

BANK OF THE OZARKS INC  
Form 10-Q  
August 07, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended June 30, 2008

**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)

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**ARKANSAS**  
(State or other jurisdiction of  
incorporation or organization)

**71-0556208**  
(I.R.S. Employer  
Identification Number)

**12615 CHENAL PARKWAY, LITTLE ROCK, ARKANSAS**  
(Address of principal executive offices)

**72211**  
(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer

Accelerated filer

Smaller reporting company

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

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

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

Class	Outstanding at June 30, 2008
Common Stock, \$0.01 par value per share	16,834,440

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**FORM 10-Q**

**June 30, 2008**

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**Table of Contents****PART I. FINANCIAL INFORMATION**Item 1. **Financial Statements**

**BANK OF THE OZARKS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	Unaudited June 30, 2008	2007	December 31, 2007
	(Dollars in thousands, except per share amounts)		
<b>ASSETS</b>			
Cash and due from banks	\$ 52,710	\$ 42,601	\$ 47,192
Interest earning deposits	318	356	329
Cash and cash equivalents	53,028	42,957	47,521
Investment securities - available for sale ( AFS )	768,180	575,433	578,348
Loans and leases	2,011,921	1,756,383	1,871,135
Allowance for loan and lease losses	(23,432)	(18,747)	(19,557)
Net loans and leases	1,988,489	1,737,636	1,851,578
Premises and equipment, net	140,290	125,608	130,048
Foreclosed assets held for sale, net	3,147	2,685	3,112
Accrued interest receivable	16,587	17,367	17,420
Bank owned life insurance	47,136	45,172	46,148
Intangible assets, net	5,746	6,008	5,877
Other, net	39,514	27,679	30,823
Total assets	\$ 3,062,117	\$ 2,580,545	\$ 2,710,875
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Deposits:			
Demand non-interest bearing	\$ 194,800	\$ 203,046	\$ 162,995
Savings and interest bearing transaction	643,216	532,355	516,312
Time	1,469,459	1,420,242	1,377,754
Total deposits	2,307,475	2,155,643	2,057,061
Repurchase agreements with customers	43,903	45,063	46,086
Other borrowings	413,654	120,807	336,533
Subordinated debentures	64,950	64,950	64,950
Accrued interest payable and other liabilities	17,831	16,001	11,984
Total liabilities	2,847,813	2,402,464	2,516,614
Minority interest	3,407		3,432
Commitments and contingencies			
Stockholders equity:			
Preferred stock; \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	168	168	168

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Common stock; \$0.01 par value; 50,000,000 shares authorized; 16,834,440, 16,770,940 and 16,818,240 shares issued and outstanding at June 30, 2008, June 30, 2007 and December 31, 2007, respectively

Additional paid-in capital	39,289	37,697	38,613
Retained earnings	179,473	154,863	167,139
Accumulated other comprehensive income (loss)	(8,033)	(14,647)	(15,091)
<b>Total stockholders' equity</b>	<b>210,897</b>	<b>178,081</b>	<b>190,829</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,062,117</b>	<b>\$ 2,580,545</b>	<b>\$ 2,710,875</b>

See accompanying notes to consolidated financial statements.

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**BANK OF THE OZARKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(Dollars in thousands, except per share amounts)				
<b>Interest income:</b>				
Loans and leases	\$ 35,101	\$ 36,347	\$ 71,104	\$ 71,027
<b>Investment securities:</b>				
Taxable	5,445	6,245	11,134	12,840
Tax-exempt	5,123	1,532	8,245	3,078
Deposits with banks and federal funds sold	3	4	7	11
<b>Total interest income</b>	<b>45,672</b>	<b>44,128</b>	<b>90,490</b>	<b>86,956</b>
<b>Interest expense:</b>				
Deposits	17,127	22,224	34,932	43,049
Repurchase agreements with customers	163	437	429	898
Other borrowings	3,947	917	7,801	2,959
Subordinated debentures	832	1,259	1,975	2,510
<b>Total interest expense</b>	<b>22,069</b>	<b>24,837</b>	<b>45,137</b>	<b>49,416</b>
<b>Net interest income</b>	<b>23,603</b>	<b>19,291</b>	<b>45,353</b>	<b>37,540</b>
Provision for loan and lease losses	(4,000)	(1,250)	(7,325)	(2,350)
<b>Net interest income after provision for loan and lease losses</b>	<b>19,603</b>	<b>18,041</b>	<b>38,028</b>	<b>35,190</b>
<b>Non-interest income:</b>				
Service charges on deposit accounts	2,967	3,107	5,837	5,942
Mortgage lending income	636	817	1,309	1,548
Trust income	629	531	1,233	996
Bank owned life insurance income	499	478	988	943
Gains on sales of investment securities			20	337
Gains (losses) on sales of other assets	206	(47)	113	(12)
Other	620	737	1,182	1,828
<b>Total non-interest income</b>	<b>5,557</b>	<b>5,623</b>	<b>10,682</b>	<b>11,582</b>
<b>Non-interest expense:</b>				
Salaries and employee benefits	7,624	7,016	14,956	14,327
Net occupancy and equipment	2,183	1,967	4,257	3,938
Other operating expenses	3,635	2,893	7,109	5,749
<b>Total non-interest expense</b>	<b>13,442</b>	<b>11,876</b>	<b>26,322</b>	<b>24,014</b>
<b>Income before taxes</b>	<b>11,718</b>	<b>11,788</b>	<b>22,388</b>	<b>22,758</b>
Provision for income taxes	3,111	3,702	6,016	7,151

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Net income	\$ 8,607	\$ 8,086	\$ 16,372	\$ 15,607
Basic earnings per share	\$ 0.51	\$ 0.48	\$ 0.97	\$ 0.93
Diluted earnings per share	\$ 0.51	\$ 0.48	\$ 0.97	\$ 0.93
Dividends declared per share	\$ 0.12	\$ 0.10	\$ 0.24	\$ 0.20

See accompanying notes to the consolidated financial statements.

**Table of Contents****BANK OF THE OZARKS, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings (Dollars in thousands)	Accumulated Other Comprehensive Income (Loss)	Total
Balances January 1, 2007	\$ 167	\$ 36,779	\$ 142,609	\$ (4,922)	\$ 174,633
Comprehensive income:					
Net income			15,607		15,607
Other comprehensive income (loss):					
Unrealized gains and losses on AFS investment securities, net of \$6,145 tax effect				(9,520)	(9,520)
Reclassification adjustment for gains and losses included in net income, net of \$132 tax effect				(205)	(205)
<b>Total comprehensive income</b>					<b>5,882</b>
Cash dividends paid			(3,353)		(3,353)
Issuance of 24,400 shares of common stock for exercise of stock options	1	179			180
Tax benefit on exercise of stock options		224			224
Compensation expense under stock-based compensation plans		515			515
Balances June 30, 2007	\$ 168	\$ 37,697	\$ 154,863	\$ (14,647)	\$ 178,081
Balances January 1, 2008	\$ 168	\$ 38,613	\$ 167,139	\$ (15,091)	\$ 190,829
Comprehensive income:					
Net income			16,372		16,372
Other comprehensive income (loss):					
Unrealized gains and losses on AFS investment securities, net of \$4,563 tax effect				7,070	7,070
Reclassification adjustment for gains and losses included in net income, net of \$8 tax effect				(12)	(12)
<b>Total comprehensive income</b>					<b>23,430</b>
Cash dividends paid			(4,038)		(4,038)
Issuance of 16,200 shares of common stock for exercise of stock options		123			123
Tax benefit on exercise of stock options		109			109
Compensation expense under stock-based compensation plans		444			444
Balances June 30, 2008	\$ 168	\$ 39,289	\$ 179,473	\$ (8,033)	\$ 210,897

See accompanying notes to consolidated financial statements.



**Table of Contents****BANK OF THE OZARKS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 16,372	\$ 15,607
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	1,717	1,615
Amortization	131	131
Provision for loan and lease losses	7,325	2,350
Provision for losses on foreclosed assets	325	36
Net accretion of investment securities	(532)	(517)
Gains on sales of investment securities	(20)	(337)
Originations of mortgage loans for sale	(76,968)	(90,806)
Proceeds from sales of mortgage loans for sale	75,634	91,602
(Gains) losses on dispositions of premises and equipment and other assets	(113)	12
Deferred income tax benefit	(156)	(155)
Increase in cash surrender value of bank owned life insurance	(988)	(943)
Tax benefit on exercise of stock options	(109)	(224)
Compensation expense under stock-based compensation plans	444	515
<b>Changes in assets and liabilities:</b>		
Accrued interest receivable	833	16
Other assets, net	(3,176)	(631)
Accrued interest payable and other liabilities	924	2,976
<b>Net cash provided by operating activities</b>	<b>21,643</b>	<b>21,247</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investment securities AFS	8,498	34,539
Proceeds from maturities or calls of investment securities AFS	1,139,598	13,795
Purchases of investment securities AFS	(1,330,760)	(14,326)
Net increase in loans and leases	(145,985)	(86,047)
Purchases of premises and equipment	(13,918)	(10,909)
Proceeds from dispositions of premises and equipment and other assets	4,925	3,113
Cash (paid for) received from interests in unconsolidated investments	(40)	1,001
<b>Net cash used by investing activities</b>	<b>(337,682)</b>	<b>(58,834)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	250,414	110,550
Net proceeds from (repayment of) other borrowings	77,121	(73,854)
Net (decrease) increase in repurchase agreements with customers	(2,183)	4,063
Proceeds from exercise of stock options	123	180
Tax benefit on exercise of stock options	109	224
Cash dividends paid	(4,038)	(3,353)
<b>Net cash provided by financing activities</b>	<b>321,546</b>	<b>37,810</b>

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Net increase in cash and cash equivalents		5,507	223
Cash and cash equivalents	beginning of period	47,521	42,734
Cash and cash equivalents	end of period	\$ 53,028	\$ 42,957

See accompanying notes to consolidated financial statements.

**Table of Contents****BANK OF THE OZARKS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**1. Organization and Principles of Consolidation**

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 subsidiary 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 subsidiary engaged in the development of real estate. The consolidated financial statements include the accounts of the Company, the Bank and the real estate subsidiary. Significant intercompany transactions and amounts have been eliminated in consolidation.

**2. Basis of Presentation**

The accompanying consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) in Article 10 of Regulation S-X and in accordance with the instructions to Form 10-Q and accounting principles generally accepted in the United States (GAAP) for interim financial information. Certain information, accounting policies and footnote disclosures normally included in complete financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. In the opinion of management all adjustments considered necessary, consisting of normal recurring items, have been included for a fair presentation of the accompanying consolidated financial statements. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year or future periods.

Certain reclassifications of prior period amounts have been made to conform with the current period presentation. These reclassifications had no impact on previously reported net income.

**3. Earnings Per Share (EPS)**

Basic EPS is computed by dividing reported earnings available to common shareholders by the weighted-average number of shares outstanding. Diluted EPS is computed by dividing reported earnings available to common shareholders by the weighted-average number of shares outstanding after consideration of the dilutive effect of the Company's outstanding stock options. Options to purchase 385,000 shares of the Company's common stock were not included in the diluted EPS calculation for both the three-month and six-month periods ended June 30, 2008, and options to purchase 238,650 shares of the Company's common stock were not included in the diluted EPS calculation for the three-month and six-month periods ended June 30, 2007 because inclusion would have been antidilutive.

Basic and diluted EPS are computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Common shares weighted-average (basic)	16,830	16,769	16,827	16,764
Common share equivalents weighted-average	35	65	35	66

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Common shares	diluted	16,865	16,834	16,862	16,830
Net income		\$ 8,607	\$ 8,086	\$ 16,372	\$ 15,607
Basic EPS		\$ 0.51	\$ 0.48	\$ 0.97	\$ 0.93
Diluted EPS		0.51	0.48	0.97	0.93

**Table of Contents****4. Federal Home Loan Bank of Dallas ( FHLB ) Advances**

FHLB advances with original maturities exceeding one year totaled \$341 million at June 30, 2008. Interest rates on these advances ranged from 2.54% to 6.43% at June 30, 2008 with a weighted-average interest rate of 4.27%. At June 30, 2008 aggregate annual maturities and weighted-average interest rates of FHLB advances with an original maturity of over one year were as follows.

Maturity	Amount (Dollars in thousands)	Weighted-Average Interest Rate
2008	\$ 16	4.81%
2009	32	4.81
2010	60,034	6.27
2011	31	4.80
2012	21	4.64
Thereafter	280,725	3.84
	\$ 340,858	4.27

Included in the above table are \$340 million of FHLB advances that contain quarterly call features and are callable as follows.

	Amount	Weighted-Average Interest Rate (Dollars in thousands)	Maturity
Callable quarterly	\$ 60,000	6.27%	2010
Callable quarterly	240,000	3.88	2017
Callable quarterly	20,000	2.53	2018
Callable quarterly beginning third quarter 2008	20,000	4.10	2017
	\$ 340,000	4.23	

At June 30, 2008 the Company had FHLB advances which are not included in the above tables with original maturities of one year or less of \$55 million with a weighted-average interest rate of 2.41%.

**5. Subordinated Debentures**

At June 30, 2008 the Company had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

Description	Subordinated Debentures Owed to Trusts	Trust Preferred Securities of the Trusts	Interest Rate at June 30, 2008 (Dollars in thousands)	Final Maturity Date
Ozark III	\$ 14,434	\$ 14,000	5.66%	September 25, 2033
Ozark II	14,433	14,000	5.70	September 29, 2033
Ozark IV	15,464	15,000	4.86	September 28, 2034
Ozark V	20,619	20,000	4.38	December 15, 2036
	\$ 64,950	\$ 63,000		

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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 ( 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 ).

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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 2006 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 of trust common equity, Ozark IV sold \$0.4 million of trust common equity 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 June 30, 2008 the Company had \$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. The sole assets of the Trusts are the adjustable rate debentures and the liabilities of the Trusts are the 2003 Securities, the 2004 Securities and the 2006 Securities. At June 30, 2008 the Trusts did not have any restricted net assets. The Company has, through various contractual arrangements, unconditionally guaranteed payment of all obligations of the Trusts with respect to the 2003 Securities, 2004 Securities and 2006 Securities. 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 2003 Securities, 2003 Debentures, 2004 Securities, 2004 Debentures, 2006 Securities and 2006 Debentures mature at or near the thirtieth anniversary date of their 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.

**6. Supplemental Data for Cash Flows**

Supplemental cash flow information is as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>	
<b>Cash paid during the period for:</b>		
Interest	\$ 44,966	\$ 48,052
Taxes	7,820	7,618
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Net change in unrealized gains and losses on investment securities available for sale ( AFS )	11,612	16,003
<b>Unsettled AFS investment security trades:</b>		
Purchases	5,002	4,457
Sales/calls	10,000	
Loans transferred to foreclosed assets held for sale	5,301	4,977
Loans advanced for sales of foreclosed assets	2,217	22

**7. Guarantees and Commitments**

Outstanding standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Company could be required to make under these guarantees at June 30, 2008 was \$8.7 million. The Company holds collateral to support guarantees when deemed necessary. Collateralized commitments at June 30, 2008 totaled \$6.6 million.

At June 30, 2008 the Company had outstanding commitments to extend credit of \$387 million. These commitments extend over varying periods of time with the majority to be disbursed or to expire within a one-year period.

**Table of Contents****8. Stock-Based Compensation**

The Company has a nonqualified stock option plan for employees of the Company. This plan provides for the granting of incentive 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 June 30, 2008 were issued with a vesting period of three years and expire seven years after issuance.

The Company also has a nonqualified stock option plan for non-employee directors. This plan permits each director who is not otherwise an employee of the Company, or any subsidiary, to receive options to purchase 1,000 shares of the Company's common stock on the day following his or her election as a director of the Company at each annual meeting of stockholders and up to 1,000 shares upon election or appointment for the first time as a director of the Company. 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 six months ended June 30, 2008.

		Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands) <sup>(1)</sup>
Outstanding	January 1, 2008	520,650	\$ 27.22		
Granted		11,000	25.93		
Exercised		(16,200)	7.59		
Forfeited		(9,950)	32.17		
Outstanding	June 30, 2008	505,500	\$ 27.72	4.7	\$ 457
Exercisable	June 30, 2008	238,800	\$ 22.29	3.8	\$ 457

(1) Based on closing price of \$14.86 per share on June 30, 2008.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during the six months ended June 30, 2008 and 2007 was \$0.3 and \$0.6 million, respectively.

Options to purchase 11,000 and 12,000 shares of the Company's common stock were issued during the six-month periods ended June 30, 2008 and 2007, respectively. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model. The total grant date fair value of options to purchase shares of the Company's common stock that vested during the six months ended June 30, 2008 and 2007 was \$0.4 million and \$0.1 million, respectively.

Stock-based compensation expense for stock options included in non-interest expense was \$0.2 million and \$0.3 million for the quarters ended June 30, 2008 and 2007, respectively, and \$0.4 million and \$0.5 million for the six-month periods ended June 30, 2008 and 2007, respectively. Total unrecognized compensation cost related to nonvested stock-based compensation was \$1.0 million at June 30, 2008 and is expected to be recognized over a weighted-average period of 1.8 years.

**9. Comprehensive Income**

Unrealized gains and losses on investment securities available for sale, net of income taxes, are the only items included in accumulated other comprehensive income (loss). Total comprehensive income consists of net income, unrealized gains and losses on investment securities AFS, net



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of income taxes, and reclassification adjustments for unrealized gains and losses on AFS investment securities sold, net of income taxes. Total comprehensive income was \$(0.5) million and \$(3.0) million, respectively, for the three months ended June 30, 2008 and 2007 and \$23.4 million and \$5.9 million, respectively, for the six months ended June 30, 2008 and 2007.

**Table of Contents****10. Fair Value Measurements**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. According to SFAS No. 157, 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. The Company measures certain of its financial assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the financial asset or liability. Additionally, fair value is used either annually or on a non-recurring basis to evaluate certain financial assets and liabilities for impairment or for disclosure purposes. As allowed by Financial Accounting Standards Board ( FASB ) Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, the Company has elected the one-year deferral with respect to the disclosure provisions for its nonfinancial assets and liabilities.

In accordance with SFAS No. 157, 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 or value drivers are observable.
- Level 3 Instruments whose inputs or value drivers are unobservable.

The following table sets forth the Company s financial assets and liabilities at June 30, 2008 that are accounted for at fair value.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(Dollars in thousands)			
<b>Assets:</b>				
Investment securities AFS <sup>(1)</sup>	\$ 1,867	\$ 744,816	\$	\$ 746,683
Impaired loans and leases			13,195	13,195
Investments in tax credit investments			6,474	6,474
Derivative assets interest rate lock commitments ( IRLC ) and forward sales commitments ( FSC )			87	87
<b>Liabilities:</b>				
Derivatives liabilities IRLC and FSC			(87)	(87)

- (1) Does not include \$21.5 million of FHLB and Arkansas Bankers Bancorporation, Inc. 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 financial assets and liabilities that were accounted for at fair value.

**Investment securities** Fair values are measured on a recurring basis, 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 and pricing matrices.

**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. In accordance with the provisions of SFAS No. 114, the Company reduced the carrying value of its impaired loans and leases by \$2.2 million to the estimated fair value of \$13.2 million for such loans and leases at June 30, 2008. The \$2.2 million adjustment to reduce the carrying value of impaired loans and leases to

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estimated fair value consisted of \$2.1 million of partial or full charge-offs and \$0.1 million of specific loan and lease loss allocations.

Investments in tax credit investments Fair values are measured on a recurring basis and are based upon total credits and deductions remaining to be allocated and total estimated credits and deductions to be allocated.

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 June 30, 2008.

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

	<b>Investments in Tax Credit Investments</b>	<b>Derivative Assets IRLC and FSC</b>	<b>Derivative Liabilities IRLC and FSC</b>
	<b>(Dollars in thousands)</b>		
Balances January 1, 2008	\$ 6,489	\$ 80	\$ (80)
Total realized gains/(losses) included in earnings	(103)	7	(7)
Purchases, sales, issuances and settlements, net	88		
Transfers in and/or out of Level 3			
Balances June 30, 2008	\$ 6,474	\$ 87	\$ (87)

**11. Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 was issued to improve the relevance, comparability, and transparency of consolidated financial information relative to noncontrolling, or minority, interest. The provisions of SFAS No. 160 establish accounting and reporting standards that clearly identify and distinguish between the interests of the parent and the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within the fiscal years, beginning on or after December 15, 2008. Management has not yet determined the impact, if any, that adoption of SFAS No. 160 will have on the Company's financial position, results of operations or liquidity.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS No. 141R), Business Combinations. SFAS No. 141R replaces SFAS No. 141 and was issued to improve the comparability of the information that a reporting entity provides in its financial reports about business combinations. The provisions of SFAS No. 141R apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management has not yet determined the impact, if any, that adoption of SFAS No. 141R will have on the Company's financial position, results of operations or liquidity in the event an acquisition is made by the Company on or after its effective date.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****GENERAL**

Net income for Bank of the Ozarks, Inc. (the Company) was \$8.6 million for the second quarter of 2008, a 6.4% increase from net income of \$8.1 million for the comparable quarter in 2007. Diluted earnings per share were \$0.51 for the quarter ended June 30, 2008, a 6.3% increase from \$0.48 for the quarter ended June 30, 2007. For the six months ended June 30, 2008, net income totaled \$16.4 million, a 4.9% increase from net income of \$15.6 million for the first six months of 2007. Diluted earnings per share for the first six months of 2008 were \$0.97 compared to \$0.93 for the comparable period in 2007, a 4.3% increase.

The Company's annualized return on average assets was 1.13% for the second quarter of 2008 compared to 1.27% for the second quarter of 2007. Its annualized return on average stockholders' equity was 16.65% for the second quarter of 2008 compared to 17.82% for the comparable quarter of 2007. The Company's annualized return on average assets was 1.12% for the first six months of 2008 compared to 1.23% for the first six months of 2007. Its annualized return on average stockholders' equity was 15.99% for the first six months of 2008 compared to 17.47% for the comparable period of 2007.

Total assets were \$3.06 billion at June 30, 2008 compared to \$2.71 billion at December 31, 2007. Loans and leases were \$2.01 billion at June 30, 2008 compared to \$1.87 billion at December 31, 2007. Deposits were \$2.31 billion at June 30, 2008 compared to \$2.06 billion at December 31, 2007.

Stockholders' equity was \$211 million at June 30, 2008 compared to \$191 million at December 31, 2007. Book value per share was \$12.53 at June 30, 2008 compared to \$11.35 at December 31, 2007. Changes in stockholders' equity and book value per share reflect earnings, dividends paid, stock option transactions and changes in unrealized gains and losses on investment securities available for sale.

Annualized results for these interim periods may not be indicative of those for the full year or future periods.

**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 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 and gains and losses on sales of investment securities and other assets.

The Company's non-interest expense consists of employee compensation and benefits, net occupancy and equipment and other operating expenses. The Company's results of operations are significantly impacted by its provision for loan and lease losses and its provision for income taxes. The following discussion provides a comparative summary of the Company's operations for the three and six months ended June 30, 2008 and 2007 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 is analyzed in the discussion and the following tables on a fully taxable equivalent (FTE) basis. The adjustment to convert certain income to a FTE basis consists of dividing federal tax-exempt income by one minus the Company's statutory federal income tax rate of 35%. The FTE adjustments to net interest income were \$2.8 million and \$0.8 million, respectively, for the quarters ended June 30, 2008 and 2007 and \$4.5 million and \$1.7 million, respectively, for the six months ended June 30, 2008 and 2007. 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 investment in certain tax-exempt securities.

Net interest income (FTE) increased 31.0% to \$26.4 million for the quarter ended June 30, 2008, compared to \$20.1 million for the quarter ended June 30, 2007. Net interest income (FTE) increased 27.0% to \$49.8 million for the six months ended June 30, 2008 compared to \$39.2 million for the six months ended June 30, 2007. The Company's growth in average earning assets and improvement in its net interest margin (FTE) contributed to the increase in net interest income (FTE) for the second quarter and first six months of 2008 compared to the same periods in 2007.



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Average earning assets increased 20.6% in the second quarter and 15.7% in the first six months of 2008 compared with the same periods in 2007. Average loans and leases increased 13.6% in the second quarter and 13.5% in the first six months of 2008 compared to the same periods in 2007. The Company's aggregate average balance of investment securities increased 41.6% in the second quarter and 21.8% in the first six months of 2008 compared to the same periods in 2007. The investment securities portfolio comprised 29.5% of the Company's average earning assets during the second quarter and 27.2% of the Company's average earning assets during the first six months of 2008 compared to 25.1% for the second quarter and 25.8% for the first six months of 2007.

Net interest margin (FTE) was 3.77% for the quarter ended June 30, 2008 compared to 3.46% for the second quarter of 2007, an increase of 31 basis points ( bps ). Net interest margin (FTE) for the six months ended June 30, 2008 was 3.73% compared with 3.41% for the first six months of 2007, an increase of 32 bps. Yields on earning assets decreased 81 bps for the quarter and 59 bps for the six months ended June 30, 2008 compared to the same periods in 2007. The decrease in yields on earning assets was primarily attributable to a decrease in yields on loans and leases of 123 bps for the quarter and 100 bps for the six months ended June 30, 2008 compared to the same periods in 2007. This decrease was partially offset by an increase in the aggregate yield on the Company's investment securities portfolio of 58 bps for the quarter and 65 bps for the six months ended June 30, 2008 compared to the same periods in 2007.

The decrease in loan and lease yields is attributable to overall decreases in general interest rate levels as a result of the Federal Open Market Committee ( FOMC ) lowering its federal funds target rate a total of 325 bps through a series of rate reductions beginning in September 2007 and continuing through April 2008. This resulted in most of the Company's variable rate loans repricing to lower rates beginning in the third quarter of 2007 and continuing through the second quarter of 2008. Additionally the Company's loan and lease originations and renewals generally priced at lower interest rates beginning in the third quarter of 2007 and continuing through the second quarter of 2008 as a result of these FOMC interest rate decreases.

The aggregate yields on the Company's investment securities portfolio increased 58 bps for the second quarter and 65 bps for the first six months of 2008 compared to the same periods of 2007 primarily as a result of the Company's purchase of a large volume of tax-exempt investment securities with favorable yields beginning in late February 2008 and continuing through June. The 18 bps increase for the second quarter and the 55 bps increase for the six months ended June 30, 2008 in yields on tax-exempt investment securities compared to the same periods in 2007 were primarily due to these purchases. The opportunity to acquire these high quality, tax-exempt securities at favorable yields was due to unusual market conditions which may not continue. The interest rates on the majority of these securities reset weekly, and a significant portion of these securities were called in the second quarter or are expected to be called or otherwise paid off during the third quarter of 2008. The Company estimates that its addition of these tax-exempt investment securities increased its net interest margin (FTE) by approximately 11 bps during the first quarter and by approximately 3 bps during the second quarter of 2008.

The rates on interest bearing liabilities decreased 120 bps for the quarter and 98 bps for the six months ended June 30, 2008 compared to the same periods in 2007. The decrease in rates on interest bearing liabilities was primarily attributable to the overall decreases in general interest rate levels as a result of previously mentioned FOMC actions. The rate on interest bearing deposits, the Company's largest source of interest bearing liabilities, decreased 120 bps for the quarter and 95 bps for the six months ended June 30, 2008 compared to the same periods in 2007, while aggregate rates on other interest bearing liabilities decreased 175 bps for the quarter and 152 bps for the six months ended June 30, 2008 compared to the same periods in 2007.

**Analysis of Net Interest Income****(FTE = Fully Taxable Equivalent)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Interest income	\$ 45,672	\$ 44,128	\$ 90,490	\$ 86,956
FTE adjustment	2,767	838	4,460	1,686
Interest income FTE	48,439	44,966	94,950	88,642
Interest expense	22,069	24,837	45,137	49,416
Net interest income FTE	\$ 26,370	\$ 20,129	\$ 49,813	\$ 39,226

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Yield on earning assets FTE	6.92%	7.73%	7.11%	7.70%
Rate on interest bearing liabilities	3.34	4.54	3.57	4.55
Net interest margin FTE	3.77	3.46	3.73	3.41



**Table of Contents****Average Consolidated Balance Sheets and Net Interest Analysis FTE**

Unaudited

	Three Months Ended June 30,			2007			Six Months Ended June 30,			2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in thousands)												
<b>ASSETS</b>												
Earning assets:												
Interest earning deposits and federal funds sold												
	\$ 338	\$ 3	3.50%	\$ 316	\$ 4	5.11%	\$ 354	\$ 7	3.99%	\$ 283	\$ 11	7.51%
Investment securities:												
Taxable												
	397,700	5,445	5.51	453,876	6,245	5.52	399,173	11,135	5.61	466,202	12,840	5.55
Tax-exempt												
FTE	432,395	7,881	7.33	132,221	2,358	7.15	330,629	12,685	7.72	133,218	4,734	7.17
Loans and leases												
FTE	1,983,749	35,110	7.12	1,746,889	36,359	8.35	1,955,167	71,123	7.32	1,722,082	71,057	8.32
Total earning assets FTE												
	2,814,182	48,439	6.92	2,333,302	44,966	7.73	2,685,323	94,950	7.11	2,321,785	88,642	7.70
Non-interest earning assets												
	257,390			228,929			243,750			228,923		
Total assets												
	\$ 3,071,572			\$ 2,562,231			\$ 2,929,073			\$ 2,550,708		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction												
	\$ 603,723	\$ 2,275	1.52%	\$ 538,518	\$ 3,739	2.78%	\$ 560,032	\$ 4,401	1.58%	\$ 522,787	\$ 7,085	2.73%
Time deposits of \$100,000 or more												
	971,901	9,655	4.00	964,287	12,424	5.17	941,439	20,085	4.29	939,047	24,040	5.16
Other time deposits												
	536,663	5,197	3.89	497,076	6,061	4.89	509,336	10,446	4.12	491,667	11,924	4.89
Total interest bearing deposits												
	2,112,287	17,127	3.26	1,999,881	22,224	4.46	2,010,807	34,932	3.49	1,953,501	43,049	4.44
Repurchase agreements with customers												
	41,661	163	1.57	46,286	437	3.79	42,230	429	2.05	46,966	898	3.86
Other borrowings												
	442,025	3,947	3.59	83,859	917	4.39	424,428	7,801	3.70	126,540	2,959	4.72
Subordinated debentures												
	64,950	832	5.15	64,950	1,259	7.78	64,950	1,975	6.12	64,950	2,510	7.79
	2,660,923	22,069	3.34	2,194,976	24,837	4.54	2,542,415	45,137	3.57	2,191,957	49,416	4.55

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Total interest bearing liabilities				
Non-interest bearing liabilities:				
Non-interest bearing deposits	186,831	175,066	168,554	168,286
Other non-interest bearing liabilities	15,886	10,182	12,141	10,300
Total liabilities	2,863,640	2,380,224	2,723,110	2,370,543
Stockholders equity	207,932	182,007	205,963	180,165
Total liabilities and stockholders equity	\$ 3,071,572	\$ 2,562,231	\$ 2,929,073	\$ 2,550,708
Net interest income FTE	\$ 26,370	\$ 20,129	\$ 49,813	\$ 39,226
Net interest margin FTE	3.77%	3.46%	3.73%	3.41%

**Table of Contents****Non-Interest Income**

The Company's non-interest income consists primarily of (1) service charges on deposit accounts, (2) mortgage lending income, (3) trust income, (4) BOLI income, (5) appraisal fees, credit life commissions and other credit related fees, (6) safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees and (7) gains and losses on sales of investment securities and other assets. Non-interest income for the second quarter of 2008 decreased 1.2% to \$5.6 million compared to \$5.6 million for the second quarter of 2007. Non-interest income for the six months ended June 30, 2008 decreased 7.8% to \$10.7 million compared to \$11.6 million for the six months ended June 30, 2007.

Service charges on deposit accounts, the Company's largest source of non-interest income, decreased 4.5% for the second quarter of 2008 to \$3.0 million compared to \$3.1 million for the same period in 2007. Service charges on deposit accounts decreased 1.8% for the six months ended June 30, 2008 to \$5.8 million compared to \$5.9 million for the same period in 2007.

Mortgage lending income decreased 22.2% for the second quarter of 2008 to \$0.6 million compared to \$0.8 million for the same period in 2007. Mortgage lending income decreased 15.4% for the six months ended June 30, 2008 to \$1.3 million compared to \$1.5 million for the same period in 2007. The volume of originations of mortgage loans available for sale decreased 25.4% and 15.2%, respectively, for the second quarter and first six months of 2008 compared to the same periods in 2007. During the second quarter and first six months of 2008, 43.5% and 53.1%, respectively, of the Company's originations of mortgage loans available for sale were related to mortgage refinancing and 56.5% and 46.9%, respectively, were related to new home purchases.

Trust income increased 18.5% for the second quarter of 2008 to \$0.6 million compared to \$0.5 million for the same period in 2007. Trust income increased 23.8% for the six months ended June 30, 2008 to \$1.2 million compared to \$1.0 million for the same period in 2007. The increase in trust income for both the quarter and six months ended June 30, 2008 was primarily due to growth in the Company's corporate trust, personal trust and investment management business as the Company continued to add new customers.

Net gains on sales of investment securities and other assets were \$206,000 for the second quarter of 2008 compared to a net loss of \$47,000 for the same period in 2007. Net gains on sales of investment securities and other assets were \$113,000 for the six months ended June 30, 2008 compared to net gains of \$325,000 for the same period in 2007.

Non-interest income from all other sources was \$1.1 million in the second quarter of 2008 compared to \$1.2 million for the same period of 2007. Non-interest income from all other sources was \$2.2 million for the six months ended June 30, 2008 compared to \$2.8 million for the same period in 2007. During the first quarter of 2007, the Company benefited from \$0.5 million of other non-interest income from the settlement of a contested branch application.

The following table shows non-interest income for the three months and six months ended June 30, 2008 and 2007.

**Non-Interest Income**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Service charges on deposit accounts	\$ 2,967	\$ 3,107	\$ 5,837	\$ 5,942
Mortgage lending income	636	817	1,309	1,548
Trust income	629	531	1,233	996
BOLI income	499	478	988	943
Appraisal fees, credit life commissions and other credit related fees	136	131	247	248
Safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees	293	305	601	583
Gains on sales of investment securities			20	337
Gains (losses) on sales of other assets	206	(47)	113	(12)
Other	191	301	333	997
Total non-interest income	\$ 5,557	\$ 5,623	\$ 10,682	\$ 11,582



**Table of Contents****Non-Interest Expense**

Non-interest expense increased 13.2% for the second quarter of 2008 to \$13.4 million compared to \$11.9 million for the same period in 2007. Non-interest expense increased 9.6% for the six months ended June 30, 2008 to \$26.3 million compared with \$24.0 million for the same period in 2007. At June 30, 2008 the Company had 71 banking offices and two loan production offices compared to 68 banking offices and two loan production offices at June 30, 2007. The Company had 713 full time equivalent employees at June 30, 2008 compared to 686 at June 30, 2007.

The Company's efficiency ratio (non-interest expense divided by the sum of net interest income FTE and non-interest income) improved to 42.1% for the quarter ended June 30, 2008 compared to 46.1% for the quarter ended June 30, 2007. The Company's efficiency ratio for the six months ended June 30, 2008 improved to 43.5% compared to 47.3% for the same period in 2007.

The following table shows non-interest expense for the three and six months ended June 30, 2008 and 2007.

**Non-Interest Expense**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Salaries and employee benefits	\$ 7,624	\$ 7,016	\$ 14,956	\$ 14,327
Net occupancy and equipment	2,183	1,967	4,257	3,938
Other operating expenses:				
Postage and supplies	414	395	844	816
Advertising and public relations	344	225	558	533
Telephone and data lines	391	351	915	767
Professional and outside services	320	305	697	602
ATM expense	161	174	309	329
Software expense	307	302	599	591
FDIC insurance	284	210	559	210
FDIC and state assessments	159	153	314	319
Other real estate and foreclosure expense	306	105	535	143
Amortization of intangibles	66	66	131	131
Other	883	604	1,648	1,308
<b>Total non-interest expense</b>	<b>\$ 13,442</b>	<b>\$ 11,876</b>	<b>\$ 26,322</b>	<b>\$ 24,014</b>

**Income Taxes**

The provision for income taxes was \$3.1 million for the second quarter and \$6.0 million for the first six months of 2008 compared to \$3.7 million for the second quarter and \$7.2 million for the first six months of 2007. The effective income tax rate was 26.5% for the second quarter and 26.9% for the first six months of 2008 compared to 31.4% for both the second quarter and first six months of 2007. The increase in the Company's tax-exempt income, principally as a result of purchasing tax-exempt securities beginning in late February 2008 and continuing through June 2008, was the primary factor in the decrease in the effective tax rates as compared to the same periods in 2007. Income exempt from federal, and in some cases state, income taxes includes earnings on certain investment securities, loans and leases with state and political subdivisions, increases in the cash surrender value of BOLI and returns on an investment in a low income housing limited liability company. Certain U.S. government agency securities are exempt from state income taxes but are subject to federal income tax.

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**Table of Contents****ANALYSIS OF FINANCIAL CONDITION****Loan and Lease Portfolio**

At June 30, 2008 the Company's loan and lease portfolio was \$2.01 billion, compared to \$1.87 billion at December 31, 2007 and \$1.76 billion at June 30, 2007. 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. Total real estate loans were \$1.65 billion at June 30, 2008, compared to \$1.53 billion at December 31, 2007 and \$1.42 billion at June 30, 2007. The amount and type of loans and leases outstanding at June 30, 2008 and 2007 and at December 31, 2007 and their respective percentage of the total loan and lease portfolio are reflected in the following table.

**Loan and Lease Portfolio**

	2008	June 30, 2007	(Dollars in thousands)		December 31, 2007	
Real estate:						
Residential 1-4 family	\$ 276,958	13.8%	\$ 276,840	15.8%	\$ 279,375	14.9%
Non-farm/non-residential	508,577	25.3	425,734	24.2	445,303	23.8
Construction/land development	674,516	33.5	564,065	32.1	684,775	36.6
Agricultural	87,793	4.4	94,595	5.4	91,810	4.9
Multifamily residential	98,929	4.9	61,580	3.5	31,414	1.7
Total real estate	1,646,773	81.9	1,422,814	81.0	1,532,677	81.9
Commercial and industrial	205,248	10.2	172,051	9.8	173,128	9.3
Consumer	82,653	4.1	85,787	4.9	87,867	4.7
Direct financing leases	51,948	2.6	51,438	2.9	53,446	2.8
Agricultural (non-real estate)	22,460	1.1	22,727	1.3	22,439	1.2
Other	2,839	0.1	1,566	0.1	1,578	0.1
Total loans and leases	\$ 2,011,921	100.0%	\$ 1,756,383	100.0%	\$ 1,871,135	100.0%

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The amount and type of non-farm/non-residential loans at June 30, 2008 and 2007 and at December 31, 2007, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

**Non-Farm/Non-Residential Loans**

	2008	June 30, 2007	2007	December 31, 2007		
	(Dollars in thousands)					
Retail, including shopping centers and strip centers	\$ 151,762	29.8%	\$ 141,109	33.1%	\$ 160,615	36.1%
Churches and schools	78,642	15.5	61,385	14.4	78,989	17.7
Office, including medical offices	64,351	12.7	61,421	14.4	63,920	14.4
Office warehouse, warehouse and mini-storage	46,534	9.1	56,522	13.3	44,015	9.9
Gasoline stations and convenience stores	17,611	3.5	19,763	4.7	19,297	4.3
Hotels and motels	24,065	4.7	12,592	3.0	12,679	2.8
Restaurants and bars	14,764	2.9	12,671	3.0	13,902	3.1
Manufacturing and industrial facilities	9,120	1.8	9,807	2.3	9,942	2.2
Nursing homes and assisted living centers	15,349	3.0	15,307	3.6	5,282	1.2
Hospitals, surgery centers and other medical	48,392	9.5	3,420	0.8	2,977	0.7
Golf courses, entertainment and recreational facilities	6,219	1.2	3,547	0.8	2,992	0.7
Other non-farm/non residential	31,768	6.3	28,190	6.6	30,692	6.9
<b>Total</b>	<b>\$ 508,577</b>	<b>100.0%</b>	<b>\$ 425,734</b>	<b>100.0%</b>	<b>\$ 445,303</b>	<b>100.0%</b>

The amount and type of construction/land development loans at June 30, 2008 and 2007 and at December 31, 2007, and their respective percentage of the total construction/land development loan portfolio are reflected in the following table.

**Construction/Land Development Loans**

	2008	June 30, 2007	2007	December 31, 2007		
	(Dollars in thousands)					
Unimproved land	\$ 95,708	14.2%	\$ 106,141	18.8%	\$ 113,526	16.6%
Land development and lots:						
1-4 family residential and multifamily	205,424	30.5	160,220	28.4	185,703	27.1
Non-residential	87,982	13.1	56,403	10.0	58,100	8.5
Construction:						
1-4 family residential:						
Owner occupied	21,766	3.2	19,444	3.5	24,416	3.6
Non-owner occupied:						
Pre-sold	5,323	0.8	8,338	1.5	7,175	1.0
Speculative	122,793	18.2	98,875	17.5	97,710	14.3
Multifamily	22,541	3.3	15,847	2.8	63,224	9.2
Industrial, commercial and other	112,979	16.7	98,797	17.5	134,921	19.7
<b>Total</b>	<b>\$ 674,516</b>	<b>100.0%</b>	<b>\$ 564,065</b>	<b>100.0%</b>	<b>\$ 684,775</b>	<b>100.0%</b>

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The amount and type of the Company's real estate loans at June 30, 2008 based on the metropolitan statistical area (MSA) and other geographic areas in which the principal collateral is located are reflected in the following table.

**Geographic Distribution of Real Estate Loans**

	Residential 1-4 Family	Non- Farm/Non Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
Little Rock North Little Rock, AR MSA	\$ 57,557	\$ 182,306	\$ 126,930	\$ 6,294	\$ 5,202	\$ 378,289
Fayetteville Springdale Rogers, AR MSA	16,270	28,505	75,275	6,165	22	126,237
Fort Smith, AR MSA	36,894	55,810	23,412	8,437	4,266	128,819
Hot Springs, AR MSA	5,078	9,596	9,110		1,584	25,368
Western Arkansas <sup>(1)</sup>	34,605	48,537	15,713	19,455	3,767	122,077
Northern Arkansas <sup>(2)</sup>	100,178	44,371	18,163	43,622	699	207,033
All other Arkansas <sup>(3)</sup>	6,299	10,765	5,763	2,290	1,048	26,165
<b>Total Arkansas</b>	<b>256,881</b>	<b>379,890</b>	<b>274,366</b>	<b>86,263</b>	<b>16,588</b>	<b>1,013,988</b>
Dallas Fort Worth Arlington, TX MSA	1,776	33,125	198,081		32,012	264,994
Houston Baytown Sugar Land, TX MSA		3,417	39,180			42,597
Texarkana, TX Texarkana, AR MSA	8,047	10,569	3,285	543	852	23,296
All other Texas <sup>(3)</sup>	373	15,594	11,647			27,614
<b>Total Texas</b>	<b>10,196</b>	<b>62,705</b>	<b>252,193</b>	<b>543</b>	<b>32,864</b>	<b>358,501</b>
Charlotte Gastonia Concord, NC/SC MSA	612	33,703	40,194		3,460	77,969
All other North Carolina <sup>(3)</sup>	73	939	30,862			31,874
All other South Carolina <sup>(3)</sup>	6,514	7,794	9,267			23,575
<b>Total North Carolina/ South Carolina</b>	<b>7,199</b>	<b>42,436</b>	<b>80,323</b>		<b>3,460</b>	<b>133,418</b>
Alabama			8,644		36,022	44,666
California		2,774	30,800			33,574
Virginia		1,074	14,995			16,069
Oklahoma <sup>(3)</sup>		2,727	10,392			13,119
All other states <sup>(3)</sup>	2,682	16,971	2,803	987	9,995	33,438
<b>Total real estate loans</b>	<b>\$ 276,958</b>	<b>\$ 508,577</b>	<b>\$ 674,516</b>	<b>\$ 87,793</b>	<b>\$ 98,929</b>	<b>\$ 1,646,773</b>

(1) This geographic area includes the following counties in Western Arkansas: Conway, Johnson, Logan, Pope and Yell counties.

(2) This geographic area includes the following counties in Northern Arkansas: Baxter, Boone, Carroll, Fulton, Marion, Newton, Searcy, Stone and Van Buren counties.

(3) These geographic areas include all MSA and non-MSA areas that are not separately reported.  
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The amount and percentage of the Company's loan and lease portfolio originated at its offices in Arkansas, Texas and North Carolina are reflected in the following table.

**Loan and Lease Portfolio by State of Originating Office**

Loans and Leases Originated at Offices In	June 30,		December 31,			
	2008	2007	2007	2007		
	(Dollars in thousands)					
Arkansas	\$ 1,436,462	71.4%	\$ 1,459,926	83.1%	\$ 1,461,657	78.1%
Texas	478,205	23.8	204,305	11.6	315,960	16.9
North Carolina	97,254	4.8	92,152	5.3	93,518	5.0
Total	\$ 2,011,921	100.0%	\$ 1,756,383	100.0%	\$ 1,871,135	100.0%

During 2007 and the first six months of 2008 the majority of the Company's loan and lease portfolio growth was attributable to its Texas offices.

The following table reflects loans and leases as of June 30, 2008 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 Years	Total
	(Dollars in thousands)				
Fixed rate	\$ 403,040	\$ 189,365	\$ 157,136	\$ 189,431	\$ 938,972
Floating rate (not at a floor or ceiling rate)	473,985	3,878	213	773	478,849
Floating rate (at floor rate)	592,339		327		592,666
Floating rate (at ceiling rate)	1,434				1,434
Total	\$ 1,470,798	\$ 193,243	\$ 157,676	\$ 190,204	\$ 2,011,921
Percentage of total	73.1%	9.6%	7.8%	9.5%	100.0%

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**Table of Contents****Nonperforming Assets**

Nonperforming assets consist of (1) nonaccrual loans and leases, (2) accruing loans and leases 90 days or more past due, (3) certain 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 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 and foreclosed assets held for sale and repossessions at June 30, 2008 and 2007 and at December 31, 2007.

**Nonperforming Assets**

	June 30, 2008	June 30, 2007	December 31, 2007
	(Dollars in thousands)		
Nonaccrual loans and leases	\$ 14,878	\$ 4,022	\$ 6,610
Accruing loans and leases 90 days or more past due			26
Restructured loans and leases			
Total nonperforming loans and leases	14,878	4,022	6,636
Foreclosed assets held for sale and repossessions <sup>(1)</sup>	3,147	2,685	3,112
Total nonperforming assets	\$ 18,025	\$ 6,707	\$ 9,748
Nonperforming loans and leases to total loans and leases	0.74%	0.23%	0.35%
Nonperforming assets to total assets	0.59	0.26	0.36

- (1) Foreclosed assets held for sale and repossessions are generally written down to estimated market value net of estimated selling and holding costs at the time of transfer from the loan and lease portfolio. The value of such assets is reviewed from time to time throughout the holding period with the value adjusted to the then estimated market value net of estimated selling and holding costs, if lower, until disposition.

While the Company's markets in Arkansas, Texas and the Carolinas appear to have been less significantly impacted by weaker economic conditions nationally than some other markets, the Company has not been immune to the effects of the slower economic conditions and the slow down in housing activity, particularly in northwest Arkansas. As a result, its ratios of nonperforming loans and leases and nonperforming assets were all higher at June 30, 2008 compared to both June 30, 2007 and December 31, 2007. The increases in these ratios at June 30, 2008 were not due to a specific customer or a specific market, but were a result of a number of loans and leases spread across the Company's market area.

The Company's credit practices dictate that the larger the loan or lease, the more stringent are the credit standards applied. Softening economic conditions therefore typically affect the Company's smaller loans or leases more adversely than its larger loans or leases, as these smaller loans or leases are not typically underwritten to the more rigorous standards applied progressively to larger loans or leases.

In accordance with the provisions of SFAS No. 114, the Company reduced the carrying value of its impaired loans and leases by \$2.2 million to the estimated fair value of \$13.2 million for such loans and leases at June 30, 2008. The \$2.2 million adjustment to reduce the carrying value of impaired loans and leases to estimated fair value consisted of \$2.1 million of partial or full charge-offs and \$0.1 million of specific loan and lease loss allocations.



**Table of Contents****Allowance and Provision for Loan and Lease Losses**

*Allowance for Loan and Lease Losses:* The following table shows an analysis of the allowance for loan and lease losses for the six-month periods ended June 30, 2008 and 2007 and the year ended December 31, 2007.

	Six Months Ended June 30,		Year Ended December 31,
	2008	2007	2007
	(Dollars in thousands)		
Balance, beginning of period	\$ 19,557	\$ 17,699	\$ 17,699
Loans and leases charged off:			
Real estate	1,853	271	1,230
Commercial and industrial	935	669	1,798
Consumer	671	413	1,046
Direct financing leases	152	92	367
Agricultural (non-real estate)		36	203
Other	108		
<b>Total loans and leases charged off</b>	<b>3,719</b>	<b>1,481</b>	<b>4,644</b>
Recoveries of loans and leases previously charged off:			
Real estate	78	22	47
Commercial and industrial	21	52	62
Consumer	108	99	209
Direct financing leases	3	5	27
Agricultural (non-real estate)	3	1	7
Other	56		
<b>Total recoveries</b>	<b>269</b>	<b>179</b>	<b>352</b>
Net loans and leases charged off	3,450	1,302	4,292
Provision charged to operating expense	7,325	2,350	6,150
Balance, end of period	\$ 23,432	\$ 18,747	\$ 19,557
Net charge-offs to average loans and leases outstanding during the periods indicated	0.35% <sup>(1)</sup>	0.15% <sup>(1)</sup>	0.24%
Allowance for loan and lease losses to total loans and leases	1.16%	1.07%	1.05%
Allowance for loan and lease losses to nonperforming loans and leases	158%	466%	295%

(1) Annualized.

Provisions to and the adequacy of the allowance for loan and lease losses are determined in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 5, Accounting for Contingencies, and 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 determined in accordance with SFAS No. 114. The Company also utilizes a peer group analysis and an historical analysis in an effort 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 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.

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The Company's allowance for loan and lease losses increased to \$23.4 million at June 30, 2008, or 1.16% of total loans and leases, compared with \$19.6 million, or 1.05% of total loans and leases, at December 31, 2007 and \$18.7 million, or 1.07% of total loans and leases, at June 30, 2007. The Company's allowance for loan and lease losses was equal to 158% of its total nonperforming loans and leases at June 30, 2008 compared to 295% at December 31, 2007 and 466% at June 30, 2007. The increase in the Company's allowance for loan and lease losses in 2008 is due to a number of factors including growth in the loan and lease portfolio, changes in loss estimates for individual loans and leases and certain categories of loans and leases and uncertainty regarding economic conditions in general and market conditions in northwest Arkansas in particular. While management believes the current allowance is appropriate, changing economic and other conditions may require future adjustments to the allowance for loan and lease losses.

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*Provision for Loan and Lease Losses:* The loan and lease loss provision is based on management's judgment and evaluation of the loan and lease portfolio utilizing the criteria discussed above. The provision for loan and lease losses was \$4.0 million for the second quarter and \$7.3 million for the six months ended June 30, 2008 compared to \$1.3 million for the second quarter and \$2.4 million for the six months ended June 30, 2007.

**Investment Securities**

The Company's investment securities portfolio provides a significant source of revenue to the Company. At June 30, 2008 and 2007 and at December 31, 2007, the Company classified all of its investment securities portfolio as available for sale (AFS). Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income (loss). The Company's investments in Federal Home Loan Bank of Dallas (FHLB) and Arkansas Bankers' Bancorporation, Inc. (ABB) stock do not have readily determinable fair values and are carried at cost. The table below presents the amortized cost and estimated fair value of investment securities AFS at June 30, 2008 and 2007 and at December 31, 2007.

**Investment Securities**

	2008		June 30, 2007		December 31, 2007	
	Amortized Cost	Fair Value <sup>(1)</sup>	Amortized Cost	Fair Value <sup>(1)</sup>	Amortized Cost	Fair Value <sup>(1)</sup>
	(Dollars in thousands)					
Mortgage-backed securities	\$ 372,444	\$ 358,254	\$ 376,819	\$ 354,532	\$ 370,061	\$ 344,346
Obligations of state and political subdivisions	370,491	374,372	139,883	140,654	163,339	166,467
Securities of U.S. Government agencies	13,949	11,190	75,908	73,323	51,982	49,738
FHLB and ABB Stock	21,497	21,497	5,880	5,880	16,753	16,753
Other securities	3,017	2,867	1,044	1,044	1,044	1,044
Total	\$ 781,398	\$ 768,180	\$ 599,534	\$ 575,433	\$ 603,179	\$ 578,348

(1) The fair value of the Company's investment securities are obtained from an independent third-party pricing source. 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 and pricing matrices.

The Company's investment securities portfolio is reported net of unrealized losses of \$13.2 million at June 30, 2008, \$24.1 million at June 30, 2007 and \$24.8 million at December 31, 2007. Except as discussed in the following paragraph, management believes that all of its unrealized losses on investment securities AFS at June 30, 2008 are the result of fluctuations in interest rates and do not reflect any deterioration in the credit quality of its investments. Accordingly management considers these unrealized losses to be temporary in nature. The Company has both the ability and the intent to hold these investment securities until maturity or until such time as fair value recovers above cost.

At June 30, 2008, the Company's investment securities portfolio includes a bond issued by SLM Corporation (Sallie Mae) with an amortized cost of \$10.0 million and estimated fair value of \$7.1 million resulting in an unrealized loss of \$2.9 million. The Company believes the unrealized loss was attributable primarily to (i) a recent decrease in profitability and near-term earnings forecasts by industry analysts, (ii) recent changes in federal legislation that have, or are expected to, negatively impact the profitability of federally guaranteed student lending and (iii) severely restricted credit markets that have increased Sallie Mae's cost of funds and reduced available liquidity. The contractual terms of this bond do not permit Sallie Mae to settle it at a price less than the Company's amortized cost. While the Standard & Poor's credit rating for Sallie Mae has recently declined from an A rating to a BBB rating, the Company currently believes it is probable that it will be able to collect all amounts due according to the contractual terms of this security. The Sallie Mae bond matures in September 2015. The Company has the ability and intent to hold this investment security until its fair value recovers the unrealized loss, which may be upon maturity, and the Company does not consider the Sallie Mae bond to be other-than-temporarily impaired at June 30, 2008.





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The Company had no net gains or losses on sales of investment securities in the second quarters of 2008 and 2007. During the first six months of 2008, the Company generated net gains of \$20,000 from the sale of approximately \$8.5 million of investment securities. Net gains for the six months ended June 30, 2007 were \$0.3 million from the sale of approximately \$34.5 million of investment securities. During the quarters ended June 30, 2008 and 2007, investment securities totaling \$906.1 million and \$7.1 million, respectively, matured or were called by the issuer. Investment securities totaling \$1,139.6 million and \$13.8 million matured or were called by the issuer during the six months ended June 30, 2008 and 2007, respectively. The Company also purchased \$898.9 million and \$8.1 million, respectively, of investment securities during the second quarters of 2008 and 2007 and \$1,330.8 million and \$14.3 million, respectively, during the six months ended June 30, 2008 and 2007.

During late February and continuing through June of 2008, the Company purchased a large volume of tax-exempt investment securities with favorable yields. The opportunity to acquire these tax-exempt securities was due to unusual market conditions which could change at any time. The interest rates on the majority of these securities reset weekly, and the Company expects that a significant portion of these securities will be called or otherwise paid off in the third quarter of 2008.

At June 30, 2008, approximately 47% of the Company's investment securities portfolio was comprised of mortgage-backed securities, primarily collateralized mortgage obligations (CMOs). These CMOs are all U.S. government agency-backed bonds and carry a AAA rating. Substantially all such CMOs have a fixed rate coupon, and the estimated modified duration of the Company's portfolio of CMOs was 6.8 years at June 30, 2008. Modified duration is considered a measure of bond price sensitivity to changes in yield.

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 and other relevant factors.

**Deposits**

The Company's lending and investment activities are funded primarily by deposits. The amount and type of deposits outstanding at June 30, 2008 and 2007 and at December 31, 2007 and their respective percentage of the total deposits are reflected in the following table.

**Deposits**

	2008	June 30, 2007		December 31, 2007		
		(Dollars in thousands)				
Non-interest bearing	\$ 194,800	8.4%	\$ 203,046	9.4%	\$ 162,994	7.9%
Interest bearing:						
Transaction (NOW)	430,533	18.7	413,916	19.2	399,700	19.4
Savings	29,969	1.3	26,625	1.2	25,178	1.2
Money market	182,715	7.9	91,813	4.3	91,434	4.5
Time deposits less than \$100,000	526,625	22.8	503,929	23.4	471,080	22.9
Time deposits of \$100,000 or more	942,833	40.9	916,314	42.5	906,675	44.1
Total deposits	\$ 2,307,475	100.0%	\$ 2,155,643	100.0%	\$ 2,057,061	100.0%

The amount and percentage of the Company's deposits attributable to its offices located in Arkansas and Texas are reflected in the following table.

**Deposits by State**

Deposits Attributable to Offices In	2008	June 30, 2007		December 31, 2007		
		(Dollars in thousands)				
Arkansas	\$ 2,046,031	88.7%	\$ 2,030,882	94.2%	\$ 1,922,746	93.5%
Texas	261,444	11.3	124,761	5.8	134,315	6.5

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Total	\$ 2,307,475	100.0%	\$ 2,155,643	100.0%	\$ 2,057,061	100.0%
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As of June 30, 2008, the Company had outstanding brokered deposits assigned to Arkansas offices of \$433 million compared to \$381 million at December 31, 2007 and \$395 million at June 30, 2007.

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**LIQUIDITY AND CAPITAL RESOURCES**

*Growth and Expansion.* At June 30, 2008 the Company, through its state chartered subsidiary bank, conducted operations through 73 offices, including 65 banking offices in 34 communities throughout northern, western and central Arkansas, six Texas banking offices, and two loan production offices in Little Rock, Arkansas and Charlotte, North Carolina.

The Company expects to continue its growth and *de novo* branching strategy in 2008 by opening two additional banking offices in Little Rock, Arkansas in the fourth quarter of 2008, including its new corporate headquarters.

Opening new offices is subject to availability of qualified personnel and suitable sites, designing, constructing, equipping and staffing such offices, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty.

During the first six months of 2008, the Company spent \$13.9 million on capital expenditures for premises and equipment. The Company's capital expenditures for the full year of 2008 are expected to be in the range of \$23 million to \$28 million including progress payments on construction projects expected to be completed in 2008 through 2009, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional sites acquired for future development, progress or delays encountered on ongoing and new construction projects and other factors.

*Bank 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. Generally the Company relies on deposits, loan and lease 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 and brokered deposits. The Company has used these funds, together with FHLB advances, 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 to rely from time to time on other sources of liquidity to meet loan, lease and deposit withdrawal demands or otherwise fund operations. Such sources include FHLB advances, secured and unsecured federal funds lines of credit from correspondent banks and Federal Reserve Bank (FRB) borrowings.

At June 30, 2008 the Company had unused borrowing availability that was primarily comprised of the following four sources: (1) \$182 million of available blanket borrowing capacity with the FHLB, (2) \$227 million of investment securities available to pledge for federal funds or other borrowings, (3) \$57 million of available unsecured federal funds borrowing lines and (4) \$179 million from borrowing programs of the FRB.

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

*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 (i.e. common stockholders' equity excluding goodwill, certain intangibles and net unrealized gains and losses on AFS investment securities, and including, subject to limitations, trust preferred securities (TPS) and other qualifying items) to risk-weighted assets and (2) total capital (Tier 1 capital plus Tier 2 capital, including the qualifying portion of the allowance for loan and lease losses and the portion of TPS not counted as Tier 1 capital) to risk-weighted assets. The leverage ratio is measured as Tier 1 capital to adjusted quarterly average assets.

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The Company's and the Bank's risk-based capital and leverage ratios exceeded these minimum requirements at June 30, 2008 and December 31, 2007, and are presented in the following tables.

**Consolidated Capital Ratios**

	June 30, 2008	December 31, 2007
	(Dollars in thousands)	
Tier 1 capital:		
Stockholders' equity	\$ 210,897	\$ 190,829
Allowed amount of TPS (subordinated debentures)	63,000	63,000
Net unrealized (gains) losses on AFS investment securities	8,033	15,091
Less goodwill and certain intangible assets	(5,746)	(5,877)
<b>Total tier 1 capital</b>	<b>276,184</b>	<b>263,043</b>
Tier 2 capital:		
Qualifying allowance for loan and lease losses	23,432	19,557
<b>Total risk-based capital</b>	<b>\$ 299,616</b>	<b>\$ 282,600</b>
Risk-weighted assets	\$ 2,466,380	\$ 2,230,309
Adjusted quarterly average assets for leverage capital	\$ 3,065,826	\$ 2,683,323
Ratios at end of period:		
Leverage	9.01%	9.80%
Tier 1 risk-based capital	11.20	11.79
Total risk-based capital	12.15	12.67
Minimum ratio guidelines:		
Leverage <sup>(1)</sup>	3.00%	3.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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

**Capital Ratios of the Bank**

	June 30, 2008	December 31, 2007
	(Dollars in thousands)	
Stockholders' equity - Tier 1	\$ 259,087	\$ 236,122
Leverage ratio	8.48%	8.82%
Tier 1 risk-based capital ratio	10.54	10.63
Total risk-based capital ratio	11.50	11.51

*Dividend Policy.* During the quarter ended June 30, 2008, the Company paid a dividend of \$0.12 per share compared to \$0.10 per share in the quarter ended June 30, 2007. On July 1, 2008, the Company's board of directors approved a dividend of \$0.13 per share to be paid during the third quarter of 2008. The determination of future dividends on the Company's common stock will depend on conditions existing at that time. The Company's goal is to continue declaring quarterly dividends at approximately the current level, with consideration given to future changes depending on the Company's earnings, capital and liquidity needs.

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**CRITICAL ACCOUNTING POLICY**

The Company's determination of the adequacy of the allowance for loan and lease losses is considered to be a critical accounting policy. Provisions to and the adequacy of the allowance for loan and lease losses are based on management's judgment and evaluation of the loan and lease portfolio utilizing objective and subjective criteria. Changes in these criteria 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. See the "Analysis of Financial Condition" section of Management's Discussion and Analysis contained in the Company's 2007 annual report on Form 10-K for a detailed discussion of the Company's allowance for loan and lease losses.

**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, housing market, competitive and interest rate conditions, plans, goals, expectations and outlook for revenue growth, net income, earnings per share, net interest margin, net interest income, non-interest income including service charge, mortgage lending and trust income, gains and losses on sales of investment securities and other assets, non-interest expense, efficiency ratio, asset quality including the effects of current economic and housing market conditions, nonperforming loans and leases, nonperforming assets, net charge-offs, past due loans and leases, interest rate sensitivity including the effects of possible interest rate changes, future growth and expansion including the plans for opening new offices, opportunities and goals for market share growth, loan, lease and deposit growth, changes in the investment securities portfolio, availability of unused borrowing sources, and other similar forecasts and statements of expectation. Words such as anticipate, believe, estimate, plan, expect, intend and similar expressions, as they apply 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 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, the following: potential delays or other problems in implementing the Company's growth and expansion strategy, including delays in identifying satisfactory sites, obtaining permits, designing, constructing and opening new offices, obtaining regulatory and other approvals and employing qualified personnel; the ability to attract new deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expenses; 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 net interest margin; general economic (including inflationary pressures and governmental monetary policies) and housing market conditions, including their effect on investment securities values, the creditworthiness of borrowers and lessees and collateral values; changes in legal and regulatory requirements; adoption of new accounting standards or changes in existing accounting requirements; potential legislation, including, but not limited to, legislation intended to protect homeowners and regulation of securities markets and market participants; 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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**Table of Contents****SELECTED AND SUPPLEMENTAL FINANCIAL DATA**

The following tables set forth selected consolidated financial data of the Company for the three and six months ended June 30, 2008 and 2007 and supplemental quarterly financial data of the Company for each of the most recent eight quarters beginning with the third quarter of 2006 through the second quarter of 2008. These tables are qualified in their entirety by the consolidated financial statements and related notes presented elsewhere in this report.

**Selected Consolidated Financial Data**

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(Dollars in thousands, except per share amounts)				
<b><u>Income statement data:</u></b>				
Interest income	\$ 45,672	\$ 44,128	\$ 90,491	\$ 86,956
Interest expense	22,069	24,837	45,138	49,416
Net interest income	23,603	19,291	45,353	37,540
Provision for loan and lease losses	4,000	1,250	7,325	2,350
Non-interest income	5,557	5,623	10,682	11,582
Non-interest expense	13,442	11,876	26,322	24,014
Net income	8,607	8,086	16,372	15,607
<b><u>Share and per share data:</u></b>				
Earnings diluted	\$ 0.51	\$ 0.48	\$ 0.97	\$ 0.93
Book value	12.53	10.62	12.53	10.62
Dividends	0.12	0.10	0.24	0.20
Weighted-average diluted shares outstanding (thousands)	16,865	16,834	16,862	16,830
End of period shares outstanding (thousands)	16,834	16,771	16,834	16,771
<b><u>Balance sheet data at period end:</u></b>				
Total assets	\$ 3,062,117	\$ 2,580,545	\$ 3,062,117	\$ 2,580,545
Total loans and leases	2,011,921	1,756,383	2,011,921	1,756,383
Allowance for loan and lease losses	23,432	18,747	23,432	18,747
Total investment securities	768,180	575,433	768,180	575,433
Total deposits	2,307,475	2,155,643	2,307,475	2,155,643
Repurchase agreements with customers	43,903	45,063	43,903	45,063
Other borrowings	413,654	120,807	413,654	120,807
Subordinated debentures	64,950	64,950	64,950	64,950
Total stockholders' equity	210,897	178,081	210,897	178,081
Loan and lease to deposit ratio	87.19%	81.48%	87.19%	81.48%
<b><u>Average balance sheet data:</u></b>				
Total average assets	\$ 3,071,572	\$ 2,562,231	\$ 2,929,073	\$ 2,550,708
Total average stockholders' equity	207,932	182,007	205,963	180,165
Average equity to average assets	6.77%	7.10%	7.03%	7.06%
<b><u>Performance ratios:</u></b>				
Return on average assets*	1.13%	1.27%	1.12%	1.23%
Return on average stockholders' equity*	16.65	17.82	15.99	17.47
Net interest margin FTE*	3.77	3.46	3.73	3.41
Efficiency	42.10	46.12	43.51	47.26
Dividend payout	23.46	20.74	24.66	21.48
<b><u>Asset quality ratios:</u></b>				
Net charge-offs to average total loans and leases*	0.33%	0.14%	0.35%	0.15%
Nonperforming loans and leases to total loans and leases	0.74	0.23	0.74	0.23
Nonperforming assets to total assets	0.59	0.26	0.59	0.26
<b><u>Allowance for loan and lease losses as a percentage of:</u></b>				

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Total loans and leases	1.16%	1.07%	1.16%	1.07%
Nonperforming loans and leases	158%	466%	158%	466%
<b>Capital ratios at period end:</b>				
Leverage	9.01%	9.77%	9.01%	9.77%
Tier 1 risk-based capital	11.20	12.06	11.20	12.06
Total risk-based capital	12.15	12.96	12.15	12.96

\* Ratios annualized based on actual days.



**Table of Contents****Supplemental Quarterly Financial Data**

Unaudited

	9/30/06	12/31/06	3/31/07	6/30/07	9/30/07	12/31/07	3/31/08	6/30/08
<b>Earnings Summary:</b>								
Net interest income	\$ 17,774	\$ 17,523	\$ 18,249	\$ 19,291	\$ 19,671	\$ 20,406	\$ 21,751	\$ 23,603
Federal tax (FTE) adjustment	1,196	912	848	838	899	974	1,691	2,767
Net interest income (FTE)	18,970	18,435	19,097	20,129	20,570	21,380	23,442	26,370
Provision for loan and lease losses	(550)	(900)	(1,100)	(1,250)	(1,100)	(2,700)	(3,325)	(4,000)
Non-interest income	5,680	6,434	5,959	5,623	5,419	5,975	5,125	5,557
Non-interest expense	(11,707)	(12,506)	(12,138)	(11,876)	(11,732)	(12,507)	(12,881)	(13,442)
Pretax income (FTE)	12,393	11,463	11,818	12,626	13,157	12,148	12,361	14,485
FTE adjustment	(1,196)	(912)	(848)	(838)	(899)	(974)	(1,691)	(2,767)
Provision for income taxes	(3,187)	(3,196)	(3,449)	(3,702)	(3,856)	(3,437)	(2,905)	(3,111)
Net income	\$ 8,010	\$ 7,355	\$ 7,521	\$ 8,086	\$ 8,402	\$ 7,737	\$ 7,765	\$ 8,607
Earnings per share - diluted	\$ 0.48	\$ 0.44	\$ 0.45	\$ 0.48	\$ 0.50	\$ 0.46	\$ 0.46	\$ 0.51
<b>Non-interest Income:</b>								
Service charges on deposit accounts	\$ 2,540	\$ 2,768	\$ 2,834	\$ 3,107	\$ 3,075	\$ 3,176	\$ 2,871	\$ 2,967
Mortgage lending income	792	744	731	817	594	526	672	636
Trust income	486	550	465	531	565	661	604	629
Bank owned life insurance income	463	471	465	478	487	489	489	499
Gains on sales of investment securities	718	1,341	337		77	106	20	
Gains (losses) on sales of other assets	42	(145)	35	(47)	38	461	(93)	206
Other	639	705	1,092	737	583	556	562	620
Total non-interest income	\$ 5,680	\$ 6,434	\$ 5,959	\$ 5,623	\$ 5,419	\$ 5,975	\$ 5,125	\$ 5,557
<b>Non-interest Expense:</b>								
Salaries and employee benefits	\$ 6,993	\$ 7,360	\$ 7,310	\$ 7,016	\$ 6,936	\$ 7,399	\$ 7,332	\$ 7,624
Net occupancy expense	1,732	1,900	1,971	1,967	2,059	2,101	2,074	2,183
Other operating expenses	2,917	3,181	2,792	2,827	2,671	2,942	3,410	3,569
Amortization of intangibles	65	65	65	66	66	65	65	66
Total non-interest expense	\$ 11,707	\$ 12,506	\$ 12,138	\$ 11,876	\$ 11,732	\$ 12,507	\$ 12,881	\$ 13,442
<b>Allowance for Loan and Lease Losses:</b>								
Balance at beginning of period	\$ 17,332	\$ 17,340	\$ 17,699	\$ 18,128	\$ 18,747	\$ 19,067	\$ 19,557	\$ 21,063
Net charge-offs	(542)	(541)	(671)	(631)	(780)	(2,210)	(1,819)	(1,631)
Provision for loan and lease losses	550	900	1,100	1,250	1,100	2,700	3,325	4,000
Balance at end of period	\$ 17,340	\$ 17,699	\$ 18,128	\$ 18,747	\$ 19,067	\$ 19,557	\$ 21,063	\$ 23,432
<b>Selected Ratios:</b>								
Net interest margin - FTE*	3.34%	3.22%	3.35%	3.46%	3.45%	3.47%	3.69%	3.77%
Overhead ratio*	1.88	1.99	1.94	1.86	1.79	1.84	1.84	1.76

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Efficiency ratio	47.49	50.29	48.44	46.12	45.14	45.72	45.09	42.10
Net charge-offs to average loans and leases*	0.14	0.13	0.16	0.14	0.17	0.47	0.38	0.33
Nonperforming loans and leases/total loans and leases	0.21	0.34	0.25	0.23	0.19	0.35	0.68	0.74
Nonperforming assets/total assets	0.15	0.24	0.27	0.26	0.22	0.36	0.58	0.59
Loans and leases past due 30 days or more, including past due non-accrual loans and leases, to total loans and leases	0.60	0.60	0.84	0.53	0.45	1.14	1.30	0.92

\* Annualized based on actual days.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market 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 and Investments Committee (ALCO), which reports to the board of directors. The ALCO oversees the asset/liability (interest rate risk) position, liquidity and funds management and investment portfolio functions of the Company.

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 additional 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 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, down 100 bps and down 200 bps. 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 July 1, 2008. 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.

Shift in	% Change in
Interest Rates	Projected Baseline
(in bps)	Net Interest Income
+200	0.9%
+100	0.2
-100	(0.7)
-200	(1.9)

In the event of a shift in interest rates, management 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, leases and deposits.

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Item 4. **Controls and Procedures**

(a) Evaluation of disclosure controls and procedures.

An evaluation as of the end of the period covered by this quarterly 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 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) Changes in Internal Control over Financial Reporting.

The Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, has evaluated any changes in the Company's internal control over financial reporting that occurred during the quarterly period covered by this report and has concluded that there was no change during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

Item 1. **Legal Proceedings**

The Company is party to various litigation matters arising in the ordinary course of business. While the ultimate resolution of these matters cannot be determined at this time, management of the Company does not believe that 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 1A. **Risk Factors**

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in the Company's 2007 annual report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2008.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

The Company had no unregistered sales of equity securities and did not purchase any shares of its common stock during the period covered by this report.

Item 3. **Defaults Upon Senior Securities**

Not Applicable.

Item 4. **Submission of Matters to a Vote of Security Holders**

Reference is made to Part II, Item 4 of the Company's quarterly report on Form 10-Q for the period ended March 31, 2008, filed with the Securities and Exchange Commission on May 8, 2008.

Item 5. **Other Information**

Not Applicable.

Item 6. **Exhibits**

Reference is made to the Exhibit Index set forth immediately following the signature page of this report.

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**SIGNATURE**

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

DATE: August 7, 2008

Bank of the Ozarks, Inc.

/s/ Paul Moore  
Paul Moore  
Chief Financial Officer and  
Chief Accounting Officer

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**Bank of the Ozarks, Inc.**

**Exhibit Index**

**Exhibit**

**Number**

- 3 (i) (a) 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 (i) (b) 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 on March 12, 2004 for the year ended December 31, 2003, and incorporated herein by this reference).
- 3 (ii) Amended and Restated Bylaws 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).
- 31.1 Certification of Chairman and Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer and Chief Accounting Officer.
- 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.
- 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.