) and 308(b) of Regulation S-K regarding management's annual report on internal control over financial reporting and the audit report of the independent registered public accounting firm are contained in the Company's 2010 Annual Report on pages 50 and 51, which information is incorporated herein by this reference.

The Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, have evaluated any changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of its 2010 fiscal year and have concluded that there was no change during the Company's fourth quarter of its 2010 fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Nominees for Election as Directors" on pages 3 through 4, which information is incorporated herein by this reference. In accordance with Item 401(b) of Regulation S-K, Instruction 3, information concerning the Company's executive officers is furnished in a separate item captioned "Executive Officers of Registrant" in Part I above.

The information required by Item 405 of Regulation S-K regarding the Company's disclosure of any failure of its executive officers and directors to file on a timely basis reports of ownership and subsequent changes of ownership with the Securities and Exchange Commission is contained in its Proxy Statement for the 2011 annual meeting under the heading "Section 16(A) Beneficial Ownership Reporting Compliance" on page 25, which information is incorporated herein by this reference.

In accordance with Item 406 of Regulation S-K, the Company has adopted a code of ethics that applies to certain Company executives. The code of ethics is posted on the Company's Internet website at www.bankozarks.com under "Investor Relations."

There were no material changes to the procedures by which security holders may recommend nominees to the Company's board of directors that are required to be reported by Item 407(c)(3) of Regulation S-K.

The information required by Item 407(d)(4) and Item 407(d)(5) of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Committees" on pages 6 through 7, which information is incorporated herein by this reference.

Item 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Compensation Discussion and Analysis" on pages 12 through 22 and under the heading "Director Compensation" on page 23, which information is incorporated herein by this reference.

The information required by Item 407(e)(4) of Regulation S-K is included in the Company's Proxy Statement for the 2011 annual meeting under the heading "Compensation Committee Interlocks and Insider Participation" on page 24, which information is incorporated herein by this reference.

The information required by Item 407(e)(5) of Regulation S-K is included in the Company's Proxy Statement for the 2011 annual meeting under the heading "Compensation Committee Report" on page 22 which information is incorporated herein by this reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Equity Compensation Plan Information" on page 9, which information is incorporated herein by this reference. The information required by Item 403 of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Security Ownership of Certain Beneficial Owners" on page 10 and under the heading "Security Ownership of Management" on page 11, which information is incorporated herein by this reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 404 of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Certain Transactions" on page 25, which information is incorporated herein by this reference. The information required by Item 407(a) of Regulation S-K is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Nominees for Election as Directors" on pages 3 through 4, which information is incorporated herein by this reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A regarding audit fees, audit committee pre-approval policies, and related information is contained in the Company's Proxy Statement for the 2011 annual meeting under the heading "Audit Fees; Auditors to be Present" on pages 25 through 26, which information is incorporated herein by this reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List the following documents filed as a part of this report:

(1) The consolidated financial statements of the Registrant.

Consolidated Balance Sheets as of December 31, 2010 and 2009.

Consolidated Statements of Income for the Years Ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008.

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules.

Summary of Quarterly Results of Operations, Market Prices of Common Stock and Dividends.

(3) Exhibits.

See Item 15(b) to this Annual Report on Form 10-K.

(b) Exhibits.

The exhibits to this Annual Report on Form 10-K are listed in the Exhibit Index at the end of this Item 15.

(c) Financial Statement Schedules.

Not applicable.

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EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated by reference to previously filed material.

Exhibit No.	
2(i)	Purchase and Assumption Agreement, dated as of March 26, 2010, among Federal Insurance Deposit Corporation, Receiver of Unity National Bank, Cartersville, Georgia, Federal Deposit Insurance Corporation and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, as amended, filed with the Commission on April 1, 2010, and incorporated herein by this reference).
2(i) (a)	Purchase and Assumption Agreement, dated as of July 16, 2010, among Federal Insurance Deposit Corporation, Receiver of Woodlands Bank, Bluffton, South Carolina, Federal Deposit Insurance Corporation and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, as amended, filed with the Commission on July 22, 2010, and incorporated herein by this reference).
2(i) (b)	Purchase and Assumption Agreement, dated as of September 10, 2010, among Federal Insurance Deposit Corporation, Receiver of Horizon Bank, Bradenton, Florida, Federal Deposit Insurance Corporation and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, as amended, filed with the Commission on September 16, 2010, and incorporated herein by this reference).
2(i) (c)	Purchase and Assumption Agreement, dated as of December 17, 2010, among Federal Insurance Deposit Corporation, Receiver of Chestatee State Bank, Dawsonville, Georgia, Federal Deposit Insurance Corporation and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, as amended, filed with the Commission on December 23, 2010, and incorporated herein by this reference)
3.1	Amended and Restated Articles of Incorporation of the Registrant, dated May 22, 1997 (previously filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Commission on May 22, 1997, as amended, Commission File No. 333-27641, and incorporated herein by this reference).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant dated December 9, 2003 (previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Commission for the year ended December 31, 2003, and incorporated herein by this reference).
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks, Inc., dated December 10, 2008 (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on December 10, 2008, and incorporated herein by this reference).
3.4	Amended and Restated By-Laws of the Registrant, dated December 11, 2007 (previously filed as Exhibit 3(ii) to the Company's Current Report on Form 8-K filed with the Commission on December 11, 2007, and incorporated herein by this reference).
4.1	Amended and Restated Declaration of Trust, by and among U.S. Bank National Association, as Institutional Trustee, Bank of the Ozarks, Inc. as Sponsor, and George G. Gleason, Mark D. Ross and Paul E. Moore, as Administrators, dated as of September 29, 2003 (previously filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.2	Form of Capital Security Certificate (previously filed as Exhibit 4.2 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.3	Form of Common Security Certificate (previously filed as Exhibit 4.3 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.4	Indenture, by and between Bank of the Ozarks, Inc. and U.S. Bank National Association, as debenture trustee, dated as of September 29, 2003 (previously filed as Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).

4.5	Guarantee Agreement, by and among Bank of the Ozarks, Inc. and U.S. Bank National Association, dated as of September 29, 2003 (previously filed as Exhibit 4.5 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.6	Amended and Restated Declaration of Trust, by and among Wilmington Trust Company, as Delaware Trustee and as Institutional Trustee, Bank of the Ozarks, Inc., as Sponsor, George G. Gleason, as Administrator, Mark D. Ross, as Administrator, and Paul E. Moore, as Administrator, dated as of September 25, 2003 (previously filed as Exhibit 4.6 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.7	Form of Capital Security Certificate (previously filed as Exhibit 4.7 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.8	Form of Common Security Certificate (previously filed as Exhibit 4.8 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.9	Indenture, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as trustee, dated as of September 25, 2003 (previously filed as Exhibit 4.9 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.10	Guarantee Agreement, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as trustee, dated as of September 25, 2003 (previously filed as Exhibit 4.10 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference).
4.11	Second Amended and Restated Bank of the Ozarks, Inc. Non-Employee Director Stock Option Plan (As Amended and Restated as of April 20, 2004) (previously filed as Exhibit 4.1 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended June 30, 2004, and incorporated herein by this reference).
4.12	Amended and Restated Declaration of Trust, by and among Wilmington Trust Company, as Institutional Trustee, Bank of the Ozarks, Inc. as Sponsor, and George G. Gleason, Mark D. Ross and Paul E. Moore, as Administrators, dated as of September 28, 2004 (previously filed as Exhibit 4.2 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.13	Form of Capital Security Certificate (previously filed as Exhibit 4.3 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.14	Form of Common Security Certificate (previously filed as Exhibit 4.4 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.15	Indenture by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as debenture trustee, dated as of September 28, 2004 (previously filed as Exhibit 4.5 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.16	Form of Debt Security Certificate (previously filed as Exhibit 4.6 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.17	Guarantee Agreement, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, dated as of September 28, 2004 (previously filed as Exhibit 4.7 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference).
4.18 (a)	Amended and Restated Declarations of Trust of Ozark Capital Statutory Trust V, dated as of September 29, 2006 (previously filed as Exhibit 4.1 (a) to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
4.18 (b)	Terms of Capital Securities and Common Securities (previously filed as Exhibit 4.1 (b) and included as Annex I to Exhibit 4.1 to the Company’s quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).

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4.19	Form of Capital Security Certificate (previously filed as Exhibit 4.2 and included as Exhibit A-1 to Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
4.20	Form of Common Security Certificate (previously filed as Exhibit 4.3 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
4.21	Indenture dated as of September 29, 2006, by and between Bank of the Ozarks, Inc. and LaSalle Bank National Association, as Trustee (previously filed as Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
4.22	Form of Junior Subordinated Debt Security Certificate due 2036 (previously filed as Exhibit 4.5 and included as Exhibit A to Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
4.23	Guarantee Agreement dated as of September 29, 2006, by and between Bank of the Ozarks, Inc. and LaSalle Bank National Association, as Trustee (previously filed as Exhibit 4.6 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference).
10.1	Bank of the Ozarks, Inc. Stock Option Plan, as amended April 17, 2007 (previously filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended March 31, 2007, and incorporated herein by this reference).
10.2	Form of Indemnification Agreement between the Registrant and its directors and certain of its executive officers (previously filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed with the Commission on May 22, 1997, as amended, Commission File No. 333-27641, and incorporated herein by this reference).
10.3	Bank of the Ozarks, Inc. Deferred Compensation Plan, dated January 1, 2005 (previously filed as Exhibit 10 (iii) (A) to the Company's current report on Form 8-K filed with the Commission on December 14, 2004, and incorporated herein by this reference).
10.4	Bank of the Ozarks, Inc. 2009 Restricted Stock Plan (previously filed as Appendix A to the Company's Proxy Statement for the 2009 annual meeting filed with the Commission on March 4, 2009, and incorporated herein by this reference).
10.5	Redemption Letter Agreement, dated November 4, 2009, by and between Bank of the Ozarks, Inc. and the United States Department of the Treasury (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on November 4, 2009, and incorporated herein by this reference).
13	Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2010 which are incorporated herein by this reference: pages 9 through 88 of such Annual Report (attached).
21	List of Subsidiaries of the Registrant (attached).
23.1	Consent of Crowe Horwath, LLP (attached).
31.1	Certification of Chairman and Chief Executive Officer (attached).
31.2	Certification of Chief Financial Officer and Chief Accounting Officer (attached).
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (attached)
32.2	Certification of Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (attached).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BANK OF THE OZARKS, INC.

By: /s/ George Gleason
Chairman and Chief Executive Officer

Date: March 10, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ George Gleason George Gleason	Chairman of the Board, Chief Executive Officer and Director	March 10, 2011
/s/ Mark Ross Mark Ross	Vice Chairman, President, Chief Operating Officer and Director	March 10, 2011
/s/ Greg McKinney Greg McKinney	Chief Financial Officer and Chief Accounting Officer	March 10, 2011
/s/ Jean Arehart Jean Arehart	Director	March 10, 2011
/s/ Richard Cisne Richard Cisne	Director	March 10, 2011
/s/ Robert East Robert East	Director	March 10, 2011
/s/ Linda Gleason Linda Gleason	Director	March 10, 2011

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/s/ Henry Mariani Henry Mariani	Director	March 4, 2011
/s/ James Matthews James Matthews	Director	March 10, 2011
/s/ Dr. R. L. Qualls Dr. R. L. Qualls	Director	March 10, 2011
/s/ Kennith Smith Kennith Smith	Director	March 10, 2011

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Section 2: EX-13 (PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO SHAREHOLDERS)

Exhibit 13

Financial Information
Selected Consolidated Financial Data

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share amounts)				
Income statement data:					
Interest income	$ 157,972	$ 165,908	$ 183,003	$ 176,970	$ 155,198
Interest expense	34,337	47,585	84,302	99,352	84,478
Net interest income	123,635	118,323	98,701	77,618	70,720
Provision for loan and lease losses	16,000	44,800	19,025	6,150	2,450
Non-interest income	70,322	51,051	19,349	22,975	23,231
Non-interest expense	87,419	68,632	54,398	48,252	46,390
Preferred stock dividends	—	6,276	227	—	—
Net income available to common stockholders	64,001	36,826	34,474	31,746	31,693
Common share and per common share data:					
Earnings - diluted	$ 3.75	$ 2.18	$ 2.04	$ 1.89	$ 1.89
Book value	18.79	15.91	14.96	11.35	10.43
Dividends	0.60	0.52	0.50	0.43	0.40
Weighted-average diluted shares outstanding (thousands)	17,045	16,900	16,874	16,834	16,803
End of period shares outstanding (thousands)	17,054	16,905	16,864	16,818	16,747
Balance sheet data at period end:					
Total assets	$3,273,659	$2,770,811	$3,233,303	$2,710,875	$2,529,400
Total loans and leases not covered by loss share	1,856,429	1,904,104	2,021,199	1,871,135	1,677,389
Allowance for loan and lease losses	40,230	39,619	29,512	19,557	17,699
Loans covered by loss share	497,545	—	—	—	—
ORE covered by loss share	31,145	—	—	—	—
FDIC loss share receivable	153,111	—	—	—	—
Total investment securities	398,698	506,678	944,783	578,348	620,132
Total deposits	2,540,753	2,028,994	2,341,414	2,057,061	2,045,092
Repurchase agreements with customers	43,324	44,269	46,864	46,086	41,001
Other borrowings	282,139	342,553	424,947	336,533	194,661
Subordinated debentures	64,950	64,950	64,950	64,950	64,950
Preferred stock, net of unamortized discount	—	—	71,880	—	—
Total common stockholders' equity	320,355	269,028	252,302	190,829	174,633
Loan and lease including covered loans to deposit ratio	92.65%	93.84%	86.32%	90.96%	82.02%

Average balance sheet data:					
Total average assets	$2,998,850	$3,002,121	$3,017,707	$2,601,299	$2,365,316
Total average common stockholders' equity	296,035	267,768	213,271	184,819	158,194
Average common equity to average assets	9.87%	8.92%	7.07%	7.10%	6.69%
Performance ratios:					
Return on average assets	2.13%	1.23%	1.14%	1.22%	1.34%
Return on average common stockholders' equity	21.62	13.75	16.16	17.18	20.03
Net interest margin - FTE	5.18	4.80	3.96	3.44	3.49
Efficiency ratio	42.86	37.84	42.32	46.33	47.07
Common stock dividend payout ratio	15.89	23.84	24.42	22.75	21.16
Asset quality ratios:					
Net charge-offs to average loans and leases(1)	0.81%	1.75%	0.45%	0.24%	0.12%
Nonperforming loans and leases to total loans and leases(1)	0.75	1.24	0.76	0.35	0.34
Nonperforming assets to total assets(1)	1.72	3.06	0.81	0.36	0.24
Allowance for loan and lease losses as a percentage of:					
Total loans and leases(1)	2.17%	2.08%	1.46%	1.05%	1.06%
Nonperforming loans and leases	288%	168%	192%	295%	310%
Capital ratios at period end:					
Tier 1 leverage	11.88%	11.39%	11.64%	9.80%	9.39%
Tier 1 risk-based capital	16.13	13.78	14.21	11.79	11.71
Total risk-based capital	17.39	15.03	15.36	12.67	12.76

(1) Excludes loans and/or ORE covered by FDIC loss share agreements, except for their inclusion in total assets.

General

Net income available to common stockholders of Bank of the Ozarks, Inc. (the "Company") was $64.0 million for the year ended December 31, 2010, a 73.8% increase from $36.8 million in 2009. Net income available to common stockholders in 2008 was $34.5 million. Diluted earnings per common share were $3.75 for 2010, a 72.0% increase from $2.18 in 2009. Diluted earnings per common share were $2.04 in 2008.

The table below shows total assets, investment securities, loans and leases not covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements, assets covered by loss share agreements ("covered assets"), deposits, common stockholders' equity, net income available to common stockholders, diluted earnings per common share and book value per common share at December 31, 2010, 2009 and 2008 and the percentage of change year over year.

	December 31,			% Change	
	2010	2009	2008	2010 from 2009	2009 from 2008
	(Dollars in thousands, except per share amounts)				
Total assets	$ 3,273,659	$ 2,770,811	$ 3,233,303	18.1%	(14.3)%
Investment securities	398,698	506,678	944,783	(21.3)	(46.4)
Loans and leases not covered by FDIC loss share agreements	1,856,429	1,904,104	2,021,199	(2.5)	(5.8)
Covered assets:					
Loans	497,545	—	—	—	—
Other real estate	31,145	—	—	—	—
FDIC loss share receivable	153,111	—	—	—	—
Deposits	2,540,753	2,028,994	2,341,414	25.2	(13.3)
Common stockholders' equity	320,355	269,028	252,302	19.1	6.6
Net income available to common stockholders	64,001	36,826	34,474	73.8	6.8
Diluted earnings per common share	3.75	2.18	2.04	72.0	6.9
Book value per common share	18.79	15.91	14.96	18.1	6.4

Two measures used to assess performance by banking institutions are return on average assets ("ROA") and return on average common stockholders' equity ("ROE"). ROA measures net income available to common stockholders in relation to average total assets. It is calculated by dividing annual net income available to common stockholders by average total assets and indicates a company's ability to employ its resources profitably. For the year ended December 31, 2010, the Company's ROA was 2.13% compared with 1.23% in 2009 and 1.14% in 2008. ROE measures net income available to common stockholders in relation to average common stockholders' equity. It is calculated by dividing annual net income available to common stockholders by average common stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its common stockholders. For the year ended December 31, 2010, the Company's ROE was 21.62% compared with 13.75% in 2009 and 16.16% in 2008.

Analysis of Results of Operations

The Company is a bank holding company whose primary business is commercial banking conducted through its wholly-owned state chartered bank subsidiary – Bank of the Ozarks (the "Bank"). The Company's results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans, leases, loans covered by FDIC loss share agreements ("covered loans") and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings and subordinated debentures. The Company also generates non-interest income, including service charges on deposit accounts, mortgage lending income, trust income, bank owned life insurance ("BOLI") income, other charges and fees, gains and losses on investment securities and from sales of other assets, and, during 2010, gains on FDIC-assisted transactions and accretion of FDIC loss share receivable.

The Company's non-interest expense consists primarily of employee compensation and benefits, net occupancy and equipment expense and other operating expenses. The Company's results of operations are significantly affected by its provision for loan and lease losses and its provision for income taxes. The following discussion provides a summary of the Company's operations for the past three years and should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report.

Net Interest Income

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt income by one minus the statutory federal income tax rate of 35%. The FTE adjustments to net interest income were $10.0 million in 2010, $12.0 million in 2009 and $10.5 million in 2008. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the Internal Revenue Code as a result of investments in certain tax-exempt securities.

2010 compared to 2009

Net interest income for 2010 increased 2.5% to $133.6 million compared to $130.3 million for 2009. Net interest margin was 5.18% in 2010 compared to 4.80% in 2009. The growth in net interest income was a result of the improvement in the Company's net interest margin, which increased 38 basis points ("bps") from 2009 to 2010, offset in part by a reduction in the Company's average earning assets, which decreased 5.0% from 2009 to 2010.

The Company's improvement in its net interest margin in 2010 resulted from a combination of factors including (i) improvement in the Company's spread between yields on loans and leases not covered by FDIC loss share agreements and rates paid on deposits and (ii) the addition of higher yielding covered loans that were acquired as a result of the Company's four FDIC-assisted acquisitions in 2010.

Yields on average earning assets decreased 4 bps in 2010 compared to 2009. This decrease was due primarily to a 7 bps decrease in loan and lease yields in 2010, and a 21 bps decrease in the average yield on the Company's investment securities portfolio, mostly offset by the addition of higher yielding covered loans in 2010.

The 7 bps decrease in loan and lease yields was due primarily to the repricing of the Company's loan and lease portfolio at lower interest rates during 2010. The 21 bps decrease in the Company's average yield on its investment securities in 2010 was the result of an 85 bps decrease in yield on taxable investment securities, an 89 bps decrease in yield on tax-exempt investment securities, and a shift in the composition of the portfolio to include a higher proportion of tax-exempt investment securities with generally higher FTE yields than the Company's taxable investment securities. During 2010 tax-exempt investment securities comprised 81.8% of the average balance of the Company's investment securities portfolio compared to 56.1% in 2009. In 2009 and 2010, the Company reduced its investment securities portfolio as a result of its ongoing evaluations of interest rate risk and to free up capital for FDIC-assisted acquisitions.

During 2010 the Company, through the Bank, made four FDIC-assisted acquisitions. Most loans acquired in these acquisitions are covered loans and are higher yielding than the Company's non-covered loans and leases. The yield on covered loans in 2010 was 7.85%, or 160 bps higher than the Company's 2010 yield of 6.25% on non-covered loans and leases.

The 4 bps decrease in average earning asset yields in 2010 was more than offset by a 53 bps decrease in the average rate on interest bearing liabilities, resulting in the overall 38 bps increase in net interest margin in 2010 compared to 2009. The decrease in the average rate on interest bearing liabilities was primarily attributable to a 56 bps decrease in the average rate on interest bearing deposits, the largest component of the Company's interest bearing liabilities. This decrease in the average rate on interest bearing deposits was principally due to (i) effectively managing the repricing of time deposits which resulted in lower rates paid on these deposits as they were renewed or repriced and (ii) a favorable shift in the mix of the Company's deposits, resulting in the Company's average balance of time deposits, which generally pay higher rates than other interest bearing deposits, decreasing to 43.7% of average interest bearing deposits in 2010 from 57.1% of average interest bearing deposits in 2009.

The Company's other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings comprised primarily of Federal Home Loan Bank of Dallas ("FHLB") advances, and, to a lesser extent, Federal Reserve Bank ("FRB") borrowings and federal funds purchased, and (iii) subordinated debentures. The rates paid on repos decreased 37 bps for 2010 compared to 2009 primarily as a result of the Company's efforts to effectively manage the rates on its interest bearing liabilities, including repos. The rates paid on the Company's other borrowings increased 8 bps in 2010 compared to 2009. Other borrowings consist primarily of fixed rate, callable FHLB advances. The increase in rates for other borrowings in 2010 compared to 2009 was due primarily to lower utilization of lower rate short-term federal funds purchased and short-term FHLB borrowings, partially offset by the repayment of $60.0 million of fixed rate, callable FHLB advances with a weighted-average interest rate of 6.25% that were repaid on their maturity dates in May 2010. The rates paid on the Company's subordinated debentures, which are tied to a spread over the 90-day London Interbank Offered Rate ("LIBOR") and reset periodically, decreased 57 bps in 2010 compared to 2009 as a result of the decrease in 90-day LIBOR on the applicable reset dates during 2010.

The 5.0% reduction in average earning assets in 2010 was due primarily to a decrease of $265 million in the Company's average investment securities portfolio. During both 2009 and 2010 the Company was a net seller of investment securities, reducing its year-end portfolio by $438 million from December 31, 2008 to December 31, 2009, and by $108 million from December 31, 2009 to December 31, 2010. The average balance of investment securities was $469 million for 2010 compared to $734 million for 2009. The addition of covered loans during 2010 partially offset the decrease in average earnings assets caused by the reduction of the investment securities portfolio. During 2010, the Company's covered loan portfolio increased from none at December 31, 2009 to $498 million at December 31, 2010, and the average balance of covered loans was $218 million for 2010 compared to none for 2009.

2009 compared to 2008

Net interest income for 2009 increased 19.4% to $130.3 million compared to $109.2 million for 2008. Net interest margin was 4.80% in 2009 compared to 3.96% in 2008. The growth in net interest income was a result of the improvement in the Company's net interest margin, which increased 84 bps from 2008 to 2009, offset in part by a reduction in the Company's average earning assets, which decreased 1.5% from 2008 to 2009.

The Company's improvement in its net interest margin resulted from a combination of factors including (i) improvement in the Company's spread between yields on loans and leases and rates paid on deposits, (ii) favorable yields achieved on the Company's investment securities portfolio and (iii) a decrease in the average interest rate paid on the Company's other interest bearing liabilities.

Yields on average earning assets decreased 47 bps in 2009 compared to 2008. This decrease was due primarily to a 78 bps decline in loan and lease yields in 2009, which was partially offset by a 37 bps increase in the average yield on the Company's investment securities portfolio.

The 78 bps decrease in loan and lease yields was due primarily to the repricing of the Company's loan and lease portfolio at lower interest rates during 2009. Beginning in September 2007 and continuing through December 2008, the Federal Open Market Committee ("FOMC") decreased its federal funds target rate a total of 500 bps, resulting in many of the Company's variable rate loans repricing to lower rates beginning in the third quarter of 2007 and continuing throughout 2008 and, to a lesser extent, in 2009. Additionally, the Company's newly originated and renewed loans and leases generally priced at lower rates beginning in the third quarter of 2007 and continuing throughout 2008 and 2009 as a result of these FOMC interest rate decreases.

At December 31, 2009, approximately 53% of the Company's variable rate loans were at their "floor" rate. In recent years, the Company has included "floor" interest rates in many of its variable rate loan contracts. The inclusion of these floor rates has helped to lessen the impact that falling interest rates have had on the Company's loan and lease yields.

The 37 bps increase in the Company's average yield on its investment securities in 2009 compared to 2008 was the result of a 15 bps increase in yield on taxable investment securities, a 16 bps increase in yield on tax-exempt investment securities and a shift in the composition of the portfolio to include a higher proportion of tax-exempt investment securities with generally higher FTE yields than the Company's taxable investment securities. During 2009 tax-exempt investment securities comprised 56.1% of the average balance of the Company's investment securities portfolio compared to 48.0% in 2008.

The 78 bps decrease in average earning asset yields in 2009 compared to 2008 was more than offset by a 129 bps decrease in the average rate on interest bearing liabilities, resulting in the overall 84 bps increase in net interest margin in 2009 compared to 2008. The decrease in the average rate on interest bearing liabilities was primarily attributable to a 156 bps decrease in the average rate on interest bearing deposits. This decrease in the average rate on interest bearing deposits was principally due to (i) the FOMC interest rate decreases which resulted in lower rates paid on deposits as they were renewed or repriced and (ii) a favorable shift in the mix of the Company's interest bearing deposits, resulting in the Company's average balance of time deposits, which generally pay higher rates than other interest bearing deposits, decreasing to 57.1% of average interest bearing deposits in 2009 from 69.4% in 2008.

The Company's other borrowing sources include (i) repos, (ii) other borrowings, and (iii) subordinated debentures. The rates paid on repos decreased 68 bps for 2009 compared to 2008 primarily as a result of decreases in FOMC federal funds target rate and other rate indices. The rates paid on the Company's other borrowings increased 21 bps in 2009 compared to 2008 primarily due to lower average balances of short-term FHLB advances utilized in 2009 compared to 2008. The rates paid on the Company's subordinated debentures declined 250 bps in 2009 compared to 2008 as a result of the decrease in 90-day LIBOR during 2009.

The reduction in average earning assets in 2009 was due principally to a decrease in the Company's investment securities portfolio. During 2009 the Company was a net seller of investment securities, reducing its portfolio by $438 million from December 31, 2008 to December 31, 2009 and its average portfolio balance by $27 million in 2009 compared to 2008. This reduction in the investment securities portfolio was a result of the Company's ongoing evaluations of interest rate risk, including consideration of potential effects of recent United States government monetary and fiscal policy actions.

The following table sets forth certain information relating to the Company's net interest income for the years ended December 31, 2010, 2009 and 2008. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where otherwise noted. Average balances are derived from daily average balances for such assets and liabilities. The average balance of loans and leases not covered by loss share includes loans and leases on which the Company has discontinued accruing interest. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities available for sale ("AFS") and other-than-temporary impairment writedowns. The yields on loans and leases not covered by loss share include late fees and amortization of certain deferred fees and origination costs, which are considered adjustments to yields. The yields on investment securities include amortization of premiums and accretion of discounts. The yields on covered loans consist of accretion of the net present value of expected future cash flows using the effective yield method over the term of the loans. Interest expense and rates on other borrowings are presented net of interest capitalized on construction projects.

Average Consolidated Balance Sheets and Net Interest Analysis

	Year Ended December 31,								
	2010			2009			2008		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)								
ASSETS									
Earning assets:									
Interest earning deposits and federal funds sold	$ 1,230	$ 18	1.50%	$ 552	$ 10	1.88%	$ 470	$ 13	2.77%
Investment securities:									
Taxable	85,554	4,130	4.83	322,215	18,314	5.68	395,484	21,858	5.53
Tax-exempt - FTE	383,433	28,512	7.44	411,710	34,282	8.33	365,413	29,856	8.17
Loans and leases - FTE	1,890,357	118,162	6.25	1,981,454	125,317	6.32	1,995,231	141,759	7.10
Covered loans (1)	218,274	17,141	7.85	—	—	—	—	—	—
Total earning assets - FTE	2,578,848	167,963	6.51	2,715,931	177,923	6.55	2,756,598	193,486	7.02
Non-interest earning assets	420,002			286,190			261,109		
Total assets	$2,998,850			$3,002,121			$3,017,707		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Savings and interest bearing transaction	$1,121,528	$ 8,735	0.78%	$ 832,808	$ 7,128	0.86%	$ 628,183	$ 9,282	1.48%
Time deposits of $100,000 or more	476,748	5,829	1.22	699,281	13,504	1.93	906,306	35,464	3.91
Other time deposits	392,671	5,483	1.40	409,969	9,848	2.40	516,655	19,425	3.76
Total interest bearing deposits	1,990,947	20,047	1.01	1,942,058	30,480	1.57	2,051,144	64,171	3.13
Repurchase agreements with customers	49,835	380	0.76	52,549	592	1.13	43,916	796	1.81
Other borrowings	317,796	12,146	3.82(2)	384,854	14,375	3.74(2)	441,288	15,574	3.53(2)
Subordinated debentures	64,950	1,764	2.72	64,950	2,138	3.29	64,950	3,761	5.79
Total interest bearing liabilities	2,423,528	34,337	1.42	2,444,411	47,585	1.95	2,601,298	84,302	3.24
Non-interest bearing liabilities:									
Non-interest bearing deposits	256,910			207,782			184,563		
Other non-interest bearing liabilities	18,940			18,010			11,061		
Total liabilities	2,699,378			2,670,203			2,796,922		
Preferred stock, net of unamortized discount	—			60,708			4,098		
Common stockholders' equity	296,035			267,768			213,271		
Noncontrolling interest	3,437			3,442			3,416		
Total liabilities and stockholders' equity	$2,998,850			$3,002,121			$3,017,707		
Net interest income - FTE		$133,626			$130,338			$109,184	
Net interest margin - FTE			5.18%			4.80%			3.96%

(1) Covered loans are loans covered by FDIC loss share agreements.

(2) The interest expense and rates for other borrowings were impacted by interest capitalized on construction projects in the amount of $0.1 million, $0.4 million and $1.1 million, respectively, for the years ended December 31, 2010, 2009 and 2008. In the absence of this capitalization, these rates would have been 3.87%, 3.84% and 3.78%, respectively, for the years ended December 31, 2010, 2009 and 2008.

The following table reflects how changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates have affected the Company's interest income, interest expense and net interest income for the periods indicated. Information is provided in each category with respect to changes attributable to (1) changes in volume (changes in volume multiplied by prior yield/rate); (2) changes in yield/rate (changes in yield/rate multiplied by prior volume); and (3) changes in both yield/rate and volume (changes in yield/rate multiplied by changes in volume). The changes attributable to the combined impact of volume and yield/rate have all been allocated to the changes due to volume.

Analysis of Changes in Net Interest Income - FTE

	2010 over 2009			2009 over 2008		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
	(Dollars in thousands)					
Increase (decrease) in:						
Interest income - FTE:						
Interest earning deposits and federal funds sold	$ 10	$ (2)	$ 8	$ 1	$ (4)	$ (3)
Investment securities:						
Taxable	(11,445)	(2,739)	(14,184)	(4,137)	593	(3,544)
Tax-exempt - FTE	(2,106)	(3,664)	(5,770)	3,841	585	4,426
Loans and leases - FTE	(5,768)	(1,387)	(7,155)	(879)	(15,563)	(16,442)
Covered loans	17,141	—	17,141	—	—	—
Total interest income - FTE	(2,168)	(7,792)	(9,960)	(1,174)	(14,389)	(15,563)
Interest expense:						
Savings and interest bearing transaction	2,273	(666)	1,607	1,741	(3,895)	(2,154)
Time deposits of $100,000 or more	(2,710)	(4,965)	(7,675)	(4,015)	(17,945)	(21,960)
Other time deposits	(265)	(4,100)	(4,365)	(2,550)	(7,027)	(9,577)
Repurchase agreements with customers	(18)	(194)	(212)	95	(299)	(204)
Other borrowings	(2,537)	308	(2,229)	(2,126)	927	(1,199)
Subordinated debentures	—	(374)	(374)	—	(1,623)	(1,623)
Total interest expense	(3,257)	(9,991)	(13,248)	(6,855)	(29,862)	(36,717)
Increase in net interest income - FTE	$ 1,089	$ 2,199	$ 3,288	$ 5,681	$ 15,473	$ 21,154

Non-Interest Income

The Company's non-interest income consists primarily of service charges on deposit accounts, mortgage lending income, trust income, BOLI income, appraisal fees, credit life commissions and other credit related fees, safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees, gains and losses on investment securities and on sales of other assets, and, during 2010, gains on FDIC-assisted transactions and accretion of FDIC loss share receivable.

2010 compared to 2009

Non-interest income for 2010 increased 37.7% to $70.3 million compared to $51.1 million in 2009. The increase in non-interest income for 2010 compared to 2009 is due primarily to $35.0 million of bargain purchase gains recorded on four FDIC-assisted transactions during 2010, partially offset by a $22.4 million reduction in gains on investments securities.

Service charges on deposit accounts increased 22.0% to $15.2 million in 2010 compared to $12.4 million in 2009. This increase was due to a number of factors including growth in the number of transaction accounts, increased customer utilization of fee-based services, and the addition of deposit customers from the Company's four FDIC-assisted acquisitions during 2010. The Company's non-CD account deposits grew $446 million during 2010 and increased from 56.8% of total deposits at December 31, 2009 to 62.9% of total deposits at December 31, 2010.

Mortgage lending income increased 16.6% to $3.9 million in 2010 compared to $3.3 million in 2009. This increase was due to improved profit margins and, to a lesser extent, increased volume. Originations of mortgage loans for sale, including both originations for home purchases and refinancings of existing mortgages, increased 2.4% to $188.1 million in 2010 compared to $183.6 million in 2009. Mortgage originations for home purchases were 38% of 2010 origination volume compared to 39% in 2009. Refinancing of existing mortgages accounted for 62% of the Company's 2010 origination volume compared to 61% in 2009.

Trust income increased 10.7% to $3.4 million in 2010 compared to $3.1 million in 2009. This increase was primarily the result of continued growth in personal trust business during 2010.

BOLI income decreased 32.5% to $2.2 million in 2010 compared to $3.2 million in 2009. BOLI income was comprised of (i) increases in cash surrender value of $2.2 million in 2010 compared to $1.9 million in 2009 and (ii) no income from BOLI death benefits in 2010 compared to $1.3 million in 2009.

Net gains on investment securities were $4.5 million in 2010 compared to net gains of $27.0 million in 2009. The Company sold approximately $251 million of its investment securities in 2010 and approximately $529 million of its investment securities in 2009.

Net gains on sales of other assets were $0.8 million in 2010 compared to net losses of $0.2 million in 2009.

On March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Unity National Bank (“Unity”). This FDIC-assisted transaction resulted in the Company recognizing a pre-tax bargain purchase gain of $10.0 million in the first quarter of 2010.

On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Woodlands Bank (“Woodlands”). This FDIC-assisted transaction resulted in the Company recognizing a pre-tax bargain purchase gain of $14.4 million in the third quarter of 2010.

On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Horizon Bank (“Horizon”). This FDIC-assisted transaction resulted in the Company recognizing a pre-tax bargain purchase gain of $1.8 million in the third quarter of 2010.

On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Chestatee State Bank (“Chestatee”). This FDIC-assisted transaction resulted in the Company recognizing a pre-tax bargain purchase gain of $8.9 million in the fourth quarter of 2010.

Non-interest income from all other sources was $5.4 million in 2010 compared to $2.2 million in 2009. The increase in non-interest income from other sources was due primarily to the accretion of the FDIC loss share receivable, net of the amortization of the FDIC clawback payable, of $2.4 million during 2010. The FDIC loss share receivable reflects the indemnification provided by the FDIC in FDIC-assisted transactions, and the FDIC clawback payable represents the obligation of the Company to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement.

2009 compared to 2008

Non-interest income for 2009 increased 163.8% to $51.1 million compared to $19.3 million in 2008. The large increase in non-interest income for 2009 was primarily attributable to significant gains on investment securities.

Service charges on deposit accounts increased 3.4% to $12.4 million in 2009 compared to $12.0 million in 2008. This increase was due, in part, to the Company’s growth in transaction account deposits, which grew $113 million and increased from 44.3% to 56.8% of total deposits from December 31, 2008 to December 31, 2009.

Mortgage lending income increased 49.5% to $3.3 million in 2009 compared to $2.2 million in 2008. Originations of mortgage loans for sale, including both originations for home purchases and refinancings of existing mortgages, increased 43.7% to $183.6 million in 2009 compared to $128.0 million in 2008. Mortgage originations for home purchases were 39% of 2009 origination volume compared to 52% in 2008. Refinancing of existing mortgages accounted for 61% of the Company’s 2009 origination volume compared to 48% in 2008.

Trust income increased 18.6% to $3.1 million in 2009 compared to $2.6 million in 2008. This increase was primarily the result of continued growth in both personal and corporate trust business through adding new accounts and growing existing relationships during 2009.

BOLI income decreased 22.9% to $3.2 million in 2009 compared to $4.1 million in 2008. BOLI income was comprised of (i) increases in cash surrender value of $1.9 million in 2009 compared to $2.0 million in 2008 and (ii) $1.3 million of income from BOLI death benefits in 2009 compared to $2.1 million in 2008.

Net gains on investment securities, including the impairment charge discussed below, were $27.0 million in 2009 compared to net losses of $3.4 million in 2008. The Company sold approximately $529 million of its investment securities in 2009 and approximately $14 million of its investment securities in 2008. During 2009, the Company's investment securities portfolio included one security categorized as a collateralized debt obligation ("CDO"). This CDO had performed in accordance with its terms and was not in default, but, because of its credit rating being downgraded to below investment grade and other factors, the Company determined during 2009 that it no longer expected to hold this security until maturity or until such time as fair value recovers to or above cost. As a result, the Company recorded a $0.9 million charge during 2009 to reduce the carrying value of this security to $0.1 million. During 2010 the Company sold this security.

Net losses on sales of other assets were $0.2 million in 2009 compared to net losses of $0.5 million in 2008. Non-interest income from all other sources was $2.2 million in 2009 compared to $2.4 million in 2008.

The following table presents non-interest income for the years ended December 31, 2010, 2009 and 2008.

Non-Interest Income

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Service charges on deposit accounts	$15,156	$12,421	$12,007
Mortgage lending income	3,863	3,312	2,215
Trust income	3,406	3,078	2,595
Bank owned life insurance income	2,151	3,186	4,131
Appraisal, credit life commissions and other credit related fees	261	491	456
Safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees	1,502	1,231	1,218
Gains (losses) on investment securities	4,544	26,982	(3,433)
Gains (losses) on sales of other assets	802	(177)	(544)
Gains on FDIC-assisted transactions	35,019	—	—
Accretion of FDIC loss share receivable, net of amortization of FDIC clawback payable	2,429	—	—
Other loss share income, net	599	—	—
Other	590	527	704
Total non-interest income	$70,322	$51,051	$19,349

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, net occupancy and equipment expense and other operating expenses.

2010 compared to 2009

Non-interest expense for 2010 increased 27.4% to $87.4 million compared to $68.6 million in 2009. The Company's efficiency ratio (non-interest expense divided by the sum of FTE net interest income and non-interest income) for 2010 was 42.9% compared to 37.8% in 2009. The increase in the efficiency ratio in 2010 resulted from the Company's total revenue (the sum of FTE net interest income and non-interest income) increasing at a slower rate than its non-interest expense.

Salaries and employee benefits, the Company's largest component of non-interest expense, increased 26.1% to $40.2 million in 2010 from $31.8 million in 2009. The Company had 881 full-time equivalent employees at December 31, 2010, an increase of 22.0% from 722 full-time equivalent employees at December 31, 2009. This increase in full-time equivalent employees was due primarily to the Company's four FDIC-assisted acquisitions during 2010.

Net occupancy and equipment expense for 2010 increased 9.0% to $10.6 million compared to $9.7 million in 2009. During 2010 the Company added five new northwest Georgia banking offices from its Unity acquisition, four new banking offices (one office each in North Carolina, South Carolina, Georgia and Alabama) from its Woodlands acquisition, three new banking offices in Florida from its Horizon acquisition, and four new north central Georgia banking offices from its Chestatee acquisition. The Company also opened a new *de novo* banking office in Benton, Arkansas during 2010. At December 31, 2010, the Company had 90 offices, including 66 in Arkansas, 10 in Georgia, seven in Texas, three in Florida, two in North Carolina, and one each in South Carolina and Alabama. At December 31, 2009, the Company had 73 offices, including 65 in Arkansas, seven in Texas and one in North Carolina.

Other operating expenses for 2010 increased 35.5% to $36.6 million compared to $27.0 million in 2009, primarily as a result of the items described in the following paragraph.

The increase in non-interest expense for 2010 was primarily attributable to (i) $9.0 million of write downs of other real estate owned during 2010 compared to $4.0 million of such write downs during 2009, (ii) $3.8 million of expenses related to the four FDIC-assisted acquisitions in 2010 and costs incurred for completing and preparing for various systems conversions related to those acquisitions, (iii) costs of ongoing due diligence efforts, and (iv) $1.0 million of general cash bonuses paid in 2010.

2009 compared to 2008

Non-interest expense for 2009 increased 26.2% to $68.6 million compared to $54.4 million in 2008. The Company’s efficiency ratio for 2009 was 37.8% compared to 42.3% in 2008. This decrease in the effeciency ratio in 2009 resulted from the Company’s total revenue (the sum of FTE net interest income and non-interest income) increasing at a faster rate than its non-interest expense.

Salaries and employee benefits, the Company’s largest component of non-interest expense, increased 5.7% to $31.8 million in 2009 from $30.1 million in 2008. The Company had 722 full-time equivalent employees at December 31, 2009, an increase of 2.4% from 705 full-time equivalent employees at December 31, 2008.

Net occupancy and equipment expense for 2009 increased 9.7% to $9.7 million compared to $8.9 million in 2008. During 2009 the Company added new banking offices in downtown Little Rock, Arkansas and Allen, Texas and closed a small office in North Little Rock, Arkansas where the leased space became unavailable. At December 31, 2009, the Company had 73 offices, including 65 banking offices in Arkansas, seven Texas banking offices and one loan production office in Charlotte, North Carolina. At December 31, 2008, the Company had 72 offices.

Other operating expenses for 2009 increased 75.8% to $27.0 million compared to $15.4 million in 2008. The significant increase in other operating expenses was primarily attributable to increases in (i) FDIC insurance expense, (ii) loan collection and repossession expense, (iii) write downs on other real estate owned, and (iv) other expenses.

The Company’s FDIC insurance expense increased 279.4% to $4.3 million in 2009 compared to $1.1 million in 2008. This large increase was due to (i) a special assessment levied by the FDIC on all insured institutions during the second quarter of 2009, relating to the rebuilding of the FDIC’s Deposit Insurance Fund, which resulted in the Company incurring $1.3 million of expense and (ii) higher FDIC base insurance premium assessments for 2009 applicable to all FDIC insured institutions which resulted in increased expense of $1.9 million.

The Company’s loan collection and repossession expense increased 300.3% to $4.0 million in 2009 compared to $1.0 million in 2008. This increase was primarily attributable to the increased volume of foreclosure and repossession activity in 2009 compared to 2008.

During 2009 the Company recorded write downs on other real estate owned of $4.0 million compared to $1.0 million in 2008. The increase in write downs of other real estate owned in 2009 was primarily attributable to the higher volume of other real estate owned in 2009 and declines in the value of assets held in other real estate owned in 2009 as a result of economic and real estate market conditions and other factors.

The increase in other expenses in 2009 included (i) a $0.6 million write off of capitalized branch costs and (ii) a $1.0 million impairment charge on an equity investment in a real estate development project. The $0.6 million write off of capitalized branch costs resulted from the Company's decision to indefinitely delay construction of five Arkansas branches for which it had previously incurred architectural, engineering and other capitalized pre-construction costs. It is presently uncertain as to when or if the Company will proceed with construction. The $1.0 million impairment charge resulted from the Company's only equity investment in a real estate development project. Because the project is selling at a slower than expected pace, the Company recognized the impairment charge which reduced the Company's investment to $2.55 million, equaling the net present value of the proceeds expected to be realized using a 15% compounded annual discount rate.

The following table presents non-interest expense for the years ended December 31, 2010, 2009 and 2008.

Non-Interest Expense

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Salaries and employee benefits	$40,161	$31,847	$30,132
Net occupancy and equipment expense	10,618	9,740	8,882
Other operating expenses:			
Postage and supplies	1,981	1,530	1,633
Telephone and data lines	2,110	1,806	1,630
Advertising and public relations	2,076	1,083	1,204
Professional and outside services	3,024	1,793	1,537
Software expense	2,657	1,524	1,261
FDIC and state assessments	678	673	664
FDIC insurance	3,238	4,291	1,131
ATM expense	881	745	633
Loan collection and repossession expense	4,001	3,999	999
Write downs of other real estate owned	8,960	4,009	1,042
Amortization of intangibles	431	110	214
Other	6,603	5,482	3,447
Total non-interest expense	$87,419	$68,632	$54,409

Income Taxes

The Company's provision for income taxes was $26.6 million for the year ended December 31, 2010 compared to $12.9 million in 2009 and $9.9 million in 2008. Its effective income tax rates were 29.40%, 22.98% and 22.24%, respectively, for 2010, 2009 and 2008. The effective tax rate increased 642 bps in 2010 compared to 2009. The effective tax rate increased 74 bps in 2009 compared to 2008. The increase in the Company's effective tax rate for 2010 compared to 2009 was due primarily to the increase in taxable income and the decline, both in volume and as a percentage of taxable income, of income exempt from federal and/or state income taxes. The effective tax rates for all periods were also affected by various other factors including other non-taxable income and non-deductible expenses.

Analysis of Financial Condition

Loan and Lease Portfolio

At December 31, 2010, the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, was $1.86 billion, a decrease of 2.5% from $1.90 billion at December 31, 2009. Economic conditions in 2010 and 2009 diminished both the demand for loans and leases and the quality of many credit applications, resulting in the volume of new loan and lease originations in both 2010 and 2009 being more than offset by loan and lease paydowns.

As of December 31, 2010, the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, consisted of 87.6% real estate loans, 6.5% commercial and industrial loans, 2.9% consumer loans, 2.3% direct financing leases and 0.5% agricultural loans (non-real estate). Real estate loans, the Company's largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens.

The amount and type of loans and leases outstanding, excluding loans covered by FDIC loss share agreements, are reflected in the following table.

Loan and Lease Portfolio

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$ 266,014	$ 282,733	$ 275,281	$ 279,375	$ 281,400
Non-farm/non-residential	678,465	606,880	551,821	445,303	433,998
Construction/land development	496,737	600,342	694,527	684,775	514,899
Agricultural	81,736	86,237	84,432	91,810	88,021
Multifamily residential	103,875	55,860	61,668	31,414	50,202
Total real estate	1,626,827	1,632,052	1,667,729	1,532,677	1,368,520
Commercial and industrial	120,038	150,208	206,058	173,128	148,853
Consumer	54,401	63,561	75,015	87,867	86,048
Direct financing leases	42,754	40,353	50,250	53,446	49,705
Agricultural (non-real estate)	9,962	15,509	19,460	22,439	22,298
Other	2,447	2,421	2,687	1,578	1,965
Total loans and leases	$1,856,429	$1,904,104	$2,021,199	$1,871,135	$1,677,389

The amount and percentage of the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, by state of originating office are reflected in the following table.

Loan and Lease Portfolio by State of Originating Office

	December 31,					
	2010		2009		2008	
Loans and Leases Attributable to Offices In	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Arkansas	$1,064,558	57.3%	$1,148,053	60.3%	$1,333,420	66.0%
Texas	685,317	36.9	643,575	33.8	588,875	29.1
North Carolina	101,165	5.5	112,476	5.9	98,904	4.9
Georgia	3,944	0.2	—	—	—	—
Florida	890	0.1	—	—	—	—
Alabama	513	—	—	—	—	—
South Carolina	42	—	—	—	—	—
Total	$1,856,429	100.0%	$1,904,104	100.0%	$2,021,199	100.0%

The amount and type of the Company's real estate loans, excluding loans covered by FDIC loss share agreements, at December 31, 2010 based on the metropolitan statistical area ("MSA") and other geographic areas in which the principal collateral is located are reflected in the following table. Data for individual states is separately presented when aggregate real estate loans in that state exceed $10 million.

Geographic Distribution of Real Estate Loans

	Residential 1-4 Family	Non-Farm/ Non-Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
			(Dollars in thousands)			
Arkansas:						
Little Rock - North Little Rock, AR MSA	$ 72,458	$ 189,771	$ 75,029	$ 6,523	$ 8,022	$ 351,803
Fort Smith, AR/OK MSA	37,763	47,882	7,073	4,785	2,508	100,011
Fayetteville - Springdale - Rogers, AR MSA	8,951	17,680	21,772	6,288	1,039	55,730
Hot Springs, AR MSA	9,034	9,048	6,943	—	1,473	26,498
Western Arkansas(1)	27,133	38,659	7,760	11,238	1,537	86,327
Northern Arkansas(2)	78,020	31,206	14,803	37,636	587	162,252
All other Arkansas(3)	5,864	10,486	2,332	2,430	—	21,112
Total Arkansas	239,223	344,732	135,712	68,900	15,166	803,733
Texas:						
Dallas - Fort Worth - Arlington, TX MSA	4,449	157,534	160,726	—	36,141	358,850
Houston - Baytown - Sugar Land, TX MSA	—	11,526	44,012	—	—	55,538
San Antonio, TX MSA	—	9,561	11,647	—	—	21,208
Austin - Round Rock, TX MSA	—	—	1,741	—	17,775	19,516
Texarkana, TX - Texarkana, AR MSA	11,867	10,565	5,122	504	1,149	29,207
All other Texas(3)	1,053	15,693	990	—	17,372	35,108
Total Texas	17,369	204,879	224,238	504	72,437	519,427
North Carolina/South Carolina:						
Charlotte - Gastonia - Concord, NC/SC MSA	1,476	28,217	38,861	—	5,541	74,095
All other North Carolina(3)	—	28,254	36,420	—	—	64,674
All other South Carolina(3)	5,318	7,194	5,300	—	6,576	24,388
Total North Carolina/ South Carolina	6,794	63,665	80,581	—	12,117	163,157
California	—	2,589	27,903	—	—	30,492
Virginia	—	—	19,006	—	—	19,006
Oklahoma(4)	361	14,049	788	—	—	15,198
Louisiana	—	999	635	11,514	—	13,148
All other states(3)(5)	2,267	47,552	7,874	818	4,155	62,666
Total real estate loans	$ 266,014	$ 678,465	$ 496,737	$ 81,736	$ 103,875	$1,626,827

(1) This geographic area includes the following counties in Western Arkansas: Johnson, Logan, Pope and Yell counties.
(2) This geographic area includes the following counties in Northern Arkansas: Baxter, Boone, Marion, Newton, Searcy and Van Buren counties.
(3) These geographic areas include all MSA and non-MSA areas that are not separately reported.
(4) This geographic area includes all real estate loans in Oklahoma except loans in Le Flore and Sequoyah counties which are included in the Fort Smith, AR/OK MSA above.
(5) Includes all states not separately presented above.

The amount and type of non-farm/non-residential loans, excluding loans covered by FDIC loss share agreements, at December 31, 2010 and 2009, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

Non-Farm/Non-Residential Loans

	December 31,			
	2010		2009	
	Amount	%	Amount	%
	(Dollars in thousands)			
Retail, including shopping centers and strip centers	$225,701	33.3%	$182,343	30.0%
Churches and schools	56,670	8.3	58,601	9.6
Office, including medical offices	90,924	13.4	53,797	8.9
Office warehouse, warehouse and mini-storage	64,137	9.5	64,608	10.6
Gasoline stations and convenience stores	14,452	2.1	17,942	3.0
Hotels and motels	45,078	6.6	39,206	6.5
Restaurants and bars	39,069	5.8	45,597	7.5
Manufacturing and industrial facilities	10,215	1.5	34,859	5.7
Nursing homes and assisted living centers	29,711	4.4	30,171	5.0
Hospitals, surgery centers and other medical	63,157	9.3	38,662	6.4
Golf courses, entertainment and recreational facilities	13,457	2.0	15,162	2.5
Other non-farm/non-residential	25,894	3.8	25,932	4.3
Total	$678,465	100.0%	$606,880	100.0%

The amount and type of construction/land development loans, excluding loans covered by FDIC loss share agreements, at December 31, 2010 and 2009, and their respective percentage of the total construction/land development loan portfolio are reflected in the following table.

Construction/Land Development Loans

	December 31,			
	2010		2009	
	Amount	%	Amount	%
	(Dollars in thousands)			
Unimproved land	$ 99,084	20.0%	$ 98,386	16.4%
Land development and lots:				
1-4 family residential and multifamily	168,080	33.8	189,691	31.6
Non-residential	74,745	15.1	74,744	12.5
Construction:				
1-4 family residential:				
Owner occupied	13,505	2.7	12,878	2.1
Non-owner occupied:				
Pre-sold	4,153	0.8	6,626	1.1
Speculative	43,899	8.8	54,719	9.1
Multifamily	60,536	12.2	78,540	13.1
Industrial, commercial and other	32,735	6.6	84,758	14.1
Total	$496,737	100.0%	$600,342	100.0%

The establishment of interest reserves for construction and development loans is established banking practice, but the handling of such interest reserves varies widely within the industry. Many of the Company's construction and development loans provide for the use of interest reserves. When the Company underwrites construction and development loans, it considers the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest. Based on the total project costs and other factors, the Company determines the required borrower cash equity contribution and the maximum amount the Company is willing to loan. In the vast majority of cases, the Company requires that all of the borrower's cash equity contribution be contributed prior to any significant loan advances. This ensures that the borrower's cash equity required to complete the project will in fact be available for such purposes. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in the Company funding the loan later as the project progresses, and accordingly, the Company typically funds the majority of the construction period interest through loan advances. However, when the Company initially determines the borrower's cash equity requirement, the Company typically requires the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest, and an appropriate portion of the hard costs. During 2010, the Company advanced construction period interest totaling approximately $6.3 million on construction and development loans. While the Company advanced these sums as part of the funding process, the Company believes that the borrowers in effect had in most cases already provided for these sums as part of their initial equity contribution. Specifically, the maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2010 was $361.7 million, of which $296.9 million was outstanding at December 31, 2010 and $64.8 million remained to be advanced. The weighted average loan to cost on such loans, assuming such loans are ultimately fully advanced, will be approximately 62%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, will be approximately 38%. The weighted average final loan to value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 55%.

Loan and Lease Maturities

The following table reflects loans and leases, excluding loans covered by FDIC loss share agreements, grouped by remaining maturities at December 31, 2010 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition many variable rate loans are subject to repricing in periods prior to the period in which they mature.

Loan and Lease Maturities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Years	Total
		(Dollars in thousands)		
Real estate	$777,299	$731,394	$118,134	$1,626,827
Commercial, industrial and agricultural	70,883	57,871	1,246	130,000
Consumer	14,267	38,543	1,591	54,401
Direct financing leases	3,094	39,660	—	42,754
Other	833	1,614	—	2,447
Total	$866,376	$869,082	$120,971	$1,856,429
Fixed rate	$251,368	$505,101	$ 84,636	$ 841,105
Floating rate (not at a floor or ceiling rate)	33,392	11,299	10,190	54,881
Floating rate (at floor rate)	581,616	352,682	26,145	960,443
Floating rate (at ceiling rate)	—	—	—	—
Total	$866,376	$869,082	$120,971	$1,856,429

The following table reflects loans and leases, excluding loans covered by FDIC loss share agreements, as of December 31, 2010 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates the Company's ability to reprice the outstanding principal of loans and leases either by adjusting rates on existing loans and leases or reinvesting principal cash flow in new loans and leases.

Loan and Lease Cash Flows or Repricing

	1 Year or Less	Over 1 Through 2 Years	Over 2 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)			
Fixed rate	$ 308,596	$224,465	$160,936	$84,928	$62,180	$ 841,105
Floating rate (not at a floor or ceiling rate)	50,403	3,088	341	803	246	54,881
Floating rate (at floor rate)(1)	959,184	160	—	1,099	—	960,443
Floating rate (at ceiling rate)	—	—	—	—	—	—
Total	$1,318,183	$227,713	$161,277	$86,830	$62,426	$1,856,429
Percentage of total	71.0%	12.3%	8.7%	4.6%	3.4%	100.0%
Cumulative percentage of total	71.0	83.3	92.0	96.6	100.0	

(1) The inclusion of a floor rate in many of the Company's loans and leases has lessened the impact of falling interest rates on the Company's loan and lease yields. Conversely, many loans and leases with floor rates will not immediately reprice in a rising rate environment if the interest rate index and margin on such loans and leases continue to result in a computed interest rate less than the applicable floor rate. The earnings simulation model results included in the interest rate risk section of this Management's Discussion and Analysis include consideration of the impact of all interest rate floors and ceilings in loans and leases.

Covered Assets

On March 26, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Unity in a FDIC-assisted transaction. Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby the Bank is indemnified against losses on covered loans and covered other real estate owned ("covered ORE"). The loans acquired from Unity, as well as the covered ORE and the related loss share receivable from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

On July 16, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Woodlands in a FDIC-assisted transaction. Loans comprise the majority of the assets acquired and all but $1.1 million of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against losses on covered loans and covered ORE. The loans acquired from Woodlands that are covered by loss share agreements, as well as the covered ORE and the related loss share receivable from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

On September 10, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Horizon in a FDIC-assisted transaction. Loans comprise the majority of the assets acquired and all but $0.9 million of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against losses on covered loans and covered ORE. The loans acquired from Horizon that are covered by loss share agreements, as well as the covered ORE and the related loss share receivable from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

On December 17, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Chestatee in a FDIC-assisted transaction. Loans comprise the majority of the assets acquired and all but $3.6 million of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against losses on covered loans and covered ORE. The loans acquired from Chestatee that are covered by loss share agreements, as well as the covered ORE and the related loss share receivable from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

In conjunction with each of these acquisitions, the Bank entered into loss share agreements with the FDIC such that the Bank and the FDIC will share in the losses on assets covered under the loss share agreements. Pursuant to the terms of the loss share agreements for the Unity acquisition, on losses up to $65 million, the

FDIC will reimburse the Bank for 80% of losses. On losses exceeding $65 million, the FDIC will reimburse the Bank for 95% of losses. Pursuant to the terms of the loss share agreements for the Woodlands acquisition, the FDIC will reimburse the Bank for 80% of losses. Pursuant to the terms of the loss share agreements for the Horizon acquisition, the FDIC will reimburse the Bank on single family residential loans and related foreclosed real estate for (i) 80% of losses up to $11.8 million, (ii) 30% of losses between $11.8 million and $17.9 million and (iii) 80% of losses in excess of $17.9 million. For non-single family residential loans and related foreclosed real estate, the FDIC will reimburse the Bank for (i) 80% of losses up to $32.3 million, (ii) 0% of losses between $32.3 million and $42.8 million and (iii) 80% of losses in excess of $42.8 million. Pursuant to the terms of the loss share agreements for the Chestatee acquisition, the FDIC will reimburse the Bank for 80% of losses.

The loss share agreements applicable to single family residential mortgage loans and related foreclosed real estate provide for FDIC loss sharing and the Bank's reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which each applicable loss share agreement was entered. The loss share agreements applicable to commercial loans and related foreclosed real estate provide for FDIC loss sharing for five years from the date on which each applicable loss share agreement was entered and the Bank's reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

To the extent that actual losses incurred by the Bank are less than (i) $65 million on the Unity assets covered under the loss share agreements, (ii) $107 million on the Woodlands assets covered under the loss share agreements, (iii) $60 million on the Horizon assets covered under the loss share agreements and (iv) $66 million on the Chestatee assets covered under the loss share agreements, the Bank may be required to reimburse the FDIC under the clawback provisions of the loss share agreements. At December 31, 2010 the covered loans and covered ORE and the related FDIC loss share receivable (collectively, the "covered assets") and the FDIC clawback payable were reported at the net present value of expected future amounts to be paid or received.

A summary of the covered assets and the FDIC clawback payable is as follows:

Covered Assets and FDIC Clawback Payable

	December 31, 2010 (Dollars in thousands)
Covered loans	$ 497,545
Covered ORE	31,145
FDIC loss share receivable	153,111
Total covered assets	$ 681,801
FDIC clawback payable	$ 7,286

Purchased loans acquired in a business combination, including covered loans, are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. Purchased loans are accounted for in accordance with guidance for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. In determining the acquisition date fair values of purchased loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of expected cash flows, the Company used discount rates ranging from 6.0% to 9.5% depending on the risk characteristics of each individual loan or loan pool.

The following table presents a summary, by acquisition, of covered loans acquired during 2010 as of the dates of acquisition and changes in such balances during 2010.

Covered Loans

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
At acquisition date:					
Contractually required principal and interest	$208,410	$ 315,103	$179,441	$181,523	$ 884,477
Nonaccretable differences	(53,793)	(82,375)	(52,388)	(42,665)	(231,221)
Cash flows expected to be collected	154,617	232,728	127,053	138,858	653,256
Accretable difference	(20,165)	(44,795)	(34,050)	(22,050)	(121,060)
Fair value	134,452	187,933	93,003	116,808	532,196
Activity in 2010:					
Accretion	7,436	7,144	2,222	339	17,141
Transfers to covered ORE	(2,755)	(2,599)	—	—	(5,354)
Payments received	(23,786)	(15,356)	(6,339)	(669)	(46,150)
Other activity, net	(364)	53	23	—	(288)
Total carrying value of covered loans at December 31, 2010	$114,983	$ 177,175	$ 88,909	$116,478	$ 497,545

The following table presents a summary, by acquisition, of the carrying value and type of covered loans at December 31, 2010.

Covered Loan Portfolio

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$ 32,699	$ 50,411	$32,351	$ 17,772	$133,233
Non-farm/non-residential	53,119	61,848	39,378	60,173	214,518
Construction/land development	12,435	56,734	9,476	30,509	109,154
Agricultural	7,980	69	999	649	9,697
Multifamily residential	3,970	4,298	2,194	307	10,769
Total real estate	110,203	173,360	84,398	109,410	477,371
Commercial and industrial	3,479	3,812	3,360	6,995	17,646
Consumer	1,301	—	—	—	1,301
Agricultural (non-real estate)	—	—	—	73	73
Other	—	3	1,151	—	1,154
Total covered loans	$114,983	$ 177,175	$88,909	$116,478	$497,545

The following table presents a summary, by acquisition, of changes in the accretable yield on covered loans during 2010.

Accretable Yield on Covered Loans

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
Accretable yield at date of acquisition	$20,165	$ 44,795	$34,050	$22,050	$121,060
Accretion	(7,436)	(7,144)	(2,222)	(339)	(17,141)
Other activity, net	(1,593)	(366)	(858)	—	(2,817)
Balance at December 31, 2010	$11,136	$ 37,285	$30,970	$21,711	$101,102

The covered ORE is recorded at estimated fair value on the date of acquisition. In estimating the fair value of covered ORE, management considers a number of factors including, among others, appraised value, estimated holding periods, net present value of cash flows expected to be received and estimated selling costs. A discount rate ranging from 8.0% to 9.5% was used to determine the net present value of covered ORE.

The following table presents a summary, by acquisition, of covered ORE and activity within covered ORE during 2010.

Covered ORE Activity

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
At acquisition date:					
Balance on acquired bank's books	$20,258	$ 12,258	$ 8,391	$ 31,647	$ 72,554
Total expected losses	(9,265)	(5,897)	(3,678)	(15,960)	(34,800)
Discount for net present value of expected cash flows	(2,134)	(1,332)	(1,030)	(2,281)	(6,777)
Fair value	8,859	5,029	3,683	13,406	30,977
Activity in 2010:					
Loans transferred to covered ORE	2,755	2,599	—	—	5,354
Sales of covered ORE	(3,554)	(1,632)	—	—	(5,186)
Covered ORE at December 31, 2010	$ 8,060	$ 5,996	$ 3,683	$ 13,406	$ 31,145

The following table presents a summary, by acquisition, of the carrying value and type of covered ORE at December 31, 2010.

Covered ORE

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$1,558	$ 1,620	$1,742	$ 5,704	$10,624
Non-farm/non-residential	1,010	274	1,516	955	3,755
Construction/land development	5,092	4,102	425	6,747	16,366
Total real estate	7,660	5,996	3,683	13,406	30,745
Commercial and industrial	400	—	—	—	400
Total covered ORE	$8,060	$ 5,996	$3,683	$13,406	$31,145

In connection with the Company's FDIC-assisted acquisitions, the Company has recorded an FDIC loss share receivable to reflect the indemnification provided by the FDIC. Since the indemnified items are covered loans and covered ORE, which are measured at fair value at the date of acquisition, the FDIC loss share receivable is also measured at fair value at the date of acquisition, and is calculated by discounting the cash flows expected to be received from the FDIC. A discount rate of 5.0% was used to determine the net present value of the FDIC loss share receivable. These cash flows are estimated by multiplying estimated losses by the reimbursement rates as set forth in the loss share agreements. The balance of the FDIC loss share receivable is adjusted periodically to reflect changes in expectations of discounted cash flows, expense reimbursements under the loss share agreements and other factors.

The following table presents a summary, by acquisition, of the FDIC loss share receivable and the changes in receivable balance during 2010.

FDIC Loss Share Receivable

	Unity	Woodlands	Horizon	Chestatee	Total
			(Dollars in thousands)		
At acquisition date:					
Expected principal loss on covered assets:					
Covered loans	$ 51,590	$ 71,765	$40,537	$41,996	$205,888
Covered ORE	9,265	5,897	3,678	15,960	34,800
Total expected principal losses	60,855	77,662	44,215	57,956	240,688
Estimated loss sharing percentage	80%	80%	80%	80%	80%
Estimated recovery from FDIC loss share agreements	48,684	62,130	35,372	46,365	192,551
Discount for net present value on FDIC loss share receivable	(4,537)	(7,303)	(6,283)	(4,293)	(22,416)
Net present value of FDIC loss share receivable	44,147	54,827	29,089	42,072	170,135
Activity in 2010:					
Accretion income	1,229	1,007	331	—	2,567
Cash received from FDIC	(15,308)	(4,802)	—	—	(20,110)
Other activity, net	1,052	(295)	(238)	—	519
FDIC loss share receivable, at estimated net present value, at December 31, 2010	$ 31,120	$ 50,737	$29,182	$42,072	$153,111

Pursuant to the clawback provisions of the loss share agreements for the FDIC-assisted acquisitions, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The amount of the clawback provision for each acquisition is measured at fair value at the date of acquisition and is calculated as the difference between management's estimated losses on covered loans and covered ORE and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This clawback amount which is payable to the FDIC upon termination of the applicable loss share agreement is discounted back to net present value using a discount rate of 5.0%. To the extent that actual losses on covered loans and covered ORE are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered ORE are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will decrease.

The following table presents a summary, by acquisition, of the FDIC clawback payable and changes in the payable during 2010.

FDIC Clawback Payable

	Unity	Woodlands	Horizon	Chestatee	Total
			(Dollars in thousands)		
At acquisition date:					
Estimated FDIC clawback payable	$ 2,612	$ 4,935	$2,380	$ 1,778	$11,705
Discount for net present value on FDIC clawback payable	(1,046)	(1,905)	(919)	(687)	(4,557)
Net present value of FDIC clawback payable	1,566	3,030	1,461	1,091	7,148
Activity in 2010:					
Accretion expense	63	63	12	—	138
FDIC clawback payable, at estimated net present value, at December 31, 2010	$ 1,629	$ 3,093	$1,473	$ 1,091	$ 7,286

Nonperforming Assets

Nonperforming assets, excluding assets covered by FDIC loss share agreements, consist of (1) nonaccrual loans and leases, (2) accruing loans and leases 90 days or more past due, (3) certain troubled and restructured loans and leases providing for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower or lessee and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan or lease obligations or upon foreclosure.

The Company generally places a loan or lease on nonaccrual status when payments are contractually past due 90 days, or earlier when doubt exists as to the ultimate collection of payments. The Company may continue to accrue interest on certain loans or leases contractually past due 90 days or more if such loans or leases are both well secured and in the process of collection. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is generally reversed and charged against interest income. Nonaccrual loans and leases are generally returned to accrual status when payments are less than 90 days past due and the Company reasonably expects to collect all payments. If a loan or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the allowance for loan and lease losses. Income on nonaccrual loans or leases is recognized on a cash basis when and if actually collected.

The following table presents information concerning nonperforming assets including nonaccrual and certain restructured loans and leases, foreclosed and repossessed assets held for sale, excluding assets covered by FDIC loss share agreements, for the periods indicated.

Nonperforming Assets

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Nonaccrual loans and leases	$13,944	$23,604	$15,382	$6,610	$5,713
Accruing loans and leases 90 days or more past due	—	—	—	26	—
Troubled and restructured loans and leases[1]	—	—	—	—	—
Total nonperforming loans and leases	13,944	23,604	15,382	6,636	5,713
Foreclosed and repossessed assets held for sale [2]	42,216	61,148	10,758	3,112	407
Total nonperforming assets	$56,160	$84,752	$26,140	$9,748	$6,120
Nonperforming loans and leases to total loans and leases[3]	0.75%	1.24%	0.76%	0.35%	0.34%
Nonperforming assets to total assets[3]	1.72	3.06	0.81	0.36	0.24

(1) All troubled and restructured loans and leases as of the dates shown were on nonaccrual status and are included as nonaccrual loans and leases in this table.

(2) Foreclosed and repossessed assets held for sale are written down to estimated market value net of estimated selling costs at the time of transfer from the loan and lease portfolio. The values of such assets are reviewed from time to time throughout the holding period with the value adjusted through non-interest expense to the then estimated market value net of estimated selling costs, if lower, until disposition.

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

While most of the Company’s markets appear to have been less significantly impacted by weaker economic conditions than many markets nationally, the Company has not been immune to the effects of the slower economic conditions and the slow down in housing and other real estate activity.

At December 31, 2010, the Company has reduced the carrying value of its impaired loans and leases (all of which were included in nonaccrual loans and leases) by $8.9 million to the estimated fair value of such loans and leases of $9.8 million. The adjustment to reduce the carrying value of impaired loans and leases to estimated fair value consisted of $6.9 million of partial charge-offs and $2.0 million of specific loan and lease loss allocations.

The following table presents information concerning the geographic location of nonperforming assets, excluding assets covered by FDIC loss share agreements, at December 31, 2010. Nonaccrual loans and leases are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Nonaccrual Loans and Leases	Foreclosed and Repossessed Assets Held for Sale	Total Nonperforming Assets
		(Dollars in thousands)	
Arkansas	$ 8,657	$ 23,240	$ 31,897
Texas	1,829	18,289	20,118
North Carolina	1,717	—	1,717
South Carolina	1,633	—	1,633
All other	108	687	795
Total	$ 13,944	$ 42,216	$ 56,160

Allowance and Provision for Loan and Lease Losses

The Company's allowance for loan and lease losses was $40.2 million at December 31, 2010, or 2.17% of total loans and leases, compared with $39.6 million, or 2.08% of total loans and leases, at December 31, 2009, and $29.5 million, or 1.46% of loans and leases, at December 31, 2008. The Company's allowance for loan and lease losses was equal to 288% of its total nonperforming loans and leases at December 31, 2010 compared to 168% at December 31, 2009 and 192% at December 31, 2008. While the Company believes the current allowance is appropriate, changing economic and other conditions may require future adjustments to the allowance for loan and lease losses.

The amount of provision to the allowance for loan and lease losses is based on the Company's analysis of the adequacy of the allowance for loan and lease losses utilizing the criteria discussed below. The provision for loan and lease losses for 2010 was $16.0 million compared to $44.8 million in 2009 and $19.0 million in 2008. The Company's decrease in its provision for loan and lease losses for 2010 compared to 2009 was primarily due to the reduction of net charge-offs in 2010 compared to 2009. The Company's provision for loan and lease losses and its net charge-offs for 2009 were significantly impacted by the weak economic conditions that existed during 2009.

An analysis of the allowance for loan and lease losses for the periods indicated is shown in the following table.

Analysis of the Allowance for Loan and Lease Losses

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Balance, beginning of period	$39,619	$29,512	$19,557	$17,699	$17,007
Loans and leases charged off:					
Real estate:					
Residential 1-4 family	872	1,619	1,079	215	124
Non-farm/non-residential	1,702	3,182	552	182	132
Construction/land development	4,037	20,188	3,059	796	58
Agricultural	301	844	645	37	—
Multifamily/residential	133	4,355	250	—	—
Total real estate	7,045	30,188	5,585	1,230	314
Commercial and industrial	6,937	3,347	1,259	1,798	872
Consumer	1,196	1,303	1,783	1,046	709
Direct financing leases	478	648	734	367	63
Agricultural (non-real estate)	1,108	399	270	203	107
Total loans and leases charged off	16,764	35,885	9,631	4,644	2,065
Recoveries of loans and leases previously charged off:					
Real estate:					
Residential 1-4 family	99	99	55	25	5
Non-farm/non-residential	87	147	76	3	4
Construction/land development	253	82	29	—	4
Agricultural	45	—	—	19	—
Multifamily residential	1	1	—	—	—
Total real estate	485	329	160	47	13
Commercial and industrial	656	566	51	62	47
Consumer	212	183	317	209	234
Direct financing leases	20	67	21	27	13
Agricultural (non-real estate)	2	47	12	7	—
Total recoveries	1,375	1,192	561	352	307
Net loans and leases charged off	15,389	34,693	9,070	4,292	1,758
Provision charged to operating expense	16,000	44,800	19,025	6,150	2,450
Balance, end of period	$40,230	$39,619	$29,512	$19,557	$17,699
Net charge-offs to average loans and leases (1)	0.81%	1.75%	0.45%	0.24%	0.12%
Allowance for loan and lease losses to total loans and leases (1)	2.17%	2.08%	1.46%	1.05%	1.06%
Allowance for loan and lease losses to nonperforming loans and leases (1)	288%	168%	192%	295%	310%

(1) Excludes assets covered by FDIC loss share agreements.

Provisions to and the adequacy of the allowance for loan and lease losses are based on the Company’s judgment and evaluation of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria utilized by the Company to assess the adequacy of its allowance for loan and lease losses and required additions to such allowance consists primarily of an internal grading system and specific allowances. The Company also utilizes a peer group analysis and an historical analysis to validate the overall adequacy of its allowance for loan and lease losses. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan and lease losses and the need for additions thereto, with consideration given to the nature, mix and volume of the portfolio, overall portfolio quality, review of specific problem loans and leases, national, regional and local business and economic conditions that may affect borrowers’ or lessees’ ability to pay, the value of collateral securing the loans and leases, and other relevant factors.

The Company’s internal grading system analysis assigns grades to all loans and leases except residential 1-4 family loans and consumer loans. Graded loans and leases are assigned to one of seven risk grades, with each grade being assigned a specific allowance allocation percentage. The grade for each individual loan or lease is determined by the account officer and other approving officers at the time the loan or lease is made and changed from time to time to reflect an ongoing assessment of loan or lease risk. Grades are reviewed on specific loans and leases from time to time by senior management and as part of the Company’s internal loan review process. Residential 1-4 family and consumer loans are assigned an allowance allocation percentage based on past due status. Allowance allocation percentages for the various risk grades and past due categories are determined by management and are adjusted periodically. In determining these allowance allocation percentages, management considers, among other factors, historical loss percentages for risk-rated loans and leases, residential 1-4 family loans and consumer loans. Additionally, management considers a variety of subjective criteria in determining the allowance allocation percentages.

All loans and leases deemed to be impaired are evaluated individually. The Company considers a loan or lease to be impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms thereof. Most of the Company’s nonaccrual loans and leases and all troubled loans and leases, excluding loans covered by FDIC loss share agreements, that have been restructured from their original contractual terms are considered impaired. The majority of the Company’s impaired loans and leases are dependent upon collateral for repayment. For such loans and leases, impairment is measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan or lease. For all other impaired loans and leases, the Company compares estimated discounted cash flows to the current investment in the loan or lease. To the extent that the Company’s current investment in a particular loan or lease exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is (i) specifically considered in the determination of the allowance for loan and lease losses or (ii) immediately charged off as a reduction of the allowance for loan and lease losses.

The Company also maintains reserves for certain loans and leases not considered impaired where (i) the customer is continuing to make regular payments, although payments may be past due, (ii) there is a reasonable basis to believe the customer may continue to make regular payments, although there is also an elevated risk that the customer may default, and (iii) the collateral or other repayment sources are likely to be insufficient to recover the current investment in the loan or lease if a default occurs. The Company evaluates such loans and leases to determine if a reserve is needed for these loans and leases. For the purpose of calculating the amount of such reserve, management assumes that (i) no further regular payments occur and (ii) all sums recovered will come from liquidation of collateral and collection efforts from other payment sources. To the extent that the Company’s current investment in a particular loan or lease evaluated for the need for such reserve exceeds its net collateral value or its estimated discounted cash flows, such excess is considered allocated reserve for purposes of the determination of the allowance for loan and lease losses.

The Company also includes further allowance allocation for risk-rated and certain other loans, including commercial real estate loans and excluding loans covered by FDIC loss share agreements, that are in markets determined by management to be “stressed”. Stressed markets may include any specific geography experiencing (i) high unemployment substantially above the U.S. average, (ii) significant over-development in one or more commercial real estate categories, (iii) recent or announced loss of a major employer or significant workforce reductions, (iv) significant declines in real estate values, and (v) various other factors. The additional allowance for such stressed markets compensates for the expectation that a higher risk of loss is anticipated for the “work-out” or liquidation of a real estate loan in a stressed market versus a market that is not experiencing any significant levels of stress. The required allocation percentage applicable to real estate loans in stressed markets may be applied to the total market or it may be determined at the individual loan level based on collateral value, loan-to-value ratios, strength of the borrower and/or guarantor, viability of the underlying project and other factors.

The sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance determined by management that reflects inherent but undetected losses in the portfolio and imprecision in the allowance methodology, is utilized as the primary indicator of the appropriate level of allowance for loan and lease losses. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses, including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. The factors and conditions evaluated in determining the unallocated portion of the allowance may include the following: (1) general economic and business conditions affecting key lending areas, (2) credit quality trends (including trends in nonperforming loans and leases expected to result from existing conditions), (3) trends that could affect collateral values, (4) seasoning of the loan and lease portfolio, (5) specific industry conditions affecting portfolio segments, (6) recent loss experience in particular segments of the portfolio, (7) concentrations of credit to single borrowers or related borrowers or to specific industries, or in specific collateral types in the loan and lease portfolio, including concentrations of credit in commercial real estate loans, (8) the Company's expansion into new markets, (9) the offering of new loan and lease products, (10) expectations regarding the current business cycle, (11) bank regulatory examination results and (12) findings of the internal loan review department. At December 31, 2010 management believed it was appropriate to maintain an unallocated portion of the allowance not derived by the allowance allocation percentages that range from 15% to 25% of the total allowance for loan and lease losses.

In addition to the allowance for loan and lease losses methodology described above, the Company compares the allowance for loan and lease losses (as a percentage of total loans and leases) maintained by the Bank to the peer group average percentages as shown on the most recently available FDIC's Uniform Bank Performance Report and FRB's Bank Holding Company Performance Report. This comparison is used to validate the overall adequacy of the allowance for loan and lease losses.

Although the Company does not determine the overall allowance based upon the amount of loans or leases in a particular type or category (except in the case of residential 1-4 family and consumer loans), risk elements attributable to particular loan or lease types or categories are considered in assigning loan and lease grades to individual loans and leases. These risk elements include the following: (1) for non-farm/non-residential, multifamily residential, and agricultural real estate loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan repayment requirements), operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age, condition, value, nature and marketability of the collateral and the specific risks and volatility of income, property value and operating results typical of properties of that type; (2) for construction and land development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or ability to lease property constructed for lease, the quality and nature of contracts for presale or preleasing, if any, experience and ability of the developer and loan-to-value ratios; (3) for commercial and industrial loans and leases, the operating results of the commercial, industrial or professional enterprise, the borrower's or lessee's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in the applicable industry and the age, condition, value, nature and marketability of collateral; and (4) for non-real estate agricultural loans and leases, the operating results, experience and ability of the borrower or lessee, historical and expected market conditions and the age, condition, value, nature and marketability of collateral. In addition, for each category the Company considers secondary sources of income and the financial strength of the borrower or lessee and any guarantors.

The board of directors reviews the analysis of the adequacy of the allowance for loan and lease losses on a quarterly basis, or more frequently as needed, to determine whether the amount of monthly provisions are adequate or whether additional provisions should be made to the allowance. While the allowance is determined by (i) management's assessment and grading of individual loans and leases in the case of loans and leases other than residential 1-4 family loans and consumer loans, (ii) the past due status of residential 1-4 family loans and consumer loans, (iii) allowances made for specific loans and leases and (iv) "stressed" market allocations, the total allowance amount is available to absorb losses across the Company's entire loan and lease portfolio.

The following table sets forth the sum of the amounts of the allowance for loan and lease losses attributable to individual loans and leases, excluding loans covered by FDIC loss share agreements, within each category, or loan and lease categories in general, and the unallocated allowance. The table also reflects the percentage of loans and leases, excluding loans covered by FDIC loss share agreements, in each category to the total portfolio of loans and leases, excluding loans covered by FDIC loss share agreements, for each of the periods indicated. These allowance amounts have been computed using the Company's internal grading system, specific impairment analyses, specific special reserve analyses and "stressed" markets allocations. The amounts shown are not necessarily indicative of the actual future losses that may occur within particular categories.

Allocation of the Allowance for Loan and Lease Losses

	December 31,									
	2010		2009		2008		2007		2006	
	Allowance	% of Loans and Leases	Allowance	% of Loans and Leases	Allowance	% of Loans and Leases	Allowance	% of Loans and Leases	Allowance	% of Loans and Leases
	(Dollars in thousands)									
Real estate:										
Residential 1-4 family	$ 2,999	14.3%	$ 3,600	14.9%	$ 2,170	13.6%	$ 2,217	14.9%	$ 3,052	16.8%
Non-farm/non-residential	8,313	36.5	6,574	31.9	4,396	27.3	3,470	23.8	3,085	25.9
Construction/land development	10,565	26.8	11,585	31.5	8,560	34.4	5,192	36.6	3,381	30.7
Agricultural	2,569	4.4	750	4.5	745	4.2	791	4.9	765	5.2
Multifamily residential	1,320	5.6	710	2.9	1,658	3.0	198	1.7	272	3.0
Commercial and industrial	4,142	6.5	3,587	7.9	2,421	10.2	1,439	9.3	1,373	8.9
Consumer	2,051	2.9	2,599	3.4	1,894	3.7	2,280	4.7	2,179	5.1
Direct financing leases	1,726	2.3	1,560	2.1	808	2.5	335	2.8	305	3.0
Agricultural (non-real estate)	135	0.6	222	0.8	137	1.0	142	1.2	150	1.3
Other	66	0.1	67	0.1	72	0.1	65	0.1	77	0.1
Unallocated allowance	6,344		8,365		6,651		3,428		3,060	
Total	$ 40,230		$ 39,619		$ 29,512		$ 19,557		$ 17,699	

The Company maintains an internally classified loan and lease list that, along with the list of nonaccrual loans and leases, the list of impaired loans and leases, the list of loans and leases with specific reserves, and the "stressed" market allocations, helps management assess the overall quality of the loan and lease portfolio and the adequacy of the allowance. Loans and leases classified as "substandard" have clear and defined weaknesses such as highly leveraged positions, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize collectability of the loan or lease. Loans and leases classified as "doubtful" have characteristics similar to substandard loans and leases, but also have an increased risk that a loss may occur or at least a portion of the loan or lease may require a charge-off if liquidated. Although loans and leases classified as substandard do not duplicate loans and leases classified as doubtful, both substandard and doubtful loans and leases may include some that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans and leases classified as "loss" are charged off. At December 31, 2010 substandard loans and leases, excluding loans covered by FDIC loss share agreements, not designated as nonaccrual or 90 days past due totaled $35.8 million, compared to $26.1 million at December 31, 2009 and $41.6 million at December 31, 2008. No loans or leases were designated as doubtful or loss at December 31, 2010, 2009 or 2008.

Administration of the Bank's lending function is the responsibility of the Chief Executive Officer and certain senior lenders. Such officers perform their lending duties subject to the oversight and policy direction of the board of directors and the loan committee. Loan or lease authority is granted to the Chief Executive Officer and certain other senior officers as determined by the board of directors. Loan or lease authorities of other lending officers are assigned by the Chief Executive Officer.

Loans or leases and aggregate loan and lease relationships exceeding $3.0 million up to the lending limits established by the Company's board of directors are authorized by the loan committee. Such limits established by the board of directors stipulate that (i) any loan or lease secured by the same project or collateral shall not exceed $35 million, (ii) all direct and indirect loans and leases to a borrower shall not exceed $45 million, and (iii) all direct, indirect and related debt to any borrower and related interests shall not exceed $50 million. During 2010 the loan committee consisted of five or more directors and two of the Bank's senior lending officers. The Company's loan committee reviews various reports of loan and lease concentrations, loan and lease originations and commitments over $100,000, internally classified and watch list loans and leases and various other loan and lease reports. At least quarterly the board of directors reviews summary reports of past due loans and leases and activity in the Company's allowance for loan and lease losses and various other loan and lease reports.

The Company's compliance and loan review officers are responsible for the Bank's compliance and loan review areas. Periodic reviews are scheduled for the purpose of evaluating asset quality and effectiveness of loan and lease administration. The compliance and loan review officers prepare reports which identify deficiencies, establish recommendations for improvement and outline management's proposed action plan for curing the identified deficiencies. These reports are provided to and reviewed by the Company's audit committee. Additionally, the reports issued by the Company's loan review function are provided to and reviewed by the Company's loan committee.

Investment Securities

At December 31, 2010, 2009 and 2008, the Company classified all of its investment securities portfolio as available for sale. Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and included in other comprehensive income (loss).

The Company's holdings of "other equity securities" include Federal Home Loan Bank of Dallas ("FHLB-Dallas"), Federal Home Loan Bank of Atlanta ("FHLB-Atlanta") and First National Banker's Bankshares, Inc. ("FNBB") shares which do not have readily determinable fair values and are carried at cost.

The following table presents the amortized cost and the fair value of investment securities as of the dates indicated.

Investment Securities

	December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value(1)	Amortized Cost	Fair Value(1)	Amortized Cost	Fair Value(1)
	(Dollars in thousands)					
Obligations of states and political subdivisions	$378,822	$378,547	$385,581	$393,887	$517,166	$542,740
U.S. Government agency residential mortgage-backed securities	1,269	1,269	93,159	94,510	371,110	371,561
Corporate obligations	—	—	1,596	1,865	6,953	6,953
Collateralized debt obligation	—	—	100	100	1,000	683
Other equity securities	18,882	18,882	16,316	16,316	22,846	22,846
Total	$398,973	$398,698	$496,752	$506,678	$919,075	$944,783

(1) The Company utilizes independent third parties as its principal sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, the fair values are obtained from independent pricing services and are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The Company's investment securities portfolio is reported at amortized cost adjusted for unrealized gains and losses and for any impairment charges. At December 31, 2010, unrealized net losses totaled $0.3 million. At December 31, 2009 and 2008, unrealized net gains totaled $9.9 million and $25.7 million, respectively. Management believes that all of its unrealized losses on individual investment securities at December 31, 2010 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of its investments. Accordingly management considers these unrealized losses to be temporary in nature. The Company does not have the intent to sell these investment securities and more likely than not would not be required to sell these investment securities before fair value recovers to amortized cost.

At December 31, 2009, the Company's investment securities portfolio included one security categorized as a CDO. During 2009, the Company determined that it no longer expected to hold this security until maturity or until such time as fair value recovered to or above cost. Accordingly, the Company recorded a $0.9 million charge during 2009 to reduce the carrying value of this security to $0.1 million. This CDO was sold during 2010.

The Company had net gains of $4.5 million from the sale of $251 million of investment securities in 2010 compared to net gains of $27.9 million from the sale of $529 million of investment securities in 2009 and net losses of $0.4 million from the sale of $14 million of investment securities in 2008. The Company also recorded other-than-temporary impairment charges of $0.9 million in 2009 and $3.0 million in 2008 (none in 2010). During 2010, 2009 and 2008, respectively, investment securities totaling $60 million, $247 million and $1.64 billion matured or were called by the issuer. The Company purchased $121 million, $322 million and $1.96 billion, respectively, of investment securities during 2010, 2009 and 2008.

From February through December of 2008, the Company purchased a large volume of tax-exempt investment securities which the Company expected to be relatively temporary investments. The opportunity to acquire these securities at unusually favorable yields was due to unusual market conditions. The interest rates on the majority of these securities reset weekly, resulting in the securities being repurchased or called on a weekly basis. The Company's volume of these investments had declined to $85 million at December 31, 2008. The remainder of these securities were called or otherwise paid off in the first and second quarters of 2009.

In addition, during the fourth quarter of 2008 and the first quarter of 2009, the Company purchased other investment securities which offered relatively good value at the time of purchase and consisted of tax-exempt mortgage-backed securities issued by housing authorities of states and political subdivisions ("Municipal Housing Authority Bonds"). These Municipal Housing Authority Bonds are primarily backed by single family or multi-family residential mortgages, the repayment of which is guaranteed by the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, U.S. Department of Veterans' Affairs, Federal Housing Agency or U.S. Department of Agriculture Rural Development.

During 2009, the Company sold most of the Municipal Housing Authority Bonds and, during 2009 and 2010, the Company sold most of its U.S. Government agency residential mortgage-backed securities. This reduction of the Company's investment securities portfolio was a result of management's ongoing evaluations of interest rate risk and to free up capital for additional FDIC-assisted acquisitions.

The Company invests in securities it believes offer good relative value at the time of purchase, and it will, from time to time reposition its investment securities portfolio. In making its decisions to sell or purchase securities, the Company considers credit ratings, call features, maturity dates, relative yields, current market factors, interest rate risk and other relevant factors.

The following table presents the types and estimated fair values of the Company's investment securities at December 31, 2010 based on credit ratings by one or more nationally-recognized credit rating agencies.

Credit Ratings of Investment Securities

	AAA(1)	AA(2)	A(3)	BBB(4)	Non-Rated(5)	Total
			(Dollars in thousands)			
Obligations of states and political subdivisions:						
Arkansas	$ —	$108,579	$ 8,678	$ 7,924	$ 164,164	$289,345
Texas	1,319	26,996	16,971	9,897	11,734	66,917
Pennsylvania	—	—	—	—	5,944	5,944
Louisiana	—	3,995	—	—	—	3,995
South Carolina	—	—	—	—	3,357	3,357
Connecticut	—	—	2,619	—	—	2,619
Iowa	—	—	2,339	—	—	2,339
Massachusetts	—	—	—	—	2,024	2,024
Georgia	—	812	286	598	—	1,696
Alabama	—	—	—	256	—	256
Oklahoma	—	—	—	—	55	55
U.S. Government agency residential mortgage-backed securities	1,269	—	—	—	—	1,269
Other equity securities	—	—	—	—	18,882	18,882
Total	$2,588	$140,382	$30,893	$18,675	$ 206,160	$398,698
Percentage of total	0.7%	35.2%	7.7%	4.7%	51.7%	100.0%
Cumulative percentage of total	0.7%	35.9%	43.6%	48.3%	100.0%	

(1) Includes securities rated Aaa by Moody's, AAA by Standard & Poor's ("S&P") or a comparable rating by other nationally-recognized credit rating agencies.
(2) Includes securities rated Aa1 to Aa3 by Moody's, AA+ to AA- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
(3) Includes securities rated A1 to A3 by Moody's, A+ to A- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
(4) Includes securities rated Baa1 to Baa3 by Moody's, BBB+ to BBB- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
(5) Includes all securities that are not rated or securities that are not rated but that have a rated credit enhancement where the Company has ignored such credit enhancement. For these securities, the Company has performed its own evaluation of the security and/or the underlying issuer and believes that such security or its issuer would warrant a credit rating of investment grade (i.e., Baa3 or better by Moody's or BBB- or better by S&P or a comparable rating by another nationally-recognized credit rating agency).

The following table presents the unaccreted discount and unamortized premium of the Company's investment securities for the dates indicated.

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
		(Dollars in thousands)		
December 31, 2010:				
Obligations of states and political subdivisions	$378,822	$ 5,307	$ (193)	$383,936
U.S. Government agency residential mortgage-backed securities	1,269	—	(22)	1,247
Other equity securities	18,882	—	—	18,882
Total	$398,973	$ 5,307	$ (215)	$404,065
December 31, 2009:				
Obligations of states and political subdivisions	$385,581	$ 8,796	$ (22)	$394,355
U.S. Government agency residential mortgage-backed securities	93,159	445	(25)	93,579
Corporate obligations	1,596	274	—	1,870
Collateralized debt obligation	100	900	—	1,000
Other equity securities	16,316	—	—	16,316
Total	$496,752	$ 10,415	$ (47)	$507,120

During 2010, 2009 and 2008, the Company recognized discount accretion, net of premium amortization, of $0.1 million, $4.5 million and $1.0 million, respectively, which is considered an adjustment to the yield of its investment securities.

The following table reflects the expected maturity distribution of the Company's investment securities, at fair value, as of December 31, 2010 and weighted-average yields (for tax-exempt obligations on a FTE basis) of such securities. The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) equity securities with no contractual maturity date which are shown in the longest maturity category, (2) U.S. Government agency residential mortgage-backed securities are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds based on interest rate levels at December 31, 2010, and (3) callable investment securities when the Company has received notification of call are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields - FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

Expected Maturity Distribution of Investment Securities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Through 10 Years	Over 10 Years	Total
			(Dollars in thousands)		
Obligations of states and political subdivisions	$3,544	$17,888	$21,592	$335,523	$378,547
U.S. Government agency residential mortgage-backed securities	1,264	5	—	—	1,269
Other equity securities[(1)]	—	—	—	18,882	18,882
Total	$4,808	$17,893	$21,592	$354,405	$398,698
Percentage of total	1.2%	4.5%	5.4%	88.9%	100.0%
Cumulative percentage of total	1.2%	5.7%	11.1%	100.0%	
Weighted-average yield - FTE[(2)]	4.80%	6.55%	7.42%	7.31%	7.25%

(1) Includes approximately $18.5 million of FHLB-Dallas and FHLB-Atlanta stock which has historically paid quarterly dividends at a variable rate approximating the federal funds rate.

(2) The weighted-average yields - FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

Deposits

The Company's lending and investing activities are funded primarily by deposits. The Company's total deposits increased 25.2% to $2.54 billion at December 31, 2010, compared to $2.03 billion at December 31, 2009. This increase was primarily due to the Company's four FDIC-assisted acquisitions during 2010.

Over the past two years, the Company has experienced a favorable change in its deposit mix. The Company's non-CD deposits have grown and comprised 62.9% of total deposits at December 31, 2010, compared to 56.8% at December 31, 2009 and 44.3% at December 31, 2008. Non-CD deposits totaled $1.60 billion at December 31, 2010, compared to $1.15 billion at December 31, 2009 and $1.04 billion at December 31, 2008.

At December 31, 2010, the Company had outstanding brokered deposits of $58 million compared to $57 million at December 31, 2009 and $385 million at December 31, 2008.

The following table reflects the average balance and average rate paid for each deposit category shown for the years ended December 31, 2010, 2009 and 2008.

Average Deposit Balances and Rates

	Year Ended December 31,					
	2010		2009		2008	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Non-interest bearing accounts	$ 256,910	—	$ 207,782	—	$ 184,563	—
Interest bearing accounts:						
Transaction (NOW)	574,432	0.49%	431,587	0.58%	400,145	1.18%
Savings and money market	547,096	1.09	401,221	1.15	228,038	2.00
Time deposits less than $100,000	392,671	1.40	409,969	2.40	516,655	3.76
Time deposits $100,000 or more	476,748	1.22	699,281	1.93	906,306	3.91
Total deposits	$2,247,857		$2,149,840		$2,235,707	

The following table sets forth, by time remaining to maturity, time deposits in amounts of $100,000 and over at December 31, 2010.

Maturity Distribution of Time Deposits of $100,000 and Over

	December 31, 2010
	(Dollars in thousands)
3 months or less	$ 165,006
Over 3 to 6 months	157,336
Over 6 to 12 months	126,440
Over 12 months	35,142
Total	$ 483,924

The amount and percentage of the Company's deposits by state of originating office are reflected in the following table.

Deposits by State of Originating Office

Deposits Attributable to Offices In	December 31, 2010 Amount	2010 %	2009 Amount	2009 %	2008 Amount	2008 %
	(Dollars in thousands)					
Arkansas	$1,752,977	69.0%	$1,734,870	85.5%	$2,032,335	86.8%
Texas	455,089	17.9	294,124	14.5	309,079	13.2
Georgia	152,333	6.0	—	—	—	—
Florida	110,556	4.3	—	—	—	—
South Carolina	32,861	1.3	—	—	—	—
North Carolina	19,615	0.8	—	—	—	—
Alabama	17,322	0.7	—	—	—	—
Total	$2,540,753	100.0%	$2,028,994	100.0%	$2,341,414	100.0%

Other Interest Bearing Liabilities

The Company also relies on other interest bearing liabilities to fund its lending and investing activities. Such liabilities consist of repurchase agreements with customers, other borrowings (primarily FHLB advances and, to a lesser extent, FRB borrowings and federal funds purchased) and subordinated debentures.

Total other interest bearing liabilities were $390 million at December 31, 2010, a decrease of $62 million from $452 million at December 31, 2009. Repurchase agreements with customers decreased 2.1% to $43 million at December 31, 2010 from $44 million at December 31, 2009. Other borrowings, including FHLB advances, FRB borrowings and federal funds purchased, decreased 17.6% to $282 million at December 31, 2010 from $343 million at December 31, 2009. The decrease in total other borrowings was primarily due to the Company's repayment of $60 million of fixed-rate callable FHLB advances on their maturity dates in May 2010.

The following table reflects the average balance and average rate paid for each category of other interest bearing liabilities for the years ended December 31, 2010, 2009 and 2008.

Average Balances and Rates of Other Interest Bearing Liabilities

	Year Ended December 31,					
	2010		2009		2008	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Repurchase agreements with customers	$ 49,835	0.76%	$ 52,549	1.13%	$ 43,916	1.81%
Other borrowings[(1)]	317,796	3.82	384,854	3.74	441,228	3.53
Subordinated debentures	64,950	2.72	64,950	3.29	64,950	5.79
Total other interest bearing liabilities	$432,581	3.30%	$502,353	3.40%	$550,094	3.66%

(1) Included in other borrowings at December 31, 2010 are FHLB advances that contain quarterly call features and mature as follows: 2017, $260.0 million at 3.90% weighted-average rate; and 2018, $20.0 million at 2.53% weighted-average rate.

Capital Resources and Liquidity

Capital Resources

Subordinated Debentures. At December 31, 2010, the Company had an aggregate of $64.9 million of subordinated debentures and related trust preferred securities outstanding consisting of $20.6 million of subordinated debentures and securities issued in 2006 that bear interest, adjustable quarterly, at LIBOR plus 1.60%; $15.4 million of subordinated debentures and securities issued in 2004 that bear interest, adjustable quarterly, at LIBOR plus 2.22%; and $28.9 million of subordinated debentures and securities issued in 2003 that bear interest, adjustable quarterly, at a weighted-average rate of LIBOR plus 2.925%. These subordinated debentures and securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval, on or after approximately five years from the date of issuance, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements. These subordinated debentures and the related trust preferred securities provide the Company additional regulatory capital to support its expected future growth and expansion.

Preferred Stock and Common Stock Warrant. On December 12, 2008, as part of the United States Department of the Treasury's (the "Treasury") Capital Purchase Program made available to certain financial institutions in the U.S. pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company and the Treasury entered into a Letter Agreement including the Securities Purchase Agreement –Standard Terms incorporated therein pursuant to which the Company issued to the Treasury, in exchange for aggregate consideration of $75.0 million, (i) 75,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 and liquidation preference $1,000 per share (the "Series A Preferred Stock"), and (ii) a warrant (the "Warrant") to purchase up to 379,811 shares of the Company's common stock, par value $0.01 per share, at an exercise price of $29.62 per share. On November 4, 2009, the Company redeemed all of the Series A Preferred Stock for $75.0 million plus accrued and unpaid dividends, with the approval of the Company's primary regulator in consultation with the Treasury. On November 24, 2009, the Company repurchased the Warrant from the Treasury for $2.65 million, which was charged against the Company's additional paid-in capital.

Preferred Stock Dividend. The Series A Preferred Stock qualified as Tier 1 capital and paid cumulative cash dividends quarterly at a rate of 5% per annum while it was outstanding. These cash dividends and the amortization of the discount on issuance of the Series A Preferred Stock resulted in total dividends of $0.2 million in 2008 and $3.6 million in 2009 (none during 2010).

Tangible Common Equity. The Company uses its tangible common equity ratio as the principal measure of the strength of its capital. The tangible common equity ratio is calculated by dividing total common equity less intangible assets by total assets less intangible assets. The Company's tangible common equity ratio was 9.57% at December 31, 2010 compared to 9.53% at December 31, 2009 and 7.64% at December 31, 2008.

Common Stock Dividend Policy. In 2010 the Company paid dividends of $0.60 per share. In 2009 and 2008 the Company paid dividends of $0.52 per share and $0.50 per share, respectively. In 2008, the per share dividend was $0.12 per quarter in the first and second quarters and $0.13 per quarter in the third and fourth quarters. In 2009 the per share dividend was $0.13 in each quarter. In 2010, the per share dividend was $0.14 in the first quarter, $0.15 per quarter in the second and third quarters, and $0.16 in the fourth quarter. On January 3, 2011, the Company's board of directors approved a dividend of $0.17 per common share that was paid on January 21, 2011. The determination of future dividends on the Company's common stock will depend on conditions existing at that time.

Capital Compliance

Bank regulatory authorities in the United States impose certain capital standards on all bank holding companies and banks. These capital standards require compliance with certain minimum "risk-based capital ratios" and a minimum "leverage ratio." The risk-based capital ratios consist of (1) Tier 1 capital (common stockholders' equity excluding goodwill, certain intangibles and net unrealized gains and losses on available-for-sale investment securities, but including, subject to limitations, trust preferred securities, certain types of preferred stock and other qualifying items) to risk-weighted assets and (2) total capital (Tier 1 capital plus Tier 2 capital which includes the qualifying portion of the allowance for loan and lease losses and the portion of trust preferred securities not counted as Tier 1 capital) to risk-weighted assets. The Tier 1 leverage ratio is measured as Tier 1 capital to adjusted quarterly average assets.

The Company's consolidated risk-based capital and leverage ratios exceeded these minimum requirements at December 31, 2010 and 2009 and are presented in the following table, followed by the capital ratios of the Bank at December 31, 2010 and 2009.

Consolidated Capital Ratios

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Tier 1 capital:		
Common stockholders' equity	$ 320,355	$ 269,028
Allowed amount of trust preferred securities	63,000	63,000
Net unrealized losses (gains) on investment securities AFS	167	(6,032)
Less goodwill and certain intangible assets	(7,925)	(5,554)
Total Tier 1 capital	375,597	320,442
Tier 2 capital:		
Qualifying allowance for loan and lease losses	29,241	29,207
Total risk-based capital	$ 404,838	$ 349,649
Risk-weighted assets	$2,328,251	$2,326,185
Adjusted quarterly average assets - fourth quarter	$3,160,452	$2,813,053
Ratios at end of period:		
Tier 1 leverage	11.88%	11.39%
Tier 1 risk-based capital	16.13	13.78
Total risk-based capital	17.39	15.03
Minimum ratio guidelines:		
Tier 1 leverage(1)	3.00%	3.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00
Minimum ratio guidelines to be "well capitalized":		
Tier 1 leverage	5.00%	5.00%
Tier 1 risk-based capital	6.00	6.00
Total risk-based capital	10.00	10.00

(1) Regulatory authorities require institutions to operate at varying levels (ranging from 100-200 bps) above a minimum Tier 1 leverage ratio of 3% depending upon capitalization classification.

Bank Capital Ratios

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Stockholders' equity - Tier 1 capital	$358,852	$299,683
Tier 1 leverage ratio	11.40%	10.72%
Tier 1 risk-based capital ratio	15.49	12.96
Total risk-based capital ratio	16.75	14.22

Liquidity

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility the Company may be unable to satisfy current or future funding requirements and needs. The ALCO and Investments Committee ("ALCO"), which reports to the board of directors, has primary responsibility for oversight of the Company's liquidity, funds management, asset/liability (interest rate risk) position and investment portfolio functions.

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as operating cash needs of the Company, and the cost of funding such requirements and needs is reasonable. The Company maintains a liquidity risk management policy and a contingency funding plan that include policies and procedures for managing liquidity risk. Generally the Company relies on deposits, loan and lease and covered loan repayments, and repayments of its investment securities as its primary sources of funds. The principal deposit sources utilized by the Company include consumer, commercial and public funds customers in the Company's markets. The Company has used these funds, together with wholesale deposit sources such as brokered deposits, along with FHLB advances, FRB borrowings, federal funds purchased and other sources of short-term borrowings, to make loans and leases, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan and lease repayments are a relatively stable source of funds but are subject to the borrowers' and lessees' ability to repay the loans and leases, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans and leases generally are not readily convertible to cash. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet loan, lease and deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB advances, secured and unsecured federal funds lines of credit from correspondent banks and FRB borrowings.

At December 31, 2010 the Company had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $610 million of available blanket borrowing capacity with the FHLB, (2) $32 million of investment securities available to pledge for federal funds or other borrowings, (3) $92 million of available unsecured federal funds borrowing lines and (4) up to $88 million of available borrowing capacity from borrowing programs of the FRB.

The Company anticipates it will continue to rely primarily on deposits, loan and lease and covered loan repayments, and repayments of its investment securities to provide liquidity. Additionally, where necessary, the sources of borrowed funds described above will be used to augment the Company's primary funding sources.

Emergency Economic Stabilization Act of 2008 and FDIC Temporary Liquidity Guaranty Program. On October 3, 2008, Congress passed, and the President signed into law, the EESA. The EESA, among other things, included a provision for an increase in the amount of deposits insured by the FDIC from $100,000 to $250,000 through December 31, 2013.

On October 14, 2008, the FDIC announced the Temporary Liquidity Guaranty Program ("TLGP") that, among other things, provides unlimited deposit insurance on certain transaction accounts. The unlimited deposit insurance covers funds to the extent such funds are not otherwise covered by the existing deposit insurance limit of $250,000 in (i) non-interest bearing transaction deposit accounts and (ii) certain interest bearing transaction deposit accounts where the participating institution agrees to pay interest on such deposits at a rate not to exceed 25 bps. Such covered transaction accounts were initially insured through December 31, 2009 at a fee of 10 bps per annum paid by the Company's bank subsidiary to the FDIC on deposit amounts in excess of $250,000. In August 2009, the FDIC extended the unlimited deposit insurance through June 30, 2010, and on April 13, 2010, the FDIC extended the deposit insurance through December 31, 2010. The fee payable by the Company to the FDIC to continue participation in this insurance program increased effective January 1, 2010 to 15 bps per annum on deposits in excess of $250,000.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") was signed into law. Among other things, the Dodd-Frank Act provides full deposit insurance with no maximum coverage amount for non-interest bearing transaction accounts for two years beginning

December 31, 2010. Participation in this deposit insurance coverage of the Dodd-Frank Act is mandatory for all financial institutions and requires no separate fee assessment to the Bank. Additionally, the Dodd-Frank Act permanently increases the maximum deposit insurance coverage for all other deposit categories to $250,000 retroactive to January 1, 2008.

Sources and Uses of Funds. Net cash provided by operating activities totaled $40 million, $48 million and $46 million, respectively, for 2010, 2009 and 2008. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in various operating assets and liabilities.

Investing activities provided $493 million in 2010, $476 million in 2009 and used $493 million in 2008. The Company's primary sources and uses of cash for investing activities include net loan and lease fundings, which provided $38 million in 2010 and $12 million in 2009 and used $174 million in 2008, purchases of premises and equipment which used $17 million, $9 million, and $28 million, respectively, in 2010, 2009 and 2008, and net activity in its investment securities portfolio, which provided $194 million in 2010 and $454 million in 2009, and used $303 million in 2008. The Company received $201 million of cash in connection with its four FDIC-assisted acquisitions in 2010 (none in 2009 and 2008) and received net cash of $73 million from liquidation of covered assets in 2010 (none in 2009 and 2008). During 2010, the Company purchased $10 million of BOLI and invested $5 million in unconsolidated subsidiaries. Proceeds from dispositions of premises and equipment and other assets provided $17 million in 2010, $17 million in 2009 and $8 million in 2008, and proceeds from BOLI death benefits provided $2 million in 2009 and $4 million in 2008 (none in 2010).

Financing activities used $562 million in 2010 and $487 million in 2009 and provided $441 million in 2008. The Company's primary financing activities include net changes in deposit accounts, which used $441 million in 2010 and $312 million in 2009 and provided $284 million in 2008, and net proceeds from or repayments of other borrowings and repurchase agreements with customers, which used $115 million in 2010 and $85 million in 2009, and provided $89 million in 2008. In addition the Company paid common stock cash dividends of $10 million, $9 million and $8 million, respectively, in 2010, 2009 and 2008, and the Company paid preferred stock cash dividends of $3.4 million 2009 (none in 2008 or 2010). The Company's financing activities were impacted by $75 million of proceeds received in 2008 from the issuance of Series A Preferred Stock and the Warrant in connection with the Company's participation in the Treasury's Capital Purchase Program and the redemption of the Series A Preferred Stock for $75 million in 2009, as well as the repurchase of the Warrant for $2.65 million in 2009.

Contractual Obligations. The following table presents, as of December 31, 2010, significant fixed and determinable contractual obligations to third parties by contractual date with no consideration given to earlier call or prepayment features. Other obligations consist primarily of contractual obligations for capital expenditures, software contracts and various other contractual obligations.

Contractual Obligations

	1 Year or Less	Over 1 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)		
Time deposits[1]	$ 873,347	$68,038	$ 7,965	$ 78	$ 949,428
Deposits without a stated maturity[2]	1,597,827	—	—	—	1,597,827
Repurchase agreements with customers[1]	43,324	—	—	—	43,324
Other borrowings[1]	13,075	21,719	21,686	299,164	355,644
Subordinated debentures[1]	1,906	3,471	3,466	97,408	106,251
Lease obligations	978	1,903	1,310	1,795	5,986
Other obligations	13,624	2,140	804	15,824	32,392
Total contractual obligations	$2,544,081	$97,271	$35,231	$414,269	$3,090,852

(1) Includes unpaid interest through the contractual maturity on both fixed and variable rate obligations. The interest included on variable rate obligations is based upon interest rates in effect at December 31, 2010. The contractual amounts to be paid on variable rate obligations are affected by changes in interest rates. Future changes in interest rates could materially affect the contractual amounts to be paid.
(2) Includes interest accrued and unpaid through December 31, 2010.

Off-Balance Sheet Commitments. The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2010. Commitments to extend credit do not necessarily represent future cash requirements as these commitments may expire without being drawn.

Off-Balance Sheet Commitments

	1 Year or Less	Over 1 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)				
Commitments to extend credit[1]	$112,370	$50,885	$ 6,718	$2,131	$172,104
Standby letters of credit	4,934	775	135	—	5,844
Total commitments	$117,304	$51,660	$ 6,853	$2,131	$177,948

(1) Includes commitments to extend credit under mortgage interest rate locks of $6.4 million that expire in one year or less.

Interest Rate Risk

Interest rate risk results from timing differences in the repricing of assets and liabilities or from changes in relationships between interest rate indexes. The Company's interest rate risk management is the responsibility of the ALCO.

The Company regularly reviews its exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest bearing liabilities, interest rate spreads and repricing periods. Typically, the ALCO reviews on at least a quarterly basis the Company's relative ratio of rate sensitive assets ("RSA") to rate sensitive liabilities ("RSL") and the related cumulative gap for different time periods. However, the primary tool used by ALCO to analyze the Company's interest rate risk and interest rate sensitivity is an earnings simulation model.

This earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. The Company relies primarily on the results of this model in evaluating its interest rate risk. This model incorporates a number of factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various RSA and RSL will reprice, (3) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on such new assets and liabilities, (4) the expected relative movements in different interest rate indexes which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual cap and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts and (7) other relevant factors. Inclusion of these factors in the model is intended to more accurately project the Company's expected changes in net interest income resulting from interest rate changes. The Company models its change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, up 400 bps, down 100 bps and down 200 bps. Based on current conditions, the Company believes that modeling its change in net interest income assuming rates go down 100 bps and down 200 bps is not meaningful. For purposes of this model, the Company has assumed that the change in interest rates phases in over a 12-month period. While the Company believes this model provides a reasonably accurate projection of its interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected changes in administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing January 1, 2011. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

Earnings Simulation Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+400	(1.1)%
+300	(1.5)
+200	(1.5)
+100	(0.8)
-100	Not meaningful
-200	Not meaningful

In the event of a shift in interest rates, the Company may take certain actions intended to mitigate the negative impact to net interest income or to maximize the positive impact to net interest income. These actions may include, but are not limited to, restructuring of interest earning assets and interest bearing liabilities, seeking alternative funding sources or investment opportunities and modifying the pricing or terms of loans and leases and deposits.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes presented elsewhere in this report have been prepared in accordance with accounting principles generally accepted in the United States. This requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, the vast majority of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Growth and Expansion

On March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Unity with five offices in Georgia, including Cartersville (2), Rome, Adairsville and Calhoun.

On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Woodlands with eight offices, including two in South Carolina, two in North Carolina, one in Georgia, and three in Alabama. Subsequently the Company renegotiated the leases on two offices to eliminate unneeded space. On October 26, 2010 the Company closed four of the former Woodlands' offices and in December 2010 it relocated two offices. At December 31, 2010, the Company operated one office each in Bluffton, South Carolina; Wilmington, North Carolina; Savannah, Georgia; and Mobile, Alabama.

On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Horizon. On December 23, 2010 the Company closed one of the former Horizon offices such that at December 31, 2010, the Company operated offices in Bradenton (2) and Palmetto, Florida.

On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Chestatee with four offices in Georgia, including Dawsonville (2), Marble Hill and Cumming.

The Company expects to continue its growth and *de novo* branching strategy, although it has slowed the pace of new office openings in recent years. In addition to the 16 offices added in 2010 as a result of the Company's four FDIC-assisted acquisitions, the Company opened one office in the fourth quarter of 2010 in Benton, Arkansas. At December 31, 2010, the Company conducted operations through 90 offices, including banking offices in Arkansas (66), Georgia (10), Texas (7), Florida (3), North Carolina (1), South Carolina (1), and Alabama (1) and a loan production office in Charlotte, North Carolina.

On January 14, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Oglethorpe Bank with two offices in Georgia, including Brunswick and St. Simons Island.

The Company expects to open three metro-Dallas offices in the first half of 2011. Opening new offices is subject to availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty. The Company may increase or decrease its expected number of new offices as a result of a variety of factors including the Company's financial results, changes in economic or competitive conditions, strategic opportunities or other factors.

During 2010 the Company spent $17 million on capital expenditures for premises and equipment, including premises and equipment acquired in FDIC-assisted acquisitions. The Company's capital expenditures for 2011 are expected to be in the range of $13 to $25 million, including progress payments on construction projects expected to be completed in 2011 or 2012, furniture and equipment costs, acquisition of sites for future development and premises and equipment acquired in FDIC-assisted acquisitions. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in or inability to obtain required approvals, potential premises and equipment expenditures associated with FDIC-assisted acquisitions, if any, and other factors.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. The Company's determination of (i) the provisions to and the adequacy of the allowance for loan and lease losses, (ii) the fair value of its investment securities portfolio, (iii) the fair value of foreclosed and repossessed assets held for sale and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions, including the Company's FDIC-assisted acquisitions, all involve a higher degree of judgment and complexity than its other significant accounting policies. Accordingly, the Company considers the determination of (i) the adequacy of the allowance for loan and lease losses, (ii) the fair value of its investment securities portfolio, (iii) the fair value of foreclosed and repossessed assets held for sale and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions to be critical accounting policies.

Provisions to and adequacy of the allowance for loan and lease losses. Provisions to and the adequacy of the allowance for loan and lease losses are based on the Company's evaluation of the loan and lease portfolio utilizing objective and subjective criteria as described in this report. See the "Analysis of Financial Condition" section of this Management's Discussion and Analysis for a detailed discussion of the Company's allowance for loan and lease losses. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

Fair value of the investment securities portfolio. The Company has classified all of its investment securities as AFS. Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income taxes, reported as a separate component of stockholders' equity and any related changes are included in accumulated other comprehensive income (loss).

The Company utilizes independent third parties as its principal sources for determining fair value of its investment securities that are measured on a recurring basis. For investment securities traded in an active market, the fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The fair values of the Company's investment securities traded in both active and inactive markets can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly impact the Company's financial condition, results of operations and liquidity.

Fair value of foreclosed and repossessed assets held for sale. Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of foreclosed and repossessed assets held for sale are generally based on third party appraisals, broker price opinions or other valuations of the property.

Fair value of assets acquired and liabilities assumed pursuant to business combination transactions. Assets acquired and liabilities assumed in business combinations are recorded at estimated fair value on their purchase date. Purchased loans acquired in a business combination, including covered loans, are recorded at estimated fair value with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. Purchased loans are accounted for in accordance with guidance for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually acquired principal and interest payments. In determining the acquisition date fair values of purchased loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

The difference between contractually acquired payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of expected cash flows, the Company uses discount rates ranging from 6.0% to 9.5% depending on the risk characteristics of each loan or loan pool.

The estimated fair value of covered ORE and the FDIC loss share receivable are based on the net present value of expected future cash proceeds. The discount rates used are derived from current market rates and reflect the level of inherent risk in the assets. The expected cash flows are determined based on contractual terms, expected performance, default timing assumptions, property appraisals and other factors.

The fair values of investment securities acquired in business combinations are generally based on quoted market prices, broker quotes, comprehensive interest rate tables or pricing matrices or a combination thereof. The fair value of assumed liabilities in business combinations on their date of purchase is generally the amount payable by the Company necessary to completely satisfy the assumed obligation.

Recently Issued Accounting Standards

See Note 1 to the Consolidated Financial Statements for a discussion of certain recently issued accounting pronouncements.

Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations, other filings made by the Company with the Securities and Exchange Commission and other oral and written statements or reports by the Company and its management include certain forward-looking statements including, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions; plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future; revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, mortgage lending and trust income, gains (losses) on investment securities and sales of other assets; gains on FDIC-assisted transactions; non-interest expense; efficiency ratio; anticipated future operating results and financial performance; asset quality, including the effects of current economic and real estate market conditions; nonperforming loans and leases; nonperforming assets; net charge-offs; net charge-off ratio; provision for loan and lease losses; past due loans and leases; litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities including plans for making additional FDIC-assisted acquisitions and plans for opening new offices; opportunities and goals for future market share growth; expected capital expenditures; loan, lease and deposit growth; changes in covered assets; changes in the volume, yield and value of the Company's investment securities portfolio; availability of unused borrowings and other similar forecasts and statements of expectation. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "look," "seek," "may," "will," "could," "trend," "target," "goal," and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs, plans and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management due to certain risks, uncertainties and assumptions. Certain factors that may affect operating results of the Company include, but are not limited to, potential delays or other problems in implementing the Company's growth and expansion strategy including delays in identifying satisfactory sites, hiring qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to enter into additional FDIC-assisted transactions; the ability to attract new deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates; competitive factors and pricing pressures, including their effect on the Company's net interest margin; general economic, unemployment, credit market and real estate market conditions, including their effect on the creditworthiness of borrowers and lessees, collateral values, the value of investment securities and asset recovery values, including the value of the FDIC loss share receivable and related covered assets; changes in legal and regulatory requirements; changes in regular or special assessments by the FDIC for deposit insurance; recently enacted and potential legislation and regulatory actions, including legislation intended to stabilize economic conditions and credit markets, increase regulation of the financial services industry and protect homeowners or consumers; changes in U.S. government monetary and fiscal policy; adoption of new accounting standards or changes in existing standards; and adverse results in future litigation as well as other factors described in this and other Company reports and statements. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in the forward-looking statements.

Summary of Quarterly Results of Operations, Market Prices of Common Stock and Dividends Unaudited

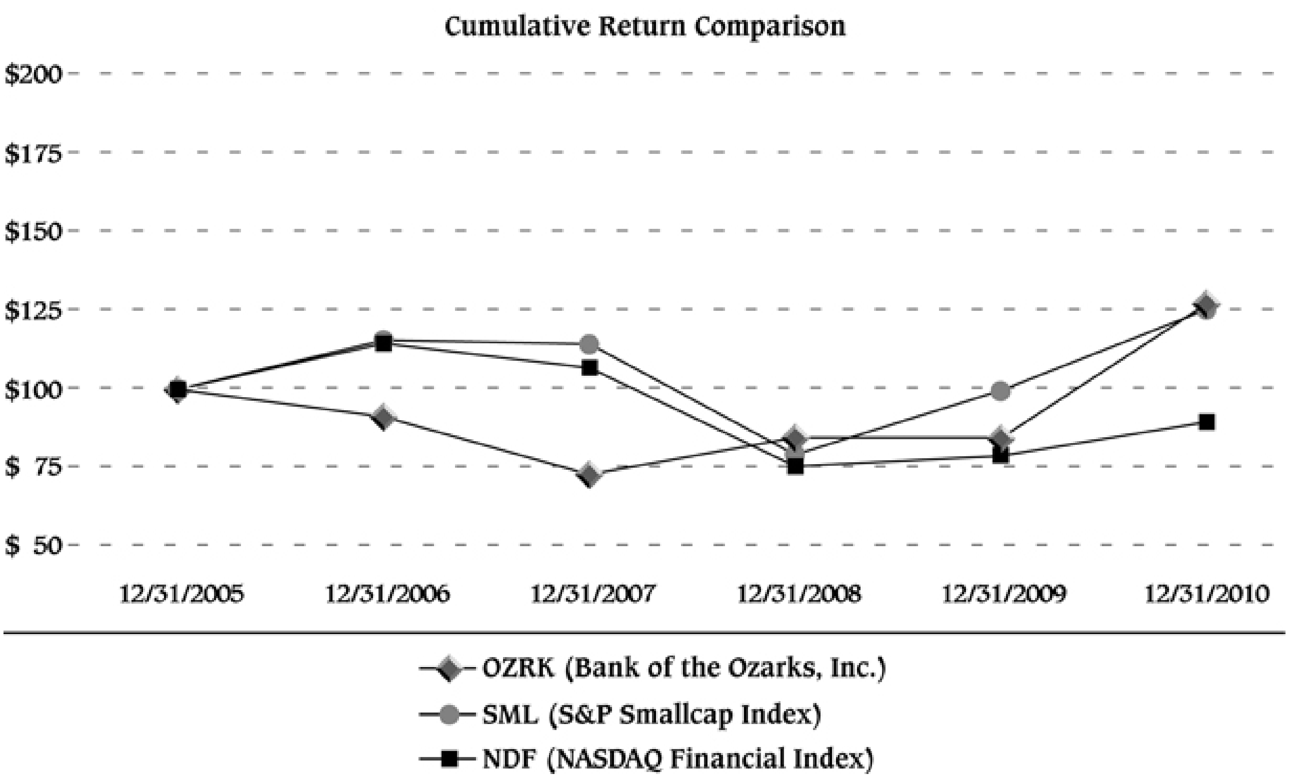
	2010 - Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Total interest income	$ 36,213	$ 38,580	$ 41,092	$ 42,087
Total interest expense	(9,020)	(8,851)	(8,324)	(8,142)
Net interest income	27,193	29,729	32,768	33,945
Provision for loan and lease losses	(4,200)	(3,400)	(4,300)	(4,100)
Non-interest income	17,365	9,127	25,183	18,646
Non-interest expense	(17,471)	(21,110)	(23,565)	(25,274)
Income taxes	(6,944)	(3,488)	(9,878)	(6,303)
Noncontrolling interest	11	32	17	17
Net income available to common stockholders	$ 15,954	$ 10,890	$ 20,225	$ 16,931
Per common share:				
Earnings - diluted	$ 0.94	$ 0.64	$ 1.19	$ 0.99
Cash dividends	0.14	0.15	0.15	0.16
Bid price per common share:				
Low	$ 28.66	$ 33.64	$ 34.40	$ 37.02
High	35.53	39.46	39.27	44.50

	2009 - Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Total interest income	$ 45,262	$ 42,586	$ 39,904	$ 38,157
Total interest expense	(14,928)	(12,324)	(10,672)	(9,662)
Net interest income	30,334	30,262	29,232	28,495
Provision for loan and lease losses	(10,600)	(21,100)	(7,500)	(5,600)
Non-interest income	9,373	22,610	5,810	13,257
Non-interest expense	(16,187)	(17,945)	(15,499)	(19,001)
Income taxes	(2,537)	(3,250)	(2,599)	(4,472)
Noncontrolling interest	(23)	—	25	17
Preferred stock dividends and amortization of preferred stock discount	(1,074)	(1,076)	(1,078)	(3,048)
Net income available to common stockholders	$ 9,286	$ 9,501	$ 8,391	$ 9,648
Per common share:				
Earnings - diluted	$ 0.55	$ 0.56	$ 0.50	$ 0.57
Cash dividends	0.13	0.13	0.13	0.13
Bid price per common share:				
Low	$ 17.05	$ 19.88	$ 21.20	$ 22.27
High	29.43	26.25	26.76	29.78

See Note 18 to Consolidated Financial Statements for discussion of dividend restrictions.

Company Performance

The graph below shows a comparison for the period commencing December 31, 2005 through December 31, 2010 of the cumulative total stockholder returns (assuming reinvestment of dividends) for the common stock of the Company, the S&P Smallcap Index and the NASDAQ Financial Index, assuming a $100 investment on December 31, 2005.



	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
OZRK (Bank of the Ozarks, Inc.)	$ 100	$ 91	$ 73	$ 84	$ 84	$ 126
SML (S&P Smallcap Index)	$ 100	$ 115	$ 114	$ 79	$ 99	$ 125
NDF (NASDAQ Financial Index)	$ 100	$ 114	$ 106	$ 75	$ 78	$ 89

Report of Management on the Company's
Internal Control Over Financial Reporting

March 10, 2010

Management of Bank of the Ozarks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of Bank of the Ozarks, Inc., including the Chief Executive Officer and the Chief Financial Officer and Chief Accounting Officer, has assessed the Company's internal control over financial reporting as of December 31, 2010, based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted by SEC guidance, management excluded from its assessment the FDIC-assisted acquisitions described in Notes 2 and 3 to the Consolidated Financial Statements. The assets acquired in these acquisitions consist primarily of "covered assets" which comprised approximately 21% of total consolidated assets at December 31, 2010. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2010, based on the specified criteria.

The effectiveness of Bank of the Ozarks, Inc.'s internal control over financial reporting has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report which is included herein.

George Gleason
Chairman and Chief Executive Officer

Greg McKinney
Chief Financial Officer and Chief Accounting Officer

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Bank of the Ozarks, Inc.

We have audited Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bank of the Ozarks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on the Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As permitted, the Company excluded the operations of the four financial institutions aquired during 2010, which are described in Note 2 of the consolidated financial statements, from the scope of management's report on internal control over financial reporting. As such, they have also been excluded from the scope of our audit of internal control over financial reporting.

In our opinion, Bank of the Ozarks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Bank of the Ozarks, Inc. as of December 31, 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 2010, and our report dated March 10, 2011, expressed an unqualified opinion thereon.

Crowe Horwath LLP

Brentwood, Tennessee
March 10, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Bank of the Ozarks, Inc.

We have audited the accompanying consolidated balance sheets of Bank of the Ozarks, Inc. (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the Ozarks, Inc. at December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2011, expressed an unqualified opinion thereon.

Crowe Horwath LLP

Brentwood, Tennessee
March 10, 2011

Bank of the Ozarks, Inc.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and due from banks	$ 48,024	$ 77,678
Interest earning deposits	1,005	616
Cash and cash equivalents	49,029	78,294
Investment securities - available for sale (“AFS”)	398,698	506,678
Loans and leases, excluding covered loans	1,856,429	1,904,104
Allowance for loan and lease losses	(40,230)	(39,619)
Net loans and leases	1,816,199	1,864,485
Covered assets:		
Loans	497,545	—
Other real estate owned	31,145	—
Federal Deposit Insurance Corporation (“FDIC”) loss share receivable	153,111	—
Premises and equipment, net	170,497	156,204
Foreclosed and repossessed assets held for sale, net	42,216	61,148
Accrued interest receivable	13,899	14,760
Bank owned life insurance	59,771	47,421
Intangible assets, net	7,925	5,554
Other, net	33,624	36,267
Total assets	$ 3,273,659	$ 2,770,811
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 298,585	$ 223,741
Savings and interest bearing transaction	1,299,058	927,977
Time	943,110	877,276
Total deposits	2,540,753	2,028,994
Repurchase agreements with customers	43,324	44,269
Other borrowings	282,139	342,553
Subordinated debentures	64,950	64,950
Accrued interest payable and other liabilities	18,723	17,575
Total liabilities	2,949,990	2,498,341
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value; 1,000,000 shares authorized: no shares outstanding at December 31, 2010 and 2009	—	—
Common stock; $0.01 par value; 50,000,000 shares authorized; 17,053,640 and 16,904,540 shares issued and outstanding at December 31, 2010 and 2009, respectively	170	169
Additional paid-in capital	45,278	41,584
Retained earnings	275,074	221,243
Accumulated other comprehensive income (loss)	(167)	6,032
Total stockholders’ equity before noncontrolling interest	320,355	269,028
Noncontrolling interest	3,415	3,442
Total stockholders’ equity	323,770	272,470
Total liabilities and stockholders’ equity	$ 3,273,659	$ 2,770,811

See accompanying notes to the consolidated financial statements.

Bank of the Ozarks, Inc.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans and leases	$ 118,150	$ 125,301	$ 141,726
Covered loans	17,141	—	—
Investment securities:			
Taxable	4,130	18,314	21,858
Tax-exempt	18,533	22,283	19,406
Deposits with banks and federal funds sold	18	10	13
Total interest income	157,972	165,908	183,003
Interest expense:			
Deposits	20,047	30,480	64,171
Repurchase agreements with customers	380	592	796
Other borrowings	12,146	14,375	15,574
Subordinated debentures	1,764	2,138	3,761
Total interest expense	34,337	47,585	84,302
Net interest income	123,635	118,323	98,701
Provision for loan and lease losses	16,000	44,800	19,025
Net interest income after provision for loan and lease losses	107,635	73,523	79,676
Non-interest income:			
Service charges on deposit accounts	15,156	12,421	12,007
Mortgage lending income	3,863	3,312	2,215
Trust income	3,406	3,078	2,595
Bank owned life insurance income	2,151	3,186	4,131
Gains (losses) on investment securities	4,544	26,982	(3,433)
Gains (losses) on sales of other assets	802	(177)	(544)
Gains on FDIC-assisted transactions	35,019	—	—
Accretion of FDIC loss share receivable, net of amortization of FDIC clawback payable	2,429	—	—
Other	2,952	2,249	2,378
Total non-interest income	70,322	51,051	19,349
Non-interest expense:			
Salaries and employee benefits	40,161	31,847	30,132
Net occupancy and equipment	10,618	9,740	8,882
Other operating expenses	36,640	27,045	15,395
Total non-interest expense	87,419	68,632	54,409
Income before taxes	90,538	55,942	44,616
Provision for income taxes	26,614	12,859	9,926
Net income	63,924	43,083	34,690
Net loss attributable to noncontrolling interest	77	19	11
Preferred stock dividends and amortization of preferred stock discount	—	(6,276)	(227)
Net income available to common stockholders	$ 64,001	$ 36,826	$ 34,474
Basic earnings per common share	$ 3.77	$ 2.18	$ 2.05
Diluted earnings per common share	$ 3.75	$ 2.18	$ 2.04

See accompanying notes to the consolidated financial statements.

Bank of the Ozarks, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock—Series A	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
			(Dollars in thousands, except per share amounts)				
Balances - January 1, 2008	$ —	$ 168	$ 38,613	$167,139	$ (15,091)	$ 3,432	$194,261
Comprehensive income:							
Net income	—	—	—	34,690	—	—	34,690
Net loss attributable to noncontrolling interest	—	—	—	11	—	(11)	—
Other comprehensive income (loss):							
Unrealized gains/losses on investment securities AFS, net of $18,478 tax effect	—	—	—	—	28,628	—	28,628
Reclassification of gains/losses included in net income, net of $1,346 tax effect	—	—	—	—	2,087	—	2,087
Total comprehensive income							65,405
Common stock dividends paid, $0.50 per share	—	—	—	(8,418)	—	—	(8,418)
Issuance of 75,000 shares of preferred stock and a warrant for 379,811 shares of common stock	71,851	—	3,149	—	—	—	75,000
Preferred stock dividends	—	—	—	(198)	—	—	(198)
Amortization of preferred stock discount	29	—	—	(29)	—	—	—
Issuance of 45,900 shares of common stock for exercise of stock options	—	1	407	—	—	—	408
Tax (expense) benefit on exercise and forfeiture of stock options	—	—	283	—	—	—	283
Stock-based compensation expense	—	—	862	—	—	—	862
Balances - December 31, 2008	71,880	169	43,314	193,195	15,624	3,421	327,603
Comprehensive income:							
Net income	—	—	—	43,083	—	—	43,083
Net loss attributable to noncontrolling interest	—	—	—	19	—	(19)	—
Other comprehensive income (loss):							
Unrealized gains/losses on investment securities AFS, net of $4,393 tax effect	—	—	—	—	6,806	—	6,806
Reclassification of gains/losses included in net income, net of $10,584 tax effect	—	—	—	—	(16,398)	—	(16,398)
Total comprehensive income							33,491
Common stock dividends paid, $0.52 per share	—	—	—	(8,778)	—	—	(8,778)
Preferred stock dividends	—	—	—	(3,156)	—	—	(3,156)
Amortization of preferred stock discount	463	—	—	(463)	—	—	—
Redemption of 75,000 shares of preferred stock	(72,343)	—	—	(2,657)	—	—	(75,000)
Repurchase of a warrant for 379,811 shares of common stock	—	—	(2,650)	—	—	—	(2,650)
Issuance of 21,800 shares of common stock for exercise of stock options	—	—	258	—	—	—	258
Tax (expense) benefit on exercise and forfeiture of stock options	—	—	(50)	—	—	—	(50)
Stock-based compensation expense	—	—	712	—	—	—	712
Noncontrolling interest cash contribution	—	—	—	—	—	40	40
Issuance of 18,600 shares of unvested common stock under restricted stock plan	—	—	—	—	—	—	—
Balances - December 31, 2009	—	169	41,584	221,243	6,032	3,442	272,470

Bank of the Ozarks, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

	Preferred Stock— Series A	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)						
Balances - December 31, 2009	$ —	$ 169	$ 41,584	$221,243	$ 6,032	$ 3,442	$272,470
Comprehensive income:							
Net income	—	—	—	63,924	—	—	63,924
Net loss attributable to noncontrolling interest	—	—	—	77	—	(77)	—
Other comprehensive income (loss):							
Unrealized gains/losses on investment securities AFS, net of $2,218 tax effect	—	—	—	—	(3,437)	—	(3,437)
Reclassification of gains/losses included in net income, net of $1,783 tax effect	—	—	—	—	(2,762)	—	(2,762)
Total comprehensive income							57,725
Common stock dividends paid, $0.60 per share	—	—	—	(10,170)	—	—	(10,170)
Issuance of 113,800 shares of common stock for exercise of stock options	—	1	2,824	—	—	—	2,825
Tax (expense) benefit on exercise and forfeiture of stock options	—	—	37	—	—	—	37
Stock-based compensation expense	—	—	833	—	—	—	833
Noncontrolling interest cash contribution	—	—	—	—	—	50	50
Issuance of 37,300 shares of unvested common stock under restricted stock plan	—	—	—	—	—	—	—
Forfeiture of 2,000 shares of unvested common stock under restricted stock plan	—	—	—	—	—	—	—
Balances - December 31, 2010	$ —	$ 170	$ 45,278	$275,074	$ (167)	$ 3,415	$323,770

See accompanying notes to the consolidated financial statements.

Bank of the Ozarks, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
		(Dollars in thousands)	
Cash flows from operating activities:			
Net income	$ 63,924	$ 43,083	$ 34,690
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,471	4,172	3,552
Amortization	431	110	214
Net loss attributable to noncontrolling interest	77	19	11
Provision for loan and lease losses	16,000	44,800	19,025
Provision for losses on foreclosed assets	8,960	4,009	1,042
Write down of other assets	—	1,639	520
Net accretion of investment securities AFS	(585)	(4,466)	(1,008)
Net (gains) losses on investment securities AFS	(4,544)	(26,982)	3,433
Originations and purchases of mortgage loans held for sale	(188,120)	(185,075)	(127,822)
Proceeds from sales of mortgage loans held for sale	180,371	184,195	127,873
Net accretion of covered loans	(17,141)	—	—
Accretion of FDIC loss share receivable, net of FDIC clawback payable	(2,429)	—	—
(Gains) losses on dispositions of premises and equipment, foreclosed and repossessed assets and other assets	(802)	177	544
Gains on FDIC-assisted transactions	(35,019)	—	—
Deferred income tax expense (benefit)	8,195	(1,706)	(6,146)
Increase in cash surrender value of bank owned life insurance (“BOLI”)	(2,151)	(1,932)	(1,984)
Current tax benefit on exercise of stock options	(535)	(111)	(283)
Stock-based compensation expense	833	712	862
BOLI death benefits in excess of cash surrender value	—	(1,254)	(2,147)
Changes in assets and liabilities:			
Accrued interest receivable	1,430	4,117	(1,392)
Other assets, net	6,103	(12,598)	(3,993)
Accrued interest payable and other liabilities	1,015	(4,946)	(909)
Net cash provided by operating activities	40,484	47,963	46,082
Cash flows from investing activities:			
Proceeds from sales of investment securities AFS	255,232	528,542	13,588
Proceeds from maturities/calls/paydowns of investment securities AFS	59,887	246,888	1,642,437
Purchases of investment securities AFS	(121,086)	(321,925)	(1,959,464)
Net paydowns (fundings) of portfolio loans and leases	38,195	12,293	(173,987)
Net cash flow from covered assets	73,161	—	—
Net cash proceeds received in FDIC-assisted acquisitions	201,473	—	—
Purchases of premises and equipment	(16,881)	(9,199)	(27,901)
Proceeds from disposition of premises and equipment, foreclosed and repossessed assets and other assets	17,310	17,438	8,186
Proceeds from BOLI death benefits	—	2,149	3,894
Purchase of BOLI	(10,200)	—	—
Net investment in unconsolidated investments and noncontrolling interest	(4,575)	(15)	(192)
Net cash provided (used) by investing activities	492,516	476,171	(493,439)
Cash flows from financing activities:			
Net (decrease) increase in deposits	(440,624)	(312,420)	284,353
Net (repayments of) proceeds from other borrowings	(113,948)	(82,394)	88,414
Net (decrease) increase in repurchase agreements with customers	(833)	(2,595)	778
Proceeds from exercise of stock options	2,825	258	408
Proceeds from issuance of preferred stock and common stock warrant	—	—	75,000
Redemption of preferred stock	—	(75,000)	—
Repurchase of common stock warrant	—	(2,650)	—
Current tax benefits on exercise of stock options	535	111	283
Cash dividends paid on common stock	(10,170)	(8,778)	(8,418)
Cash dividends paid on preferred stock	—	(3,354)	—
Net cash (used) provided by financing activities	(562,265)	(486,822)	440,818
Net (decrease) increase in cash and cash equivalents	(29,265)	37,312	(6,539)
Cash and cash equivalents - beginning of year	78,294	40,982	47,521
Cash and cash equivalents - end of year	$ 49,029	$ 78,294	$ 40,982

See accompanying notes to the consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization — Bank of the Ozarks, Inc. (the "Company") is a bank holding company headquartered in Little Rock, Arkansas, which operates under the rules and regulations of the Board of Governors of the Federal Reserve System. The Company owns a wholly-owned state chartered bank subsidiary — Bank of the Ozarks (the "Bank"), four 100%-owned finance subsidary business trusts — Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV") and Ozark Capital Statutory Trust V ("Ozark V") (collectively, the "Trusts") and, indirectly through the Bank, a subsidary engaged in the development of real estate. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. At December 31, 2010, the Company had 90 offices, including 66 in Arkansas, 10 in Georgia, seven in Texas, three in Florida, two in North Carolina and one each in South Carolina and Alabama.

Basis of presentation, use of estimates and principles of consolidation — The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements include the accounts of the Company, the Bank and the real estate investment subsidiary. Significant intercompany transactions and amounts have been eliminated.

Subsidiaries in which the Company has majority voting interest (principally defined as owning a voting or economic interest greater than 50%) or where the Company exercises control over the operating and financial policies of the subsidiary through an operating agreement or other means are consolidated. Investments in companies in which the Company has significant influence over voting and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) and investments in limited partnerships and limited liability companies where the Company does not exercise control over the operating and financial policies are generally accounted for by the equity method of accounting. Investments in limited partnerships and limited liability companies in which the Company's interest is so minor such that it has virtually no influence over operating and financial policies are generally accounted for by the cost method of accounting.

The voting interest approach is not applicable for entities that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk. In such instances, management makes a determination, based on its review of applicable GAAP, on when the assets, liabilities and activities of a variable interest entity ("VIE") should be included in the Company's consolidated financial statements. GAAP requires a VIE to be consolidated by a company if that company is considered the primary beneficiary of the VIE's activities. The Company has determined that the 100%-owned finance subsidiary Trusts are VIEs, but that the Company is not the primary beneficiary of the Trusts. Accordingly, the Company does not consolidate the activities of the Trusts into its financial statements, but instead reports its ownership interests in the Trusts as other assets and reports the subordinated debentures issued to the Trusts as a liability in the consolidated balance sheets. The distributions on the subordinated debentures are reported as interest expense in the accompanying consolidated statements of income.

Cash and cash equivalents — For cash flow purposes, cash and cash equivalents include cash on hand, amounts due from banks and interest bearing deposits with banks.

Investment securities — Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 2010 and 2009, the Company has classified all of its investment securities as available for sale ("AFS").

AFS investment securities are stated at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. Such unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity and included in other comprehensive income (loss). The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, fair values are obtained from an independent pricing service and based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

At December 31, 2010 and 2009, the Company owned stock in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"), Federal Home Loan Bank of Atlanta ("FHLB-Atlanta") and First National Banker's Bankshares, Inc. ("FNBB"). The FHLB-Dallas, FHLB-Atlanta and FNBB shares do not have readily determinable fair values and are carried at cost.

Declines in the fair value of investment securities below their amortized cost are reviewed at least quarterly by the Company for other-than-temporary impairment. Factors considered during such review include, among other things, the length of time and extent that fair value has been less than cost and the financial condition and near term prospects of the issuer. The Company also assesses whether it has the intent to sell the investment security or more likely than not would be required to sell the investment security before any anticipated recovery in fair value. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through the income statement. For securities that do not meet the aforementioned criteria, the amount of impairment is split into (i) other-than-temporary impairment related to credit loss, which must be recognized in the income statement, and (ii) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Interest and dividends on investment securities, including the amortization of premiums and accretion of discounts through maturity, or in the case of mortgage-backed securities, over the estimated life of the security, are included in interest income. Realized gains or losses on the sale of investment securities are recognized on the specific identification method at the time of sale and are included in non-interest income. Purchases and sales of investment securities are recognized on a trade-date basis.

Loans and leases — Loans, excluding loans covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements, that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on an accrual basis and is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees and costs are generally deferred and recognized over the life of the loan as an adjustment to yield on the related loan.

Leases are classified as either direct financing leases or operating leases, based on the terms of the agreement. Direct financing leases are reported as the sum of (i) total future lease payments to be received, net of unearned income, and (ii) estimated residual value of the leased property. Operating leases are recorded at the cost of the leased property, net of accumulated depreciation. Income on direct financing leases is included in interest income and is recognized on a basis that achieves a constant periodic rate of return on the outstanding investment. Income on operating leases is recognized as non-interest income on a straight-line basis over the lease term.

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded. Related fees are generally recognized when collected.

Mortgage loans held for sale are included in the Company's loans and leases and totaled $14.3 million and $6.6 million, respectively, at December 31, 2010 and 2009. Mortgage loans held for sale are carried at the lower of cost or fair value. Gains and losses from the sales of mortgage loans are the difference between the selling price of the loan and its carrying value, net of discounts and points, and are recognized as mortgage lending income when the loan is sold to investors and servicing rights are released.

As part of its standard mortgage lending practice, the Company issues a written put option, in the form of an interest rate lock commitment ("IRLC"), such that the interest rate on the mortgage loan is established prior to funding. In addition to the IRLC, the Company enters into a forward sale commitment ("FSC") for the sale of its mortgage loan originations to reduce its market risk on such originations in process. The IRLC on mortgage loans held for sale and the FSC have been determined to be derivatives as defined by GAAP. Accordingly, the fair values of derivative assets and liabilities for the Company's IRLC and FSC are based primarily on the fluctuation of interest rates between the date on which the particular IRLC and FSC were entered into and year-end. At December 31, 2010 and 2009, respectively, the Company had recorded IRLC and FSC derivative assets of $0.1 million and $0.2 million and had recorded corresponding derivative liabilities of $0.1 million and $0.2 million. The notional amounts of loan commitments under both the IRLC and FSC were $6.4 million and $8.9 million at December 31, 2010 and 2009, respectively.

Covered loans — Loans comprise the majority of the assets acquired in the Company's four FDIC-assisted acquisitions during 2010. All such acquired loans, excluding $5.6 million of acquired consumer loans, are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on those loans ("covered loans").

Purchased loans acquired in a business combination, including covered loans, are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods and net present value of cash flows expected to be received. Purchased loans are accounted for in accordance with guidance for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. In determining the acquisition date fair values of purchased loans, the Company calculates a non-accretable difference (the credit component of the purchased loans fair value adjustment) and an accretable difference (the yield component of the purchased loans fair value adjustment).

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of expected cash flows, the Company used discount rates ranging from 6.0% to 9.5% depending on the risk characteristics of each individual loan or loan pool.

Covered other real estate owned ("covered ORE") — Foreclosed assets covered by FDIC loss share agreements, or covered ORE, are recorded at estimated fair value on the date of acquisition. In estimating the fair value of covered ORE, management considers a number of factors including, among others, appraised value, estimated holding periods, net present value of cash flows expected to be received, and estimated selling costs. A discount rate ranging from 8.0% to 9.5% was used to determine the net present value of covered ORE.

FDIC loss share receivable — In connection with the Company's FDIC-assisted acquisitions, the Company has recorded an FDIC loss share receivable to reflect the indemnification provided by the FDIC. Since the indemnified items are covered loans and covered ORE, which are measured at fair value at the date of acquisition, the FDIC loss share receivable is also measured at fair value at the date of acquisition, and is calculated by discounting the cash flows expected to be received from the FDIC. A discount rate of 5.0% was used to determine the net present value of the FDIC loss share receivable. These cash flows are estimated by multiplying estimated losses by the reimbursement rates as set forth in the loss share agreements. The balance of the FDIC loss share receivable is adjusted periodically to reflect changes in expectations of discounted cash flows, expense reimbursements under the loss share agreements and other factors.

FDIC clawback payable — Pursuant to the clawback provisions of the loss share agreements for the Company's FDIC-assisted acquisitions, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The amount of the clawback provision for each acquisition is included in "accrued interest payable and other liabilities" in the accompanying consolidated balance sheet and is measured at fair value at the date of acquisition. It is calculated as the difference between management's estimated losses on covered loans and covered ORE and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This clawback amount which is payable to the FDIC upon termination of the applicable loss share agreement is discounted back to net present value using a discount rate of 5.0%. To the extent that actual losses on covered loans and covered ORE are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered ORE are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will decrease.

Allowance for loan and lease losses ("ALLL") — The ALLL is established through a provision for such losses charged against income. All or portions of loans or leases, excluding purchased loans and loans covered by FDIC loss share agreements, deemed to be uncollectible are charged against the ALLL when management believes that collectibility of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans or leases previously charged off are credited to the ALLL. For purchased loans and covered loans, decreases or increases in cash flows will result in a provision for loan and lease losses or a reversal of a previous provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield.

The ALLL is maintained at a level management believes will be adequate to absorb probable incurred losses in the loan and lease portfolio, excluding purchased loans and loans covered by FDIC loss share agreements. Provision to and the adequacy of the ALLL are based on evaluations of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system, specific allowances and "stressed" markets allocations. The Company also utilizes a peer group analysis and an historical analysis to validate the overall adequacy of its ALLL. The subjective criteria take into consideration such factors as the nature, mix and volume of the portfolio, overall portfolio quality, review of specific problem loans and leases, national, regional and local business and economic conditions that may affect the borrowers' or lessees' ability to pay, the value of collateral securing the loans and leases and other relevant factors. Changes in any of these criteria or the availability of new information could require adjustment of the ALLL in future periods. While a specific allowance has been calculated for impaired loans and leases and for loans and leases where the Company has otherwise determined a specific reserve is appropriate, no portion of the Company's ALLL is restricted to any individual loan or lease or group of loans or leases, and the entire ALLL is available to absorb losses from any and all loans and leases.

The Company's policy generally is to place a loan or lease, excluding loans covered by FDIC loss share agreements, on nonaccrual status when payment of principal or interest is contractually past due 90 days, or earlier when concern exists as to the ultimate collection of principal and interest. Nonaccrual loans or leases are generally returned to accrual status when principal and interest payments are less than 90 days past due and the Company reasonably expects to collect all principal and interest. The Company may continue to accrue interest on certain loans and leases contractually past due 90 days if such loans or leases are both well secured and in the process of collection. Loans and leases for which the terms have been modified and for which the borrower or lessee is experiencing financial difficulties are considered troubled debt restructurings and are included in impaired loans and leases.

All loans and leases deemed to be impaired are evaluated individually. The Company considers a loan or lease, excluding loans covered by FDIC loss share agreements, to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms thereof. Many of the Company's nonaccrual loans or leases and all troubled loans or leases, excluding loans covered by FDIC loss share agreements, that have been restructured from their original contractual terms are considered impaired. The majority of the Company's impaired loans and leases are dependent upon collateral for repayment. Accordingly, impairment is generally measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan or lease. For all other impaired loans and leases, the Company compares estimated discounted cash flows to the current investment in the loan or lease. To the extent that the Company's current investment in a particular loan or lease exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is specifically considered in the determination of the allowance for loan and lease losses, or is immediately charged off as a reduction of the allowance for loan and lease losses.

For certain loans and leases, excluding loans covered by FDIC loss share agreements, not considered impaired where (i) the customer is continuing to make regular payments, although payments may be past due, (ii) there is a reasonable basis to believe the customer may continue to make regular payments, although there is also an elevated risk that the customer may default, and (iii) the collateral or other repayment sources are likely to be insufficient to recover the current investment in the loan if a default occurs, the Company evaluates such loans and leases to determine if a reserve is needed for these loans and leases. For the purpose of calculating the amount of such reserve, management assumes that (i) no further regular payments occur and (ii) all sums recovered will come from liquidation of collateral and collection efforts from other payment sources. To the extent that the Company's current investment in a particular loan or lease evaluated for the need for such reserve exceeds its net collateral value or its estimated discounted cash flows, such excess is considered allocated reserve for purposes of the determination of the allowance for loan and lease losses.

The Company also includes further allowance allocation for risk-rated and certain other loans, including commercial real estate loans and excluding loans covered by FDIC loss share agreements, that are in markets determined by management to be "stressed". Stressed markets may include any specific geography experiencing (i) high unemployment substantially above the U.S. average, (ii) significant over-development in one or more commercial real estate categories, (iii) recent or announced loss of a major employer or significant workforce reductions, (iv) significant declines in real estate values, and (v) various other factors. The additional allowance for such stressed markets compensates for the expectation that a higher risk of loss is anticipated for the "work-out" or liquidation of a real estate loan in a stressed market versus a market that is not experiencing any significant levels of stress. The required allocation percentage applicable to real estate loans in stressed markets may be applied to the total market or it may be determined at the individual loan level based on collateral value, loan-to-value ratios, strength of the borrower and/or guarantor, viability of the underlying project and other factors.

The accrual of interest on loans and leases, excluding loans covered by FDIC loss share agreements, is discontinued when, in management's opinion, the borrower or lessee may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Premises and equipment — Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets. Depreciable lives for the major classes of assets are generally 45 years for buildings and 3 to 25 years for furniture, fixtures, equipment and certain building improvements. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the term of the lease. Accelerated depreciation methods are used for income tax purposes. Maintenance and repair charges are expensed as incurred.

Foreclosed and repossessed assets held for sale — Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding covered ORE, are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. Gains and losses from the sale of repossessions, foreclosed assets and other real estate are recorded in non-interest income, and expenses to maintain the properties are included in non-interest expense.

Income taxes — The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company files consolidated tax returns. The Bank and the other consolidated entities provide for income taxes on a separate return basis and remit to the Company amounts determined to be currently payable. The Company recognizes interest related to income tax matters as interest income or expense, and penalties related to income tax matters are recognized as non-interest expense. The Company is no longer subject to income tax examinations by U.S. federal tax authorities for years prior to 2007.

Bank owned life insurance ("BOLI") — BOLI consists of life insurance purchased by the Company on (i) a qualifying group of officers with the Company designated as owner and beneficiary of the policies and (ii) one of the Company's executive officers with the Company designated as owner and both the Company and the executive officer designated as beneficiaries of the policies. The earnings on BOLI policies are used to offset a portion of employee benefit costs. BOLI is carried at the policies' realizable cash surrender values with changes in cash surrender values and death benefits received in excess of cash surrender values reported in non-interest income.

Intangible assets — Intangible assets consist of goodwill, bank charter costs and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Company had goodwill of $5.2 million at both December 31, 2010 and 2009. The Company performed its annual impairment test of goodwill as of September 30, 2010. This test indicated no impairment of the Company's goodwill.

Bank charter costs represent costs paid to acquire a Texas bank charter and are being amortized over 20 years. Bank charter costs totaled $239,000 at both December 31, 2010 and 2009, less accumulated amortization of $82,000 and $70,000 at December 31, 2010 and 2009, respectively.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over 3 to 8 years. Core deposit intangibles totaled $5.1 million and $2.3 million at December 31, 2010 and 2009, respectively, less accumulated amortization of $2.6 million and $2.2 million at December 31, 2010 and 2009, respectively.

The aggregate amount of amortization expense for the Company's core deposit and bank charter intangibles is expected to be $0.8 million in 2011; $0.7 million per year in 2012 and 2013; $0.3 million in 2014; and $0.1 million in 2015.

Earnings per common share — Earnings per common share are computed using the two-class method as the Company has determined that its outstanding non-vested stock awards granted under its restricted stock plan are participating securities. Under this method, basic earnings per share are computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share are computed by dividing reported earnings allocated to common stockholders by the weighted-average number of common shares outstanding after consideration of the dilutive effect, if any, of the Company's common stock options and common stock warrant using the treasury stock method. On November 24, 2009 the Company repurchased its common stock warrant.

Stock-based compensation — The Company has an employee stock option plan, a non-employee director stock option plan and an employee restricted stock plan, which are described more fully in Note 15. The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Such cost is to be recognized over the vesting period of the award. For the years ended December 31, 2010, 2009 and 2008, the Company recognized $0.8 million, $0.7 million and $0.9 million, respectively, of non-interest expense for its stock-based compensation plans.

Segment disclosures — The Company operates in only one segment – community banking. Accordingly, there is no requirement to report segment information in the Company's consolidated financial statements. No revenues are derived from foreign countries and no single external customer comprises more than 10% of the Company's revenues.

Recent accounting pronouncements — In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 requires more robust disclosures about (i) the different classes of assets and liabilities measured at fair value, (ii) the valuation techniques and inputs used, (iii) the activity in Level 3 fair value measurements, and (iv) the transfers between Levels 1, 2, and 3. Among other things, ASU 2010-06 requires separate disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements as opposed to presenting such activity on a net basis. The new disclosures required by ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll forward of activity in Level 3 fair value measurements which are effective for interim and annual periods beginning after December 15, 2010. The provisions of ASU 2010-06, did not have a material impact on the Company's financial position, results of operations or liquidity, but did require expansion of the Company's disclosures about fair value measurements.

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires disclosure of additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Specifically, ASU 2010-20 requires entities to provide disclosures on a disaggregated basis, consisting of portfolio segment and class of financing receivable. A portfolio segment is defined by ASU 2010-20 as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of portfolio segments. ASU 2010-20 amends existing disclosures to require an entity to provide, on a disaggregated basis, (i) a rollforward schedule of the allowance for credit losses from the beginning to the end of the reporting period, with the ending balance further disaggregated on the basis of impairment method, (ii) the recorded investment in financing receivables for each disaggregated ending balance, (iii) the nonaccrual status of financing receivables by class, and (iv) impaired financing receivables by class. Additionally, ASU 2010-20 required additional disclosures, including (i) credit quality indicators of financing receivables by class, (ii) aging of past due financing receivables by class, (iii) nature and extent of troubled debt restructurings ("TDRs") by class and their effect on the allowance for credit losses, (iv) nature and extent of financing receivables by class modified as TDRs within the previous 12 months that defaulted during the reporting period and their effect on the allowance, and (v) significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. Disclosure pertaining to end of period balances are required for interim and annual reporting periods ending after December 15, 2010 (i.e. beginning December 31, 2010 for calendar year companies). Disclosures pertaining to activity that occurs during the reporting period are required for interim and annual reporting periods beginning on or after December 15, 2010. On January 4, 2011, the FASB deferred the provisions of ASU 2010-20 regarding TDRs pending further guidance. ASU 2010-20 did not have a material impact on the Company's financial position, results of operations or liquidity, but did require expansion of its disclosures about credit quality and the allowance for loan and lease losses.

Reclassifications — Certain reclassifications of 2009 and 2008 amounts have been made to conform with the 2010 financial statements presentation. These reclassifications had no impact on prior years' net income, as previously reported.

2. Acquisitions

On March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Unity National Bank ("Unity") with five offices in Georgia, including two in Cartersville and one each in Rome, Adairsville and Calhoun.

On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Woodlands Bank ("Woodlands") with eight offices, including two in South Carolina, two in North Carolina, one in Georgia and three in Alabama. On October 26, 2010, the Company closed four of the Woodlands offices, and in December 2010 the Company relocated two offices. The Company also renegotiated the leases on the remaining two offices. As a result at December 31, 2010, the Company operated one office each in Bluffton, South Carolina; Wilmington, North Carolina; Savannah, Georgia; and Mobile, Alabama.

On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Horizon Bank ("Horizon") with four offices in Florida, including two in Bradenton and one each in Palmetto and Brandon. On December 23, 2010, the Company closed the office in Brandon, Florida.

On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Chestatee State Bank ("Chestatee") with four offices in Georgia, including two in Dawsonville and one each in Cumming and Marble Hill.

A summary, at fair value, of the assets acquired and liabilities assumed in the Unity, Woodlands, Horizon and Chestatee transactions, as of the acquisition dates, is as follows:

	Unity	Woodlands	Horizon	Chestatee
		(Dollars in thousands)		
Assets acquired:				
Cash and cash equivalents	$ 45,401	$ 13,447	$ 11,775	$ 21,964
Investment securities AFS	5,580	84,492	5,105	7,157
Loans not covered by loss share agreements	—	1,113	892	3,576
Covered assets:				
Loans	134,452	187,933	93,003	116,808
Other real estate owned	8,859	5,029	3,683	13,406
FDIC loss share receivable	44,147	54,827	29,089	42,072
Core deposit intangible	1,657	200	396	550
Other assets	183	1,145	1,981	1,101
Total assets acquired	240,279	348,186	145,924	206,634
Liabilities assumed:				
Deposits	220,806	344,723	152,387	234,468
FHLB-Atlanta advances	24,078	10,142	19,251	—
FDIC clawback payable	1,566	3,030	1,461	1,091
Other liabilities	492	193	562	640
Total liabilities assumed	246,942	358,088	173,661	236,199
Net assets acquired at fair value	(6,663)	(9,902)	(27,737)	(29,565)
Cash reveived from FDIC	16,700	24,260	29,502	38,424
Pre-tax gains on FDIC-assisted transactions	$ 10,037	$ 14,358	$ 1,765	$ 8,859

The acquisition date fair values of acquired assets and assumed liabilities for each of the Company's FDIC-assisted transactions may be revised for up to 12 months following the date of acquisition.

The Company's results of operations for 2010 include the operating results of the acquired assets and assumed liabilities from the dates of acquisition through December 31, 2010. Due to the significant fair value adjustments and the nature of the loss share agreements with the FDIC, the Company believes pro forma information that would include historical results of each of these acquisitions is not relevant. Accordingly, no pro forma financial information is included in these consolidated financial statements.

In conjunction with each of these acquisitions, the Bank entered into loss share agreements with the FDIC such that the Bank and the FDIC will share in the losses on assets covered under the loss share agreements. Pursuant to the terms of the loss share agreements for the Unity acquisition, on losses up to $65.0 million, the FDIC will reimburse the Bank for 80% of losses. On losses exceeding $65.0 million, the FDIC will reimburse the Bank for 95% of losses. Under the terms of the loss share agreements for the Woodlands acquisition, the FDIC will reimburse the Bank for 80% of losses. Pursuant to the terms of the loss share agreements for the Horizon acquisition, the FDIC will reimburse the Bank on single family residential loans and related foreclosed real estate for (i) 80% of losses up to $11.8 million, (ii) 30% of losses between $11.8 million and $17.9 million and (iii) 80% of losses in excess of $17.9 million. For non-single family residential loans and related foreclosed real estate, the FDIC will reimburse the Bank for (i) 80% of losses up to $32.3 million, (ii) 0% of losses between $32.3 million and $42.8 million and (iii) 80% of losses in excess of $42.8 million. Under the terms of the loss share agreements for the Chestatee acquisition, the FDIC will reimburse the Bank for 80% of losses.

The loss share agreements applicable to single family residential mortgage loans and related foreclosed real estate provide for FDIC loss sharing and the Bank's reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which each applicable loss share agreement was entered. The loss share agreements applicable to commercial loans and related foreclosed real estate provide for FDIC loss sharing for five years from the date on which each applicable loss share agreement was entered and the Bank's reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

To the extent that actual losses incurred by the Bank are less than (i) $65 million on the Unity assets covered under the loss share agreements, (ii) $107 million on the Woodlands assets covered under the loss share agreements, (iii) $60 million on the Horizon assets covered under the loss share agreements and (iv) $66 million on the Chestatee assets covered under the loss share agreements, the Bank may be required to reimburse the FDIC under the clawback provisions of the loss share agreements.

The terms of the purchase and assumption agreements for the Unity, Woodlands, Horizon and Chestatee acquisitions provide for the FDIC to indemnify the Bank against certain claims, including claims with respect to assets, liabilities or any affiliate not acquired or otherwise assumed by the Bank and with respect to claims based on any action by Unity's, Woodland's, Horizon's or Chestatee's directors, officers or employees.

3. Covered Assets and FDIC Clawback Payable

The covered loans and covered ORE from the Company's four FDIC-assisted acquisitions, along with the related FDIC loss share receivable, are reported as "covered assets" in the accompanying consolidated financial statements. A summary of the covered assets and the FDIC clawback payable is as follows:

	December 31, 2010 (Dollars in thousands)
Covered loans	$ 497,545
Covered ORE	31,145
FDIC loss share receivable	153,111
Total covered assets	$ 681,801
FDIC clawback payable	$ 7,286

The following table presents a summary, by acquisition, of covered loans acquired during 2010 as of the dates of acquisition and changes in such balances during 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
			(Dollars in thousands)		
At acquisition date:					
Contractually required principal and interest	$208,410	$ 315,103	$179,441	$181,523	$ 884,477
Nonaccretable differences	(53,793)	(82,375)	(52,388)	(42,665)	(231,221)
Cash flows expected to be collected	154,617	232,728	127,053	138,858	653,256
Accretable difference	(20,165)	(44,795)	(34,050)	(22,050)	(121,060)
Fair value	134,452	187,933	93,003	116,808	532,196
Activity in 2010:					
Accretion	7,436	7,144	2,222	339	17,141
Transfers to covered ORE	(2,755)	(2,599)	—	—	(5,354)
Payments received	(23,786)	(15,356)	(6,339)	(669)	(46,150)
Other activity, net	(364)	53	23	—	(288)
Total carrying value of covered loans at December 31, 2010	$114,983	$ 177,175	$ 88,909	$116,478	$ 497,545

The following table presents a summary, by acquisition, of the carrying value and type of covered loans at December 31, 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
			(Dollars in thousands)		
Real estate:					
Residential 1-4 family	$ 32,699	$ 50,411	$32,351	$ 17,772	$133,233
Non-farm/non-residential	53,119	61,848	39,378	60,173	214,518
Construction/land development	12,435	56,734	9,476	30,509	109,154
Agricultural	7,980	69	999	649	9,697
Multifamily residential	3,970	4,298	2,194	307	10,769
Total real estate	110,203	173,360	84,398	109,410	477,371
Commercial and industrial	3,479	3,812	3,360	6,995	17,646
Consumer	1,301	—	—	—	1,301
Agricultural (non-real estate)	—	—	—	73	73
Other	—	3	1,151	—	1,154
Total covered loans	$114,983	$ 177,175	$88,909	$116,478	$497,545

The following table presents a summary, by acquisition, of changes in the accretable yield on covered loans during 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
			(Dollars in thousands)		
Accretable yield at date of acquisition	$20,165	$ 44,795	$34,050	$22,050	$121,060
Accretion	(7,436)	(7,144)	(2,222)	(339)	(17,141)
Other activity, net	(1,593)	(366)	(858)	—	(2,817)
Balance at December 31, 2010	$11,136	$ 37,285	$30,970	$21,711	$101,102

The following table presents a summary, by acquisition, of covered ORE and activity within covered ORE during 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
At acquisition date:					
Balance on acquired bank's books	$20,258	$ 12,258	$ 8,391	$ 31,647	$ 72,554
Total expected losses	(9,265)	(5,897)	(3,678)	(15,960)	(34,800)
Discount for net present value of expected cash flows	(2,134)	(1,332)	(1,030)	(2,281)	(6,777)
Fair value	8,859	5,029	3,683	13,406	30,977
Activity in 2010:					
Loans transferred to covered ORE	2,755	2,599	—	—	5,354
Sales of covered ORE	(3,554)	(1,632)	—	—	(5,186)
Covered ORE at December 31, 2010	$ 8,060	$ 5,996	$ 3,683	$ 13,406	$ 31,145

The following table presents a summary, by acquisition, of the carrying value and type of covered ORE at December 31, 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$1,558	$ 1,620	$1,742	$ 5,704	$10,624
Non-farm/non-residential	1,010	274	1,516	955	3,755
Construction/land development	5,092	4,102	425	6,747	16,366
Total real estate	7,660	5,996	3,683	13,406	30,745
Commercial and industrial	400	—	—	—	400
Total covered ORE	$8,060	$ 5,996	$3,683	$13,406	$31,145

The following table presents a summary, by acquisition, of the FDIC loss share receivable and the changes in receivable balance during 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
At acquisition date:					
Expected principal loss on covered assets:					
Covered loans	$ 51,590	$ 71,765	$40,537	$41,996	$205,888
Covered ORE	9,265	5,897	3,678	15,960	34,800
Total expected principal losses	60,855	77,662	44,215	57,956	240,688
Estimated loss sharing percentage	80%	80%	80%	80%	80%
Estimated recovery from FDIC loss share agreements	48,684	62,130	35,372	46,365	192,551
Discount for net present value on FDIC loss share receivable	(4,537)	(7,303)	(6,283)	(4,293)	(22,416)
Net present value of FDIC loss share receivable	44,147	54,827	29,089	42,072	170,135
Activity in 2010:					
Accretion income	1,229	1,007	331	—	2,567
Cash received from FDIC	(15,308)	(4,802)	—	—	(20,110)
Other activity, net	1,052	(295)	(238)	—	519
FDIC loss share receivable, at estimated net present value, at December 31, 2010	$ 31,120	$ 50,737	$29,182	$42,072	$153,111

The following table presents a summary, by acquisition, of the FDIC clawback payable and changes in the payable during 2010.

	Unity	Woodlands	Horizon	Chestatee	Total
	(Dollars in thousands)				
At acquisition date:					
Estimated FDIC clawback payable	$ 2,612	$ 4,935	$2,380	$ 1,778	$11,705
Discount for net present value on FDIC clawback payable	(1,046)	(1,905)	(919)	(687)	(4,557)
Net present value of FDIC clawback payable	1,566	3,030	1,461	1,091	7,148
Activity in 2010:					
Accretion expense	63	63	12	—	138
FDIC clawback payable, at estimated net present value, at December 31, 2010	$ 1,629	$ 3,093	$1,473	$ 1,091	$ 7,286

4. Investment Securities

The following table is a summary of the amortized cost and estimated fair values of investment securities, all of which are classified as AFS. The Company's holdings of "other equity securities" include FHLB-Dallas, FHLB-Atlanta and FNBB shares which do not have readily available fair values and are carried at cost.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
December 31, 2010:				
Obligations of states and political subdivisions	$378,822	$ 6,431	$ (6,706)	$378,547
U.S. Government agency residential mortgage-backed securities	1,269	—	—	1,269
Other equity securities	18,882	—	—	18,882
Total investment securities AFS	$398,973	$ 6,431	$ (6,706)	$398,698
December 31, 2009:				
Obligations of states and political subdivisions	$385,581	$ 10,517	$ (2,211)	$393,887
U.S. Government agency residential mortgage-backed securities	93,159	1,351	—	94,510
Corporate obligations	1,596	269	—	1,865
Collateralized debt obligation	100	—	—	100
Other equity securities	16,316	—	—	16,316
Total investment securities AFS	$496,752	$ 12,137	$ (2,211)	$506,678

The following table shows gross unrealized losses and estimated fair value of investment securities AFS, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2010:						
Obligations of states and political subdivisions	$174,356	$ 6,153	$ 5,387	$ 553	$179,743	$ 6,706
Total temporarily impaired investment securities	$174,356	$ 6,153	$ 5,387	$ 553	$179,743	$ 6,706
December 31, 2009:						
Obligations of states and political subdivisions	$ 90,010	$ 1,453	$ 32,967	$ 758	$122,977	$ 2,211
Total temporarily impaired investment securities	$ 90,010	$ 1,453	$ 32,967	$ 758	$122,977	$ 2,211

At December 31, 2009, the Company's investment securities portfolio included one security categorized as a collateralized debt obligation ("CDO"). During 2009 the Company no longer expected to hold this security until maturity or until such time as fair value recovered to or above cost. As a result, the Company recorded a $0.9 million charge during 2009 to reduce the carrying value of this security to $0.1 million. This CDO was sold during 2010.

In evaluating the Company's unrealized loss positions for other-than-temporary impairment for the investment securities portfolio, management considers the credit quality of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors. At December 31, 2010 and 2009, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. Accordingly, management believes that all of its unrealized losses on investment securities are temporary in nature. The Company does not have the intent to sell these investment securities and more likely than not would not be required to sell these investment securities before fair value recovers to amortized cost.

A maturity distribution of investment securities AFS reported at amortized cost and estimated fair value as of December 31, 2010 is as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Due in one year or less	$ 4,773	$ 4,808
Due after one year to five years	17,635	17,893
Due after five years to ten years	21,134	21,592
Due after ten years	355,431	354,405
Total	$398,973	$398,698

For purposes of this maturity distribution, all investment securities are shown based on their contractual maturity date, except (i) FHLB-Dallas, FHLB-Atlanta and FNBB stock with no contractual maturity date are shown in the longest maturity category and (ii) U.S. Government agency residential mortgage-backed securities are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds and interest rate levels at December 31, 2010. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Sales activities and other-than-temporary impairment charges of the Company's investment securities AFS are summarized as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Sales proceeds	$255,232	$528,542	$13,588
Gross realized gains	$ 5,030	$ 30,802	$ 360
Gross realized losses	(486)	(2,920)	(777)
Other-than-temporary impairment charges	—	(900)	(3,016)
Net gains (losses) on investment securities	$ 4,544	$ 26,982	$ (3,433)

Investment securities with carrying values of $345.3 million and $344.6 million at December 31, 2010 and 2009, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

At December 31, 2010, there were no holdings of investment securities of any one issuer in an amount greater than 10% of stockholders' equity.

5. Loans and Leases

The following table is a summary of the loan and lease portfolio, excluding loans covered by FDIC loss share agreements, by principal category.

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 266,014	$ 282,733
Non-farm/non-residential	678,465	606,880
Construction/land development	496,737	600,342
Agricultural	81,736	86,237
Multifamily residential	103,875	55,860
Commercial and industrial	120,038	150,208
Consumer	54,401	63,561
Direct financing leases	42,754	40,353
Agricultural (non-real estate)	9,962	15,509
Other	2,447	2,421
Total loans and leases	$1,856,429	$1,904,104

The above table includes deferred costs, net of deferred fees, that totaled $1.6 million at both December 31, 2010 and 2009, respectively.

Loans and leases on which the accrual of interest has been discontinued aggregated $13.9 million and $23.6 million at December 31, 2010 and 2009, respectively. Interest income recorded during 2010, 2009 and 2008 for nonaccrual loans and leases at December 31, 2010, 2009 and 2008 was $0.1 million, $1.3 million and $0.6 million, respectively. Under the original terms, these loans and leases would have reported $1.1 million, $2.5 million and $1.1 million of interest income during 2010, 2009 and 2008, respectively.

The Company's direct financing leases include estimated residual values of $0.5 million at December 31, 2010 and $0.8 million at December 31, 2009, and are presented net of unearned income totaling $5.9 million and $5.3 million at December 31, 2010 and 2009, respectively.

6. Allowance for Loan and Lease Losses ("ALLL")

The following table is a summary of activity within the ALLL.

	Year Ended December 31, 2010	2009	2008
		(Dollars in thousands)	
Balance - beginning of year	$ 39,619	$ 29,512	$19,557
Loans and leases charged off	(16,764)	(35,885)	(9,631)
Recoveries of loans and leases previously charged off	1,375	1,192	561
Net loans and leases charged off	(15,389)	(34,693)	(9,070)
Provision charged to operating expense	16,000	44,800	19,025
Balance - end of year	$ 40,230	$ 39,619	$29,512

The following table is a summary of the Company's ALLL and recorded investment in loans and leases, excluding loans covered by FDIC loss share agreements, for the year ended December 31, 2010. At December 31, 2010, the Company had no ALLL allocated to covered loans.

	Real Estate										
	Residential 1-4 Family	Non-farm/ Non-residential	Construction/ land development	Agricultural	Multi-family Residential	Commercial and Industrial	Consumer	Direct Financing Leases	Other	Unallocated	Total
	(Dollars in thousands)										
Allowance for loan and lease losses:											
Beginning balance	$ 3,600	$ 6,574	$ 11,585	$ 750	$ 710	$ 3,587	$ 2,599	$ 1,560	$ 289	$ 8,365	$ 39,619
Charge-offs	(872)	(1,702)	(4,037)	(301)	(133)	(6,937)	(1,196)	(478)	(1,108)	—	(16,764)
Recoveries	99	87	253	45	1	656	212	20	2	—	1,375
Provisions	172	3,354	2,764	2,075	742	6,836	436	624	1,085	(2,021)	16,000
Ending balance	$ 2,999	$ 8,313	$ 10,565	$ 2,569	$ 1,320	$ 4,142	$ 2,051	$ 1,726	$ 201	$ 6,344	$ 40,230
Ending balance:											
ALLL for individually evaluated impaired loans and leases	$ 33	$ 71	$ 508	$ 403	$ —	$ 928	$ 33	$ —	$ 44	$ —	$ 2,020
Ending balance:											
ALLL for all other loans and leases	2,966	8,242	10,057	2,166	1,320	3,214	2,108	1,726	157	6,344	38,210
Ending balance	$ 2,999	$ 8,313	$ 10,565	$ 2,569	$ 1,320	$ 4,142	$ 2,051	$ 1,726	$ 201	$ 6,344	$ 40,230
Loans and leases:											
Ending balance:											
individually evaluated impaired loans and leases	$ 945	$ 3,096	$ 4,086	$ 2,456	$ —	$ 947	$ 182	$ —	$ 115	$ —	$ 11,827
Ending balance:											
all other loans and leases	265,069	675,369	492,651	79,280	103,055	119,091	54,219	42,754	12,294	—	1,844,602
Ending balance	$ 266,014	$678,465	$ 496,737	$ 81,736	$ 103,875	$ 120,038	$ 54,401	$ 42,754	$12,409	$ —	$1,856,429

The following table is a summary of credit quality indicators for the Company's loans and leases, excluding loans covered by FDIC loss share agreements, as of December 31, 2010.

	Real Estate									
	Residential 1-4 Family	Non-farm/ Non-residential	Construction/ land development	Agricultural	Multi-family Residential	Commercial and Industrial	Consumer	Direct Financing Leases	Other	Total
	(Dollars in thousands)									
Satisfactory	$ —	$504,923	$ 258,933	$ 58,873	$ 90,700	$ 79,926	$ —	$ 38,666	$ 9,484	$1,041,511
Fair	—	122,883	201,038	10,489	8,579	34,274	—	3,328	1,836	382,427
Watch	—	32,476	21,135	3,609	3,699	1,659	—	676	157	63,411
Substandard	—	18,183	15,631	8,759	897	4,179	—	84	242	47,975
Total risk-rated loans and leases	—	678,465	496,737	81,736	103,875	120,038	—	42,754	11,719	1,535,324
Loans and leases not risk rated	266,014	—	—	—	—	—	54,401	—	690	321,105
Total loans and leases	$ 266,014	$678,465	$ 496,737	$ 81,736	$ 103,875	$ 120,038	$ 54,401	$ 42,754	$12,409	$1,856,429

The following categories of credit quality indicators are used by the Company.

Satisfactory — Loans and leases in this category are considered to be a satisfactory credit risk and are generally considered to be collectable in full.

Fair — Loans and leases in this category are considered to be a marginally satisfactory credit risk and are generally considered to be collectable in full.

Watch — Loans and leases in this category are presently protected from apparent loss, however weaknesses exist which could cause future impairment of repayment of principal or interest.

Substandard — Loans and leases in this category are characterized by deterioration in quality exhibited by a number of weaknesses requiring corrective action and posing risk of some loss.

The following table is a summary of impaired loans and leases, excluding loans covered by FDIC loss share agreements, as of and for the year ended December 31, 2010.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 945	$ 1,156	$ 33	$ 1,790
Non-farm/non-residential	3,096	4,135	71	4,788
Construction/land development	4,086	7,974	508	4,457
Agricultural	2,456	2,728	403	2,141
Multifamily residential	—	133	—	—
Commercial and industrial	947	2,254	928	1,871
Consumer	182	268	33	248
Other	115	410	44	157
Total	$ 11,827	$19,058	$ 2,020	$ 15,452

The following table is an aging analysis of past due loans and leases, excluding loans covered by FDIC loss share agreements, at December 31, 2010.

	30-89 Days Past Due(1)	Greater than 90 Days(2)	Total Past Due	Current(3)	Total Loans and Leases
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$ 3,809	$ 726	$ 4,535	$ 261,479	$ 266,014
Non-farm/non-residential	6,261	3,337	9,598	668,867	678,465
Construction/land development	11,104	4,249	15,353	481,384	496,737
Agricultural	956	2,108	3,064	78,672	81,736
Multifamily residential	881	—	881	102,994	103,875
Commercial and industrial	1,639	881	2,520	117,518	120,038
Consumer	1,187	146	1,333	53,068	54,401
Direct financing leases	—	84	84	42,670	42,754
Other	201	—	201	12,208	12,409
Total	$26,038	$11,531	$37,569	$1,818,860	$1,856,429

(1) Includes $1.2 million of loans and leases, excluding loans covered by FDIC loss share agreements, on nonaccrual status at December 31, 2010.
(2) All loans and leases greater than 90 days past due, excluding loans covered by FDIC loss share agreements, were on nonaccrual status at December 31, 2010.
(3) Includes $1.3 million of loans and leases, excluding loans covered by FDIC loss share agreements, on nonaccrual status at December 31, 2010.

7. Foreclosed and Repossessed Assets Held For Sale

The following table is a summary of activity within foreclosed and repossessed assets held for sale, excluding assets covered by FDIC loss share agreements, for the periods indicated.

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Balance - beginning of year	$ 61,148	$ 10,758	$ 3,112
Loans transferred into foreclosed and repossessed assets held for sale	17,095	74,122	17,259
Sales of foreclosed and repossessed assets	(27,152)	(19,723)	(8,571)
Write downs of foreclosed and repossessed assets held for sale	(8,960)	(4,009)	(1,042)
Foreclosed and repossessed assets acquired in acquisitions - not covered by loss share agreements	85	—	—
Balance - end of year	$ 42,216	$ 61,148	$10,758

The amount and type of foreclosed and repossessed assets held for sale, excluding assets covered by loss share agreements, are as follows:

	December 31,	
	2010	2009
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 4,018	$ 4,374
Non-farm/non-residential	3,866	4,544
Construction/land development	33,701	41,490
Agricultural	459	—
Multifamily residential	—	10,470
Total real estate	42,044	60,888
Commercial and industrial	87	220
Consumer	85	40
Total foreclosed and repossessed assets held for sale	$42,216	$61,148

8. Premises and Equipment

The following table is a summary of premises and equipment.

	December 31,	
	2010	2009
	(Dollars in thousands)	
Land	$ 60,148	$ 54,760
Construction in progress	3,069	5,827
Buildings and improvements	105,741	92,278
Leasehold improvements	5,080	5,004
Equipment	26,114	23,752
Gross premises and equipment	200,152	181,621
Accumulated depreciation	(29,655)	(25,417)
Premises and equipment, net	$170,497	$156,204

The Company capitalized $0.1 million, $0.4 million and $1.1 million of interest on construction projects during the years ended December 31, 2010, 2009 and 2008, respectively.

Included in occupancy expense is rent of $1.1 million, $0.5 million and $0.6 million incurred under noncancelable operating leases in 2010, 2009 and 2008, respectively, for leases of real estate, buildings and premises. These leases contain certain renewal and purchase options according to the terms of the agreements. Future amounts due under noncancelable operating leases at December 31, 2010 are as follows: $1.0 million in 2011, $1.0 million in 2012, $0.9 million in 2013, $0.7 million in 2014, $0.6 million in 2015 and $1.8 million thereafter. Rental income recognized during 2010, 2009 and 2008 for leases of buildings and premises and for equipment leased under operating leases was $1.1 million, $0.5 million and $0.6 million, respectively.

9. Deposits

The following table is a summary of the scheduled maturities of all time deposits.

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Up to one year	$905,818	$832,905
Over one to two years	29,352	41,328
Over two to three years	3,819	2,521
Over three to four years	3,159	338
Over four to five years	880	111
Thereafter	82	73
Total time deposits	$943,110	$877,276

The aggregate amount of time deposits with a minimum denomination of $100,000 was $483.9 million and $540.2 million at December 31, 2010 and 2009, respectively.

10. Borrowings

Short-term borrowings with original maturities less than one year include FHLB-Dallas advances, Federal Reserve Bank (“FRB”) borrowings, treasury, tax and loan note accounts and federal funds purchased. The following table is a summary of information relating to these short-term borrowings.

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Average annual balance	$14,465	$ 44,028
December 31 balance	1,299	1,742
Maximum month-end balance during year	36,353	108,690
Interest rate:		
Weighted-average - year	0.37%	0.37%
Weighted-average - December 31	0.00	0.00

At December 31, 2010 and 2009, respectively, the Company had fixed rate FHLB-Dallas advances with original maturities exceeding one year of $280.8 million and $340.8 million. These fixed rate advances bear interest at rates ranging from 1.34% to 5.12% at December 31, 2010, are collateralized by a blanket lien on a substantial portion of the Company’s real estate loans and are subject to prepayment penalties if repaid prior to maturity date. At December 31, 2010, the Bank had $610 million of unused FHLB-Dallas borrowing availability.

At December 31, 2010, aggregate annual maturities and weighted-average rates of FHLB-Dallas advances with an original maturity of over one year were as follows:

Maturity	Amount	Weighted-Average Interest Rate
	(Dollars in thousands)	
2011	$ 44	3.81%
2012	33	3.40
2013	31	3.22
2014	32	3.24
2015	33	3.27
Thereafter	280,667	3.80
Total	$280,840	3.80

Included in the above table are $280.0 million of FHLB-Dallas advances that contain quarterly call features and are callable as follows:

	Amount	Weighted-Average Interest Rate	Maturity
	(Dollars in thousands)		
Callable quarterly	$260,000	3.90%	2017
Callable quarterly	20,000	2.53	2018
Total	$280,000	3.80	

11. Subordinated Debentures

At December 31, 2010 the Company had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Trust Preferred Securities of the Trust	Interest Rate at December 31, 2010	Final Maturity Date
	(Dollars in thousands)			
Ozark III	$ 14,434	$ 14,000	3.24%	September 25, 2033
Ozark II	14,433	14,000	3.20	September 29, 2033
Ozark IV	15,464	15,000	2.50	September 28, 2034
Ozark V	20,619	20,000	1.90	December 15, 2036
Total	$ 64,950	$ 63,000		

On September 25, 2003, Ozark III sold to investors in a private placement offering $14 million of adjustable rate trust preferred securities, and on September 29, 2003, Ozark II sold to investors in a private placement offering $14 million of adjustable rate trust preferred securities (collectively, “2003 Securities”). The 2003 Securities bear interest, adjustable quarterly, at 90-day London Interbank Offered Rate (“LIBOR”) plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II. The aggregate proceeds of $28 million from the 2003 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II (collectively,“2003 Debentures”).

On September 28, 2004, Ozark IV sold to investors in a private placement offering $15 million of adjustable rate trust preferred securities (“2004 Securities”). The 2004 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22%. The $15 million proceeds from the 2004 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22% (“2004 Debentures”).

On September 29, 2006 Ozark V sold to investors in a private placement offering $20 million of adjustable rate trust preferred securities (“2006 Securities”). The Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60%. The $20 million proceeds from the 2006 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60% (“2006 Debentures”).

In addition to the issuance of these adjustable rate securities, Ozark II and Ozark III collectively sold $0.9 million, Ozark IV sold $0.4 million and Ozark V sold $0.6 million of trust common equity to the Company. The proceeds from the sales of the trust common equity were used, respectively, to purchase $0.9 million of 2003 Debentures, $0.4 million of 2004 Debentures and $0.6 million of 2006 Debentures issued by the Company.

At both December 31, 2010 and 2009, the Company had an aggregate of $64.9 million of subordinated debentures outstanding and had an asset of $1.9 million representing its investment in the common equity issued by the Trusts. At both December 31, 2010 and 2009, the sole assets of the Trusts are the respective adjustable rate debentures and the liabilities of the respective Trusts are the 2003 Securities, the 2004 Securities and the 2006 Securities. The Trusts had aggregate common equity of $1.9 million and did not have any restricted net assets at both December 31, 2010 and 2009. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all obligations of the Trusts with respect to the 2003 Securities, the 2004 Securities and the 2006 Securities. Additionally, there are no restrictions on the ability of the Trusts to transfer funds to the Company in the form of cash dividends, loans or advances. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

These securities generally mature at or near the 30th anniversary date of each issuance. However, these securities and debentures may be prepaid at par, subject to regulatory approval, prior to maturity at any time on or after September 25 and 29, 2008 for the two issues of 2003 Securities and 2003 Debentures; on or after September 28, 2009 for the 2004 Securities and 2004 Debentures; and on or after December 15, 2011 for the 2006 Securities and 2006 Debentures, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements.

12. Income Taxes

The following table is a summary of the components of the provision (benefit) for income taxes.

	Year Ended December 31, 2010	2009	2008
	(Dollars in thousands)		
Current:			
Federal	$15,696	$12,151	$13,400
State	2,723	2,414	2,672
Total current	18,419	14,565	16,072
Deferred:			
Federal	6,895	(1,308)	(5,161)
State	1,300	(398)	(985)
Total deferred	8,195	(1,706)	(6,146)
Provision for income taxes	$26,614	$12,859	$ 9,926

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows:

	Year Ended December 31, 2010	2009	2008
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal benefit	2.9	2.3	2.5
Effect of non-taxable interest income	(7.2)	(12.0)	(10.8)
Effect of BOLI and other non-taxable income	(0.8)	(2.0)	(3.4)
Other, net	(0.5)	(0.3)	(1.1)
Effective income tax rate	29.4%	23.0%	22.2%

Income tax benefits from the exercise of stock options in the amount of $0.5 million, $0.1 million and $0.3 million in 2010, 2009 and 2008, respectively, were recorded as an increase to additional paid-in capital.

At December 31, 2010 and 2009, income taxes refundable of $0.7 million and $2.9 million, respectively, were included in other assets.

The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities and their approximate tax effects are as follows:

	December 31, 2010	2009
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$14,734	$14,756
Stock-based compensation	1,224	1,395
Deferred compensation	1,256	704
Other real estate owned	3,171	980
Investment securities AFS	108	—
Gross deferred tax assets	20,493	17,835
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	7,894	7,577
Investment securities AFS	—	3,612
FHLB stock dividends	281	363
Deferred gains on FDIC-assisted acquisitions	9,546	—
Other, net	1,127	548
Gross deferred tax liabilities	18,848	12,100
Net deferred tax assets	$ 1,645	$ 5,735

13. Preferred Stock

On December 12, 2008, as part of the United States Department of the Treasury's (the "Treasury") Capital Purchase Program made available to certain financial institutions in the U.S. pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company and the Treasury entered into a Letter Agreement including the Securities Purchase Agreement – Standard Terms incorporated therein (the "Purchase Agreement") pursuant to which the Company issued to the Treasury, in exchange for aggregate consideration of $75.0

million, (i) 75,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 and liquidation preference $1,000 per share (the "Series A Preferred Stock"), and (ii) a warrant (the "Warrant") to purchase up to 379,811 shares (the "Warrant Common Stock") of the Company's common stock, par value $0.01 per share, at an exercise price of $29.62 per share.

On November 4, 2009, the Company redeemed all of the Series A Preferred Stock for $75.0 million, plus accrued and unpaid dividends, with the approval of the Company's primary regulator in consultation with the Treasury. On November 24, 2009, the Company repurchased the Warrant from the Treasury for $2.65 million, which was charged against the Company's additional paid-in capital.

The Series A Preferred Stock qualified as Tier 1 capital and paid cumulative cash dividends quarterly at a rate of 5% per annum while outstanding. The Series A Preferred Stock was non-voting, other than class voting rights on certain matters that could adversely affect the Series A Preferred Stock. While the Series A Preferred Stock was outstanding, the Company could not, without Treasury's consent, increase its dividend rate per share of common stock or repurchase its common stock.

Prior to its repurchase by the Company, the Warrant was immediately exercisable and had a 10-year term. The Treasury could not exercise voting power with respect to any shares of Warrant Common Stock until the Warrant had been exercised.

In addition, the Purchase Agreement (i) granted the holders of the Series A Preferred Stock, the Warrant and the Warrant Common Stock certain registration rights, (ii) subjected the Company to certain of the executive compensation limitations included in the EESA and (iii) allowed the Treasury to unilaterally amend any of the terms of the Purchase Agreement to the extent required to comply with any changes after December 12, 2008 in applicable federal statutes.

Upon receipt of the aggregate consideration from the Treasury on December 12, 2008, the Company allocated the $75.0 million proceeds on a pro rata basis to the Series A Preferred Stock and the Warrant based on relative fair values. In estimating the fair value of the Warrant, the Company utilized the Black-Scholes model which includes assumptions regarding the Company's common stock prices, stock price volatility, dividend yield, the risk free interest rate and the estimated life of the Warrant. The fair value of the Series A Preferred Stock was determined using a discounted cash flow methodology and a discount rate of 12%. As a result, the Company assigned $3.1 million of the aggregate proceeds to the Warrant and $71.9 million to the Series A Preferred Stock. The discount assigned to the Series A Preferred Stock was expected to be amortized over a five-year period, which was the expected life of the Series A Preferred Stock at the time it was issued, up to the $75.0 million liquidation value of such preferred stock, with the cost of such amortization being reported as additional preferred stock dividends. This resulted in a total dividend with a consistent annual effective yield of 5.98% prior to the Company's redemption of the Series A Preferred Stock. As a result of the redemption, the remaining unamortized discount of $2.7 million was recognized as an additional preferred stock dividend in the fourth quarter of 2009.

14. Employee Benefit Plans

The Company maintains a qualified retirement plan (the "401(k) Plan") with a salary deferral feature designed to qualify under Section 401 of the Internal Revenue Code (the "Code"). The 401(k) Plan permits employees of the Company to defer a portion of their compensation in accordance with the provisions of Section 401(k) of the Code. Matching contributions may be made in amounts and at times determined by the Company. Certain other statutory limitations with respect to the Company's contribution under the 401(k) Plan also apply. Amounts contributed by the Company for a participant vest over six years and are held in trust until distributed pursuant to the terms of the 401(k) Plan.

Contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options. Distributions from participant accounts are not permitted before age 65, except in the event of death, permanent disability, certain financial hardships or termination of employment. The Company made matching cash contributions to the 401(k) Plan during 2010, 2009 and 2008 of $0.6 million, $0.5 million and $0.4 million, respectively.

Prior to January 1, 2005, all full-time employees of the Company were eligible to participate in the 401(k) Plan. Beginning January 1, 2005, certain key employees of the Company have been excluded from further salary deferrals to the 401(k) Plan, but may make salary deferrals through participation in the Bank of the Ozarks, Inc. Deferred Compensation Plan (the "Plan"). The Plan, an unfunded deferred compensation arrangement for the group of employees designated as key employees, including certain of the Company's executive officers, was adopted by the Company's board of directors on December 14, 2004 and became effective January 1, 2005. Under the terms of the Plan, eligible participants may elect to defer a portion of their compensation. Such deferred compensation will be distributable in lump sum or specified installments upon separation from service with the Company or upon other specified events as defined in the Plan. The Company has the ability to make a contribution to each participant's account, limited to one half of the first 6% of compensation deferred by the participant and subject to certain other limitations. Amounts deferred under the Plan are to be invested in certain approved investments (excluding securities of the Company or its affiliates). Company contributions to the Plan in 2010, 2009 and 2008 totaled $117,000, $117,000 and $104,000, respectively. At December 31, 2010 and 2009, the Company had Plan assets, along with an equal amount of liabilities, totaling $3.1 million and $2.4 million, respectively, recorded on the accompanying consolidated balance sheet.

Effective May 4, 2010, the Company established a Supplemental Executive Retirement Plan ("SERP") and certain other benefit arrangements for its Chairman and Chief Executive Officer. Pursuant to the SERP, this officer is entitled to receive 180 equal monthly payments of $32,197, or $386,360 annually, commencing at the later of obtaining age 70 or separation from service. If separation from service occurs prior to age 70, such benefit will be at a reduced amount. The costs of such benefits, assuming a retirement date at age 70, will be fully accrued by the Company over the next 14 years. During 2010 the Company accrued $89,000 (none in 2009 and 2008) for future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Company.

15. Stock-Based Compensation

The Company has a nonqualified stock option plan for certain key employees and officers of the Company. This plan provides for the granting of nonqualified options to purchase shares of common stock in the Company. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. While the vesting period and the termination date for the employee plan options are determined when options are granted, all such employee options outstanding at December 31, 2010 were issued with a vesting period of three years and expire seven years after issuance. At December 31, 2010 there were 504,200 shares available for future grants under this plan.

The Company also has a nonqualified stock option plan for non-employee directors. The non-employee director plan calls for options to purchase 1,000 shares of common stock to be granted to each non-employee director the day after the annual stockholders' meeting. Additionally, a non-employee director elected or appointed for the first time as a director on a date other than an annual meeting shall be granted an option to purchase 1,000 shares of common stock. These options are exercisable immediately and expire ten years after issuance.

All shares issued in connection with options exercised under both the employee and non-employee director stock option plans are in the form of newly-issued shares.

The following table summarizes stock option activity for the year ended December 31, 2010.

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding - January 1, 2010	562,750	$ 28.34		
Granted	110,900	37.70		
Exercised	(113,800)	24.82		
Forfeited	(33,050)	29.58		
Outstanding - December 31, 2010	526,800	$ 31.05	4.4	$ 6,480(1)
Fully vested and exercisable at December 31, 2010	282,250	$ 31.37	3.2	$ 3,382(1)
Expected to vest in future periods	212,198			
Fully vested and expected to vest - December 31, 2010(2)	494,448	$ 31.04	4.3	$ 6,086(1)

(1) Based on closing price of $43.35 per share on December 31, 2010.

(2) At December 31, 2010 the Company estimates that options to purchase 32,352 shares of the Company's common stock will not vest and will be forfeited prior to their vesting date.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. The total intrinsic value of options exercised during 2010, 2009 and 2008 was $1.4 million, $0.3 million and $1.0 million, respectively.

Options to purchase 110,900 shares, 77,600 shares and 117,950 shares, respectively, were granted during 2010, 2009 and 2008 with a weighted-average grant date fair value of $11.38, $7.09 and $7.33, respectively. The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the current annual dividend level and recent stock price of the Company's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the Company's common stock. The expected life of the options is calculated based on the "simplified" method as provided for under Staff Accounting Bulletin No. 110.

The weighted-average assumptions used in the Black-Scholes option pricing model for the years indicated were as follows:

	2010	2009	2008
Risk-free interest rate	1.22%	2.32%	2.61%
Expected dividend yield	1.69%	2.13%	1.88%
Expected stock volatility	39.0%	37.0%	32.8%
Expected life (years)	5.0	5.0	5.0

The total fair value of options to purchase shares of the Company's common stock that vested during 2010, 2009 and 2008 was $0.7 million, $0.9 million and $1.1 million, respectively. Total unrecognized compensation cost related to nonvested stock-based compensation was $1.2 million at December 31, 2010 and is expected to be recognized over a weighted-average period of 2.5 years.

Effective April 21, 2009, the Company's stockholders voted to approve the Company's restricted stock plan permitting issuance of up to 200,000 shares of restricted stock or restricted stock units. All officers and employees of the Company are eligible to receive awards under the restricted stock plan. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Company under the restricted stock plan will be determined in the sole discretion of the Company's board of directors or its personnel and compensation committee. Shares of common stock issued under the restricted stock plan may be shares of original issuance, shares held in treasury or shares that have been reacquired by the Company. At December 31, 2010 there were 146,100 shares available for future grants under this plan.

The following table summarizes non-vested restricted stock activity for the years ended December 31, 2010 and 2009.

	Year Ended December 31,	
	2010	2009
Balance - beginning of year	18,600	—
Granted	37,300	18,600
Forfeited	(2,000)	—
Earned and issued	—	—
Balance - end of year	53,900	18,600

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (generally three years) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted during 2010 and 2009 was $1.4 million, or $37.67 per share, and $0.5 million, or $24.44 per share, respectively. Stock-based compensation expense for restricted stock included in non-interest expense was $0.2 million and $24,000 for 2010 and 2009, respectively. Unrecognized compensation expense for nonvested restricted stock awards was $1.5 million at December 31, 2010 and is expected to be recognized over 2.7 years.

16. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company has the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since these commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. The type of collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other real or personal property.

The Company had outstanding commitments to extend credit, excluding mortgage IRLCs, of $165.7 million and $191.0 million at December 31, 2010 and 2009, respectively. The commitments extend over varying periods of time with the majority to be disbursed or to expire within a one-year period.

Outstanding standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer in third party borrowing arrangements. The terms of the letters of credit are generally for a period of one year. The maximum amount of future payments the Company could be required to make under these letters of credit at December 31, 2010 and 2009 is $6.0 million and $9.5 million, respectively. The Company holds collateral to support letters of credit when deemed necessary. The total of collateralized commitments at December 31, 2010 and 2009 was $5.5 million and $8.0 million, respectively.

17. Related Party Transactions

The Company has had, in the ordinary course of business, lending transactions with certain of its officers, directors, director nominees and their related and affiliated parties (related parties). The following table is a summary of activity of loans to related parties for the periods indicated.

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Balance - beginning of year	$ 8,174	$ 4,434	$17,785
New loans and advances	9,258	5,546	955
Repayments	(13,648)	(1,793)	(5,391)
Change in composition of related parties	(410)	(13)	(8,915)
Balance - end of year	$ 3,374	$ 8,174	$ 4,434

Wiring and cabling installation for certain of the Company's facilities were performed by an entity whose ownership includes a member of the Company's board of directors. Total payments to this entity were $68,000 in 2010, $119,000 in 2009, $224,000 in 2008 for such installation contract work. This entity was awarded each of these contracts as a result of it being the low bidder in a competitive bid process.

18. Regulatory Matters

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about component risk weightings and other factors.

Federal and state regulatory agencies generally require the Company and the Bank to maintain minimum Tier 1 and total capital to risk-weighted assets of 4.0% and 8.0%, respectively, and Tier 1 capital to average quarterly assets (Tier 1 leverage ratio) of at least 3.0%. Tier 1 capital generally consists of common equity, retained earnings, certain types of preferred stock, qualifying minority interest and trust preferred securities, subject to limitations, and excludes goodwill and various intangible assets. Total capital includes Tier 1 capital, any amounts of trust preferred securities excluded from Tier 1 capital, and the lesser of the ALLL or 1.25% of risk-weighted assets. At December 31, 2010 and 2009 the Company's and the Bank's Tier 1 and total capital ratios and their Tier 1 leverage ratios exceeded minimum requirements.

The actual and required regulatory capital amounts and ratios of the Company and the Bank at December 31, 2010 and 2009 are as follows:

	Actual		Required: For Capital Adequacy Purposes		Required: To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2010:						
Total capital (to risk-weighted assets):						
Company	$404,838	17.39%	$186,260	8.00%	$232,825	10.00%
Bank	387,949	16.75	185,334	8.00	231,668	10.00
Tier 1 capital (to risk-weighted assets):						
Company	375,597	16.13	93,131	4.00	139,695	6.00
Bank	358,852	15.49	92,667	4.00	139,001	6.00
Tier 1 leverage (to average assets):						
Company	375,597	11.88	94,814	3.00	158,023	5.00
Bank	358,852	11.40	94,437	3.00	157,395	5.00
December 31, 2009:						
Total capital (to risk-weighted assets):						
Company	$349,649	15.03%	$186,095	8.00%	$232,619	10.00%
Bank	328,714	14.22	184,952	8.00	231,191	10.00
Tier 1 capital (to risk-weighted assets):						
Company	320,442	13.78	93,047	4.00	139,571	6.00
Bank	299,683	12.96	92,476	4.00	138,714	6.00
Tier 1 leverage (to average assets):						
Company	320,442	11.39	84,392	3.00	140,653	5.00
Bank	299,683	10.72	83,904	3.00	139,841	5.00

As of December 31, 2010 and 2009, the most recent notification from the regulators categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company’s or the Bank’s category.

The state bank commissioner’s approval is required before the Bank can declare and pay any dividend of 75% or more of the net profits of the Bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year. At December 31, 2010, $26.3 million was available for payment of dividends by the Bank without the approval of regulatory authorities. At December 31, 2009, the Bank could not pay dividends without the approval of regulatory authorities as a result of the $75 million dividend paid by the Bank to the Company for the redemption of the Series A Preferred Stock.

Under FRB regulation, the Bank is also limited as to the amount it may loan to its affiliates, including the Company, and such loans must be collateralized by specific types of collateral. The maximum amount available for loan from the Bank to the Company is limited to 10% of the Bank’s capital and surplus or approximately $36 million and $31 million, respectively, at December 31, 2010 and 2009.

The Bank is required by bank regulatory agencies to maintain certain minimum balances of cash or deposits primarily with the FRB. At December 31, 2010 and 2009, these required balances aggregated $14.7 million and $6.2 million, respectively.

19. Fair Value Measurements

The Company measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either annually or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes.

The Company applied the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

Level 3 - Instruments whose inputs are unobservable.

The following table sets forth the Company's assets and liabilities at December 31, 2010 and 2009 that are accounted for at fair value.

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
December 31, 2010:				
Assets:				
Investment securities AFS[1]:				
Obligations of state and political subdivisons	$ —	$358,511	$20,036	$378,547
U.S. Government agency residential mortgage-backed securities	—	1,269	—	1,269
Total investment securities AFS	—	359,780	20,036	379,816
Impaired loans and leases	—	—	10,101	10,101
Foreclosed and repossessed assets held for sale, net	—	—	42,216	42,216
Derivative assets - IRLC and FSC	—	—	55	55
Total assets at fair value	$ —	$359,780	$72,408	$432,188
Liabilities:				
Derivative liabilities - IRLC and FSC	$ —	$ —	$ 55	$ 55
Total liabilities at fair value	$ —	$ —	$ 55	$ 55
December 31, 2009:				
Assets:				
Investment securities AFS[1]				
Obligations of state and political subdivisons	$ —	$377,297	$16,590	$393,887
U.S. Government agency residential mortgage-backed securities	—	94,510	—	94,510
Corporate obligations	—	1,865	—	1,865
Collateralized debt obligation	—	—	100	100
Total investment securities AFS	—	473,672	16,690	490,362
Impaired loans and leases	—	—	19,204	19,204
Foreclosed and repossessed assets held for sale, net	—	—	61,148	61,148
Derivative assets - IRLC and FSC	—	—	210	210
Total assets at fair value	$ —	$473,672	$97,252	$570,924
Liabilities:				
Derivative liabilities - IRLC and FSC	$ —	$ —	$ 210	$ 210
Total liabilities at fair value	$ —	$ —	$ 210	$ 210

(1) Does not include $18.9 million at December 31, 2010 of shares of FHLB-Dallas, FHLB-Atlanta and FNBB stock and $16.3 million at December 31, 2009 of shares of FHLB-Dallas and FNBB stock that do not have readily determinable fair values and are carried at cost.

The following methods and assumptions are used to estimate the fair value of the Company's assets and liabilities that are accounted for at fair value.

Investment securities — The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The Company has determined that certain of its investment securities had a limited to non-existent trading market at December 31, 2010 and 2009. As a result, the Company considers these investments as Level 3 in the fair value hierarchy. The following is a description of those investment securities and the fair value methodology used for such securities.

Obligations of state and political subdivisions — The fair values of certain obligations of state and political subdivisions consisting of certain unrated private placement bonds (the "private placement bonds") in the amount of $20.0 million and $16.6 million at December 31, 2010 and 2009, respectively, were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active". This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be valued at the lower of (i) the matrix pricing provided by the Company's third party pricing services for comparable unrated municipal securities or (ii) par value. At December 31, 2010 and 2009, the third party pricing matrices valued the Company's total portfolio of private placement bonds at $21.0 million and $17.4 million, respectively, which exceeded the aggregate of the lower of the matrix pricing or par value of the private placement bonds by $1.0 million and $0.8 million at December 31, 2010 and 2009, respectively. Accordingly, at December 31, 2010 and 2009 the Company reported the private placement bonds at the lower of the matrix pricing or par value of $20.0 million and $16.6 million, respectively.

Collateralized debt obligation — At December 31, 2009, the Company's investment securities portfolio included one security categorized as a CDO. At December 31, 2009, the Company considered this security as a Level 3 in the fair value hierarchy based on a trading market that was determined to be "not active" based on the limited number of trades, small block sizes, and the significant spreads between the bid and ask price. This CDO continued to perform in accordance with its terms and was not in default, but, because its credit rating was downgraded to below investment grade and other factors, the Company recorded a $0.9 million charge during 2009 to reduce the carrying value of this security to $0.1 million at December 31, 2019. The Company sold this CDO in 2010.

Impaired loans and leases — Fair values are measured on a nonrecurring basis and are based on the underlying collateral value of the impaired loan or lease, net of holding and selling costs, or the estimated discounted cash flows for such loan or lease. The Company has reduced the carrying value of its impaired loans and leases (all of which are included in nonaccrual loans and leases) by $8.9 million and $9.7 million, respectively, to the estimated fair value of $9.8 million and $19.2 million, respectively, for such loans and leases at December 31, 2010 and 2009. These adjustments to reduce the carrying value of impaired loans and leases to estimated fair value during 2010 and 2009 consisted of $6.9 million and $8.1 million, respectively, of partial charge-offs and $2.0 million and $1.7 million, respectively, of specific loan and lease loss allocations.

Foreclosed and repossessed assets held for sale, net — Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding covered ORE, are measured on a non-recurring basis and are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of foreclosed and repossessed assets held for sale are generally based on third party appraisals, broker price opinions or other valuations of the property, resulting in a Level 3 classification.

Derivative assets and liabilities — The fair values of IRLC and FSC derivative assets and liabilities are measured on a recurring basis and are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year end.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

	Investment Securities AFS	Derivative Assets-IRLC and FSC	Derivative Liabilities-IRLC and FSC
		(Dollars in thousands)	
Balances - January 1, 2009	$ 30,020	$ 477	$ (477)
Total realized gains/(losses) included in earnings	(3,753)	(267)	267
Total unrealized gains/(losses) included in other comprehensive income	317	—	—
Purchases, sales, issuances and settlements, net	(6,524)	—	—
Transfers in and/or out of Level 3	(3,370)	—	—
Balances - December 31, 2009	16,690	210	(210)
Total realized gains/(losses) included in earnings	20	(155)	155
Total unrealized gains/(losses) included in other comprehensive income	(850)	—	—
Purchases, sales, issuances and settlements, net	192	—	—
Transfers in and/or out of Level 3	3,984	—	—
Balances - December 31, 2010	$ 20,036	$ 55	$ (55)

During 2010 and 2009, there were no transfers of assets or liabilities measured at fair value between Level 1 and Level 2 fair value hierarchy.

20. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and due from banks — For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities — The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities that are measured on a recurring basis. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. The Company’s investments in the common stock of the FHLB-Dallas, FHLB-Atlanta and FNBB of $18.9 million at December 31, 2010 and $16.3 million at December 31, 2009 do not have readily determinable fair values and are carried at cost.

Loans and leases — The fair value of loans and leases is estimated by discounting the future cash flows using the current rate at which similar loans or leases would be made to borrowers or lessees with similar credit ratings and for the same remaining maturities.

Covered loans — The fair value of covered loans is based on the net present value of future cash proceeds expected to be received using discount rates that are derived from current market rates and reflect the level of inherent risk in the covered loans.

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

Deposit liabilities — The fair value of demand deposits, savings accounts, money market deposits and other transaction accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity time deposits is estimated using the rate currently available for deposits of similar remaining maturities.

Repurchase Agreements — For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Other borrowed funds — For these short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term instruments is estimated based on the current rates available to the Company for borrowings with similar terms and remaining maturities.

Subordinated debentures — The fair values of these instruments are based primarily upon discounted cash flows using rates for securities with similar terms and remaining maturities.

Derivative assets and liabilities — The fair values of IRLC and FSC derivative assets and liabilities are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year-end.

Off-balance sheet instruments — The fair values of commercial loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and were not material at December 31, 2010 and 2009.

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

The following table presents the estimated fair values of the Company’s financial instruments.

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Financial assets:				
Cash and cash equivalents	$ 49,029	$ 49,029	$ 78,294	$ 78,294
Investment securities AFS	398,698	398,698	506,678	506,678
Loans and leases, net of ALLL	1,816,199	1,798,544	1,864,485	1,841,953
Covered loans	497,545	497,445	—	—
FDIC loss share receivable	153,111	153,383	—	—
Derivative assets - IRLC and FSC	55	55	210	210
Financial liabilities:				
Demand, NOW, savings and money market account deposits	$1,597,643	$1,597,643	$1,151,718	$1,151,718
Time deposits	943,110	947,447	877,276	881,463
Repurchase agreements with customers	43,324	43,324	44,269	44,269
Other borrowings	282,139	349,964	342,553	423,404
Subordinated debentures	64,950	29,377	64,950	27,650
Derivative liabilities - IRLC and FSC	55	55	210	210

21. Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Cash paid during the period for:			
Interest	$ 35,476	$ 49,692	$86,591
Taxes	13,879	14,504	15,045
Supplemental schedule of non-cash investing and financing activities:			
Loans transfered to foreclosed and repossessed assets held for sale	17,095	74,122	17,259
Loans advanced for sales of foreclosed and repossessed assets held for sale	9,755	3,132	2,457
Net change in unrealized gains and losses on investment securities AFS	(10,201)	(15,783)	50,539
Unsettled AFS investment security trades:			
Purchases	—	8,372	14,038
Sales/calls	—	—	2,525
Securities received on dissolution of unconsolidated investments	—	—	3,370

22. Other Operating Expenses

The following table is a summary of other operating expenses.

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Postage and supplies	$ 1,981	$ 1,530	$ 1,633
Telephone and data lines	2,110	1,806	1,630
Advertising and public relations	2,076	1,083	1,204
Professional and outside services	3,024	1,793	1,537
ATM expense	881	745	633
Software	2,657	1,524	1,261
FDIC Insurance	3,238	4,291	1,131
FDIC and state assessments	678	673	664
Loan collection and repossession expense	4,001	3,999	999
Write downs of other real estate owned	8,960	4,009	1,042
Amortization of intangible assets	431	110	213
Other	6,603	5,482	3,448
Total other operating expenses	$36,640	$27,045	$15,395

23. Earnings Per Common Share ("EPS")

The following table sets forth the computation of basic and diluted EPS.

	Year Ended December 31,		
	2010	2009	2008
	(In thousands, except per share amounts)		
Numerator:			
Distributed earnings allocated to common stock	$ 10,170	$ 8,778	$ 8,418
Undistributed earnings allocated to common stock	53,831	28,048	26,056
Net earnings allocated to common stock	$ 64,001	$ 36,826	$ 34,474
Denominator:			
Denominator for basic EPS—weighted-average common shares	16,969	16,880	16,849
Effect of dilutive securities—stock options	76	20	25
Denominator for diluted EPS—weighted-average common shares and assumed conversions	17,045	16,900	16,874
Basic EPS	$ 3.77	$ 2.18	$ 2.05
Diluted EPS	$ 3.75	$ 2.18	$ 2.04

Options to purchase 98,150 shares, 487,350 shares and 464,200 shares, respectively, of the Company's common stock at a weighted-average exercise price of $37.67 per share, $30.02 per share and $30.86 per share, respectively, were outstanding during 2010, 2009 and 2008, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares and inclusion would have been antidilutive. Additionally, a warrant for the purchase of 379,811 shares of the Company's common stock at an exercise price of $29.62 was outstanding at December 31, 2008 (none at December 31, 2010 and 2009) but was not included in the diluted EPS computation as inclusion would have been antidilutive.

24. Subsequent Event

On January 14, 2011, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC, pursuant to which the Bank acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Oglethorpe Bank ("Oglethorpe Bank"), headquartered in Brunswick, Georgia.

Under the terms of the purchase and assumption agreement, the Bank acquired approximately $193 million of Oglethorpe Bank assets which excluded approximately $25 million of assets and approximately $4 million of allowance for loan losses retained by the FDIC. Assets acquired include approximately $162 million of loans, approximately $15 million of other real estate owned by Oglethorpe Bank and approximately $16 million of other assets. The assets were purchased from the FDIC at a discount of $38.0 million with no stated deposit premium. The Bank also assumed approximately $195 million of deposits and other liabilities. In connection with the acquisition, the FDIC paid the Bank $40.5 million.

During the first quarter of 2011, the Company expects to complete its analysis of the acquired loans and other assets and assumed liabilities in this transaction. The estimated fair values of acquired assets and assumed liabilities are expected to differ materially from the amounts presented above.

Pursuant to the terms of the loss share agreements, the FDIC will reimburse the Bank for 80% of the losses on the disposition of loans and foreclosed other real estate. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank 80% reimbursement under the loss sharing agreements. The loss share agreement applicable to single family residential mortgage loans and related foreclosed real estate provides for FDIC loss sharing and the Bank's reimbursement to the FDIC for ten years. The loss sharing agreement applicable to commercial loans and related foreclosed real estate provides for FDIC loss sharing for five years and the Bank reimbursement to the FDIC for eight years.

The terms of the purchase and assumption agreement provide for the FDIC to indemnify the Bank against certain claims, including claims with respect to liabilities and assets of Oglethorpe Bank or any of its affiliates not assumed or otherwise purchased by the Bank and with respect to claims based on any action by Oglethorpe Bank's directors, officers and other employees.

25. Parent Company Financial Information

The following condensed balance sheets, income statements and statements of cash flows reflect the financial position, results of operations and cash flows for the parent company.

Condensed Balance Sheets

	December 31, 2010	December 31, 2009
	(Dollars in thousands)	
Assets		
Cash	$ 6,570	$ 8,437
Investment in consolidated bank subsidiary	365,518	310,161
Investment in unconsolidated Trusts	1,950	1,950
Investments securities AFS	—	485
Loans	8,236	8,768
Land for future branch site	—	1,875
Excess cost over fair value of net assets acquired	1,092	1,092
Income taxes receivable	893	—
Other, net	1,382	1,554
Total assets	$385,641	$334,322
Liabilities and Stockholders' Equity		
Accounts payable and other liabilities	$ 163	$ 46
Accrued interest payable	173	171
Income taxes payable	—	127
Subordinated debentures	64,950	64,950
Total liabilities	65,286	65,294
Stockholders' equity:		
Common stock	170	169
Additional paid-in capital	45,278	41,584
Retained earnings	275,074	221,243
Accumulated other comprehensive income (loss)	(167)	6,032
Total stockholders' equity	320,355	269,028
Total liabilities and stockholders' equity	$385,641	$334,322

Condensed Statements of Income

	2010	2009	2008
	Year Ended December 31, (Dollars in thousands)		
Income:			
Dividends from Bank	$13,200	$ 92,200	$14,400
Dividends from Trusts	53	64	113
Interest	1,152	984	183
Other	—	138	137
Total income	14,405	93,386	14,833
Expenses:			
Interest	1,764	2,138	3,760
Other operating expenses	2,853	2,258	2,411
Total expenses	4,617	4,396	6,171
Net income before income tax benefit and equity in undistributed earnings of Bank	9,788	88,990	8,662
Income tax benefit	1,527	1,482	2,432
Equity in undistributed earnings of Bank	52,686	(47,370)	23,607
Net income	64,001	43,102	34,701
Preferred stock dividends and amortization of preferred stock discount	—	(6,276)	(227)
Net income available to common stockholders	$64,001	$ 36,826	$34,474

Condensed Statements of Cash Flows

	2010	2009	2008
	Year Ended December 31, (Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 64,001	$ 43,102	$ 34,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of Bank	(52,686)	47,370	(23,607)
Loss (gain) on sale of investment securities AFS	130	(162)	—
Deferred income tax expense (benefit)	169	(63)	(330)
Stock-based compensation expense	834	712	862
Tax benefits on exercise of stock options	(535)	(111)	(283)
Changes in other assets and other liabilities	(831)	(802)	999
Net cash provided by operating activities	11,082	90,046	12,342
Cash flows from investing activities:			
Net paydowns (fundings) of portfolio loans and leases	531	(3,880)	(2,449)
Proceeds from sales of investment securities AFS	330	1,437	—
Equity contributed to Bank	(7,000)	—	(87,000)
Net cash used by investing activities	(6,139)	(2,443)	(89,449)
Cash flows from financing activities:			
Proceeds from exercise of stock options	2,825	258	408
Tax benefits on exercise of stock options	535	111	283
Proceeds from issuance of preferred stock and common stock warrant	—	—	75,000
Redemption of preferred stock	—	(75,000)	—
Repurchase of common stock warrant	—	(2,650)	—
Cash dividends paid on preferred stock	—	(3,354)	—
Cash dividends paid on common stock	(10,170)	(8,778)	(8,418)
Net cash (used) provided by financing activities	(6,810)	(89,413)	67,273
Net decrease in cash	(1,867)	(1,810)	(9,834)
Cash - beginning of year	8,437	10,247	20,081
Cash - end of year	$ 6,570	$ 8,437	$ 10,247

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Section 3: EX-21 (LIST OF SUBSIDIARIES OF THE REGISTRANT)

Exhibit 21

Subsidiaries of the Registrant

1. Bank of the Ozarks, an Arkansas state chartered bank.
2. Ozark Capital Statutory Trust II, a Connecticut business trust.
3. Ozark Capital Statutory Trust III, a Delaware business trust.
4. Ozark Capital Statutory Trust IV, a Delaware business trust.
5. Ozark Capital Statutory Trust V, a Delaware business trust.
6. The Highlands Group, Inc., an Arkansas corporate subsidiary of Bank of the Ozarks.
7. Arlington Park, LLC, a 50% owned Arkansas LLC subsidiary of The Highlands Group, Inc.
8. HOJ Equities, LLC, a 100% owned Texas LLC subsidiary of Bank of the Ozarks.
9. BOTO, LLC, a 100% owned Arkansas LLC subsidiary of Bank of the Ozarks.

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Section 4: EX-23.1 (CONSENT OF CROWE HORWATH, LLP)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-32173 on Form S-8 pertaining to the Bank of the Ozarks, Inc. Stock Purchase Plan, Registration Statement No. 333-74577 on Form S-8 pertaining to the Bank of the Ozarks, Inc. 401K Retirement Savings Plan and in Registration Statement No. 333-32175 on Form S-8 pertaining to the Bank of the Ozarks, Inc. Non-employee Director Stock Option Plan of our reports dated March 10, 2011 with respect to the consolidated financial statements of Bank of the Ozarks, Inc. and the effectiveness of internal control over financial reporting, which reports appear in this Annual Report on Form 10-K of Bank of the Ozarks, Inc. for the year ended December 31, 2010.

/s/ Crowe Horwath LLP

Brentwood, Tennessee
March 10, 2011

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Section 5: EX-31.1 (CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER)

CERTIFICATIONS **Exhibit 31.1**

I, George Gleason, certify that:

1. I have reviewed this report on Form 10-K of Bank of the Ozarks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the

equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2011

/s/ George Gleason
George Gleason
Chairman and Chief Executive Officer

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Section 6: EX-31.2 (CERTIFICATION OF CHIEF FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER)

Exhibit 31.2

I, Greg McKinney, certify that:

1. I have reviewed this report on Form 10-K of Bank of the Ozarks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2011

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer and Chief Accounting Officer

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Section 7: EX-32.1 (CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Bank of the Ozarks, Inc. (the Company) on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 10, 2011

/s/ George Gleason
George Gleason
Chairman and Chief Executive Officer

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Section 8: EX-32.2 (CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Bank of the Ozarks, Inc. (the Company) on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 10, 2011

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer and Chief Accounting Officer

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