

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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 0-28312

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation
or organization)

71-0785261

(I.R.S. Employer
Identification Number)

1401 Highway 62-65 North
Harrison, Arkansas

(Address of principal executive office)

72601

(Zip Code)

(870) 741-7641

(Registrant's telephone number, including area code)

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer 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 issuer's classes of common stock, as of the latest practicable date: As of October 24, 2008, there were issued and outstanding 4,848,385 shares of the Registrant's Common Stock, par value \$.01 per share.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

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FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)
(Unaudited)

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 14,484	\$ 27,387
Investment securities held to maturity	131,437	95,590
Federal Home Loan Bank stock	4,802	4,433
Loans receivable, net	566,775	601,256
Accrued interest receivable	7,303	9,042
Real estate owned, net	17,402	8,120
Office properties and equipment, net	24,961	24,263
Cash surrender value of life insurance	20,210	20,159
Prepaid expenses and other assets	<u>2,454</u>	<u>1,728</u>
TOTAL ASSETS	<u>\$ 789,828</u>	<u>\$ 791,978</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	\$ 612,572	\$ 630,414
Other borrowings	97,142	82,087
Advance payments by borrowers for taxes and insurance	690	575
Other liabilities	<u>5,712</u>	<u>5,239</u>
Total liabilities	<u>716,116</u>	<u>718,315</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 20,000,000 shares authorized, 10,307,502 shares issued, 4,848,385 and 4,844,385 shares outstanding at September 30, 2008 and December 31, 2007, respectively	103	103
Additional paid-in capital	56,648	56,653
Employee stock benefit plans	(27)	(42)
Retained earnings-substantially restricted	<u>87,587</u>	<u>87,600</u>
	144,311	144,314
Treasury stock, at cost, 5,459,117 and 5,463,117 shares at September 30, 2008 and December 31, 2007, respectively	<u>(70,599)</u>	<u>(70,651)</u>
Total stockholders' equity	<u>73,712</u>	<u>73,663</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 789,828</u>	<u>\$ 791,978</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
INTEREST INCOME:				
Loans receivable	\$ 8,601	\$ 11,020	\$ 28,096	\$ 35,225
Investment securities:				
Taxable	1,540	952	4,392	2,319
Nontaxable	203	177	579	537
Other	107	232	387	722
Total interest income	<u>10,451</u>	<u>12,381</u>	<u>33,454</u>	<u>38,803</u>
INTEREST EXPENSE:				
Deposits	4,224	6,099	14,572	17,991
Other borrowings	931	987	2,711	3,353
Total interest expense	<u>5,155</u>	<u>7,086</u>	<u>17,283</u>	<u>21,344</u>
NET INTEREST INCOME	5,296	5,295	16,171	17,459
PROVISION FOR LOAN LOSSES	1,611	1,330	4,110	3,662
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>3,685</u>	<u>3,965</u>	<u>12,061</u>	<u>13,797</u>
NONINTEREST INCOME:				
Deposit fee income	1,471	1,235	4,027	3,661
Earnings on life insurance policies	198	194	1,760	566
Gain on sale of loans	51	201	317	664
Other	493	365	1,362	924
Total noninterest income	<u>2,213</u>	<u>1,995</u>	<u>7,466</u>	<u>5,815</u>
NONINTEREST EXPENSES:				
Salaries and employee benefits	3,085	3,287	9,717	10,016
Net occupancy expense	672	560	1,957	1,752
Real estate owned, net	509	543	1,207	826
Data processing	378	339	1,065	1,143
Professional fees	126	119	399	401
Advertising and public relations	188	239	748	849
Postage and supplies	200	187	621	646
Other	608	535	1,772	1,701
Total noninterest expenses	<u>5,766</u>	<u>5,809</u>	<u>17,486</u>	<u>17,334</u>
INCOME BEFORE INCOME TAXES	132	151	2,041	2,278
INCOME TAX PROVISION (BENEFIT)	(86)	(150)	(273)	284
NET INCOME	<u>\$ 218</u>	<u>\$ 301</u>	<u>\$ 2,314</u>	<u>\$ 1,994</u>
EARNINGS PER SHARE:				
Basic	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>
Cash Dividends Declared	<u>\$ 0.16</u>	<u>\$ 0.16</u>	<u>\$ 0.48</u>	<u>\$ 0.48</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(In thousands, except share data)
(Unaudited)

	<u>Issued Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Employee Stock Benefit Plans</u>	<u>Retained Earnings (Substantially Restricted)</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2008	10,307,502	\$ 103	\$ 56,653	\$ (42)	\$ 87,600
Net income					2,314
Tax effect of stock compensation plan			(2)		
Treasury shares reissued due to exercise of stock options			(6)		
Stock compensation expense			3	15	
Dividends paid					(2,327)
Balance, September 30, 2008	<u>10,307,502</u>	<u>\$ 103</u>	<u>\$ 56,648</u>	<u>\$ (27)</u>	<u>\$ 87,587</u>

	<u>Treasury Stock</u>		<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	
Balance, January 1, 2008	5,463,117	\$ (70,651)	\$ 73,663
Net income			2,314
Tax effect of stock compensation plan			(2)
Treasury shares reissued due to exercise of stock options	(4,000)	52	46
Stock compensation expense			18
Dividends paid			(2,327)
Balance, September 30, 2008	<u>5,459,117</u>	<u>\$ (70,599)</u>	<u>\$ 73,712</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 2,314	\$ 1,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,110	3,662
Provision for real estate losses	480	390
Deferred tax benefit	(714)	(1,516)
Accretion of discounts on investment securities, net	(58)	(14)
Federal Home Loan Bank stock dividends	(108)	(246)
Gain on disposition of office properties and equipment	(19)	(4)
Loss on sale of repossessed assets, net	207	97
Originations of loans held for sale	(20,026)	(48,077)
Proceeds from sales of loans held for sale	22,853	47,787
Gain on sale of loans originated to sell	(317)	(664)
Depreciation	1,102	1,047
Amortization of deferred loan fees, net	280	334
Stock compensation expense	18	31
Earnings on life insurance policies	(580)	(566)
Changes in operating assets and liabilities:		
Accrued interest receivable	1,739	41
Prepaid expenses and other assets	472	693
Other liabilities	655	691
Net cash provided by operating activities	12,408	5,680
INVESTING ACTIVITIES:		
Purchases of investment securities held to maturity	(113,030)	(29,118)
Proceeds from maturities/calls of investment securities held to maturity	77,051	5,050
Federal Home Loan Bank stock purchased	(261)	--
Federal Home Loan Bank stock redeemed	--	2,959
Loan participations purchased	(1,966)	(2,552)
Loan participations sold	4,045	7,208
Net loan repayments	13,224	57,871
Proceeds from sales of repossessed assets	2,796	3,389
Improvements to real estate owned	(436)	(579)
Proceeds from sales of office properties and equipment	30	10
Purchases of office properties and equipment	(1,811)	(1,525)
Net cash provided by (used in) investing activities	(20,358)	42,713
FINANCING ACTIVITIES:		
Net decrease in deposits	(17,842)	(11,362)
Proceeds from other borrowings	66,000	9,700
Repayment of other borrowings	(50,945)	(50,256)
Net increase (decrease) in advance payments by borrowers for taxes and insurance	115	(141)
Purchase of treasury stock	--	(1,997)
Reissued treasury stock	46	350
Dividends paid	(2,327)	(2,336)
Net cash used in financing activities	(4,953)	(56,042)
Net decrease in cash and cash equivalents	(12,903)	(7,649)

(Continued)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
CASH AND CASH EQUIVALENTS:		
Beginning of period	\$ 27,387	\$ 35,518
End of period	\$ 14,484	\$ 27,869
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 17,412	\$ 21,515
Income taxes	\$ --	\$ 951
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Real estate and other assets acquired in settlement of loans	\$ 17,349	\$ 9,297
Loans to facilitate sales of real estate owned	\$ 5,071	\$ 1,010
Investment securities traded, recorded in investments not yet settled in cash	\$ 3,000	\$ 170

(Concluded)

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation and Principles of Consolidation

First Federal Bancshares of Arkansas, Inc. (the "Company") is a unitary holding company which owns all of the stock of First Federal Bank (the "Bank"). The Bank provides a broad line of financial products to individuals and small- to medium-sized businesses. The unaudited consolidated financial statements also include the accounts of the Bank's wholly-owned subsidiary, First Harrison Service Corporation ("FHSC"), which is inactive.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The accompanying unaudited consolidated financial statements include the accounts of the Company and the Bank. All material intercompany transactions have been eliminated in consolidation.

The results of operations for the three and nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2007, contained in the Company's 2007 Annual Report to Stockholders.

Note 2 – Recently Adopted Accounting Standards

We adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, as of January 1, 2008. See Note 7.

On October 10, 2008, the FASB issued FASB Staff Position ("FSP") No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. 157-3 amended SFAS No. 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. The FSP was effective upon issuance. This FSP did not have an effect on the Company's financial statements.

We adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, as of January 1, 2008 and have elected not to measure any of our current eligible financial assets or liabilities at fair value upon adoption; however, we may elect to measure future eligible financial assets or liabilities at fair value.

Note 3 – Accounting Standards Issued Not Yet Effective

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this statement establishes principles and requirements for how the acquirer:

- a. Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree
- b. Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase
- c. Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This statement applies 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. An entity may not apply it before that date. Based on our current activities, we estimate that the adoption of this statement will not have a material effect on the financial statements of the Company.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*, effective for financial statements issued for fiscal years beginning after November 15, 2008. The objective of this statement is to provide enhanced disclosures about derivative instruments and related hedging items. Based on the Bank's current activities, we estimate that the adoption of this statement will not have a material effect on the financial statements of the Company.

Note 4 - Earnings per Share

The weighted average number of common shares used to calculate earnings per share for the periods ended September 30, 2008 and 2007 were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Basic weighted - average shares	4,848,385	4,865,007	4,848,356	4,867,729
Effect of dilutive securities	--	7,700	647	20,243
Diluted weighted - average shares	4,848,385	4,872,707	4,849,003	4,887,972

Note 5 – Investment Securities

Investment securities consisted of the following at September 30, 2008 (in thousands):

Held To Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 19,634	\$ 26	\$ 986	\$ 18,674
U.S. Government and Agency obligations	111,803	2	2,394	109,411
Total	\$131,437	\$ 28	\$3,380	\$ 128,085

The following tables summarize the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2008:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 9,537	\$ 678	\$ 5,162	\$ 308	\$ 14,699	\$ 986
U.S. Government and Agency obligations	96,528	2,275	7,881	119	104,409	2,394
	\$106,065	\$ 2,953	\$13,043	\$ 427	\$119,108	\$ 3,380

The unrealized losses are primarily a result of the current disruptions in the credit market resulting in historically wide credit spreads. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2008.

Note 6 – Allowances for Loan and Real Estate Losses

A summary of the activity in the allowances for loan and real estate losses is as follows for the quarters ended September 30 (in thousands):

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007	
	Loans	Real Estate	Loans	Real Estate
Balance—beginning of period	\$ 5,215	\$ --	\$ 4,291	\$ --
Provisions for estimated losses	1,611	164	1,330	312
Recoveries	242	--	43	--
Losses charged off	(246)	(164)	(628)	(312)
Balance—end of period	<u>\$ 6,822</u>	<u>\$ --</u>	<u>\$ 5,036</u>	<u>\$ --</u>

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	Loans	Real Estate	Loans	Real Estate
Balance—beginning of period	\$ 5,162	\$ --	\$ 2,572	\$ --
Provisions for estimated losses	4,110	480	3,662	390
Recoveries	436	--	132	--
Losses charged off	(2,886)	(480)	(1,330)	(390)
Balance—end of period	<u>\$ 6,822</u>	<u>\$ --</u>	<u>\$ 5,036</u>	<u>\$ --</u>

Note 7 – Fair Value Measurement

Effective January 1, 2008, the Bank adopted SFAS 157, which provides a framework for measuring fair value. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data at the measurement date for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The assets presented at fair value on the Bank's financial statements are related to real estate owned, net, and impaired loans, both of which are valued based on Level 3 inputs. Management utilizes appraisals, listing prices, market information from local realtors and market research reports to base the fair value measurement.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	December 31, 2007	Additions	Fair Value Adjustments	Transfers Out	Gain (Loss)	September 30, 2008
	(in thousands)					
Real estate owned, net	\$ 8,120	\$ 20,052	\$ (2,685)	\$ (7,909)	\$ (176)	\$ 17,402
Impaired loans	\$ 14,894	\$ 6,691	\$ (1,588)	\$ (9,530)	\$ --	\$ 10,467

Realized and unrealized gains and losses on real estate owned are recognized in noninterest expenses in the consolidated statements of income under the caption "Real estate owned, net." Gains on sales of real estate owned which are financed by the Bank are deferred in certain circumstances and recognized as the borrower pays down the related loan. Fair value adjustments to impaired loans are recorded through the allowance for loan losses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

CRITICAL ACCOUNTING POLICIES

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, valuation of real estate owned and the methodology for the determination of our allowance for loan losses, due to the judgments, estimates and assumptions inherent in those policies, are critical to preparation of our financial statements. These policies and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussion and Analysis and in the notes to the unaudited financial statements included herein. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in our financial condition or results of operations.

In estimating the amount of credit losses inherent in our loan portfolio, various judgments and assumptions are made. For example, when assessing the condition of the overall economic environment, assumptions are made regarding future market conditions and their impact on the loan portfolio. If the current downturn in the economy is prolonged, the loss factors applied to our portfolios may need to be revised, which may significantly impact the measurement of the allowance for loan losses. For impaired loans that are collateral-dependent and for real estate owned, the estimated fair value of the collateral may deviate significantly from the proceeds received when the collateral is sold.

CHANGES IN FINANCIAL CONDITION

Changes in financial condition between September 30, 2008 and December 31, 2007 are presented in the following table (dollars in thousands). Material changes between the periods are discussed in the sections which follow the table.

	September 30, 2008	December 31, 2007	Increase (Decrease)	Percentage Change
ASSETS				
Cash and cash equivalents	\$ 14,484	\$ 27,387	\$ (12,903)	(47.1)%
Investment securities held to maturity	131,437	95,590	35,847	37.5
Federal Home Loan Bank stock	4,802	4,433	369	8.3
Loans receivable, net	566,775	601,256	(34,481)	(5.7)
Accrued interest receivable	7,303	9,042	(1,739)	(19.2)
Real estate owned, net	17,402	8,120	9,282	114.3
Office properties and equipment, net	24,961	24,263	698	2.9
Prepaid expenses and other assets	22,664	21,887	777	3.6
TOTAL	\$ 789,828	\$ 791,978	\$ (2,150)	(0.3)%
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Deposits	\$ 612,572	\$ 630,414	\$ (17,842)	(2.8)%
Other borrowings	97,142	82,087	15,055	18.3
Other liabilities	6,402	5,814	588	10.1
Total liabilities	716,116	718,315	(2,199)	(0.3)
STOCKHOLDERS' EQUITY	73,712	73,663	49	0.1
TOTAL	\$ 789,828	\$ 791,978	\$ (2,150)	(0.3)%
BOOK VALUE PER SHARE	\$ 15.20	\$ 15.21		
EQUITY TO ASSETS	9.3%	9.3%		

Loans Receivable. Changes in loan composition between September 30, 2008 and December 31, 2007 are presented in the following table (dollars in thousands).

	September 30, 2008	December 31, 2007	Increase (Decrease)	% Change
One- to four-family residences	\$ 238,545	\$ 230,005	\$ 8,540	3.7%
Home equity lines of credit and second mortgage	33,848	34,315	(467)	(1.4)
Multifamily	20,231	15,616	4,615	29.6
Commercial real estate	111,121	117,548	(6,427)	(5.5)
Land	44,012	42,843	1,169	2.7
Construction:				
One- to four-family residences	13,053	20,815	(7,762)	(37.3)
Speculative one-to four-family residences	18,766	40,893	(22,127)	(54.1)
Multifamily	16,850	18,632	(1,782)	(9.6)
Commercial real estate	16,211	31,239	(15,028)	(48.1)
Land development	32,378	42,145	(9,767)	(23.2)
Total construction loans	<u>97,258</u>	<u>153,724</u>	<u>(56,466)</u>	<u>(36.7)</u>
Total mortgage loans	<u>545,015</u>	<u>594,051</u>	<u>(49,036)</u>	<u>(8.3)</u>
Commercial	<u>23,053</u>	<u>24,846</u>	<u>(1,793)</u>	<u>(7.2)</u>
Automobile	8,918	9,531	(613)	(6.4)
Other	<u>12,715</u>	<u>14,537</u>	<u>(1,822)</u>	<u>(12.5)</u>
Total consumer	<u>21,633</u>	<u>24,068</u>	<u>(2,435)</u>	<u>(10.1)</u>
Total loans receivable	589,701	642,965	(53,264)	(8.3)
Undisbursed loan funds	(16,625)	(36,868)	20,243	(54.9)
Deferred loan costs – net	521	321	200	62.3
Allowance for loan losses	<u>(6,822)</u>	<u>(5,162)</u>	<u>(1,660)</u>	<u>32.2</u>
Loans receivable, net	<u>\$ 566,775</u>	<u>\$ 601,256</u>	<u>\$ (34,481)</u>	<u>(5.7)%</u>

The decrease in the Bank's loan portfolio was primarily due to the continued softening of the housing market in the Bank's market area. Market data indicates an overall decrease in home sales in Benton and Washington counties in 2008 and 2007. The Bank's loan originations were down 21.2% for the quarter ended September 30, 2008, compared to the third quarter of 2007 and 16.4% for the nine months ended September 30, 2008 compared to the first nine months in 2007. Although the Northwest Arkansas region continues to experience job market and population growth, the supply of new residential lots and new speculative homes for sale has outpaced demand during the past several years. We expect this trend to continue for the foreseeable future given the level of oversupply in the market.

Asset Quality. The following table sets forth the amounts and categories of the Bank's nonperforming assets at the dates indicated.

	September 30, 2008	December 31, 2007	Increase (Decrease)	Percentage Change
	(Dollars in Thousands)			
Nonaccrual loans:				
One- to four-family residential	\$ 7,668	\$ 6,800	\$ 868	12.8%
Home equity and second mortgage	926	1,194	(268)	(22.4)
Speculative one- to four-family construction	714	4,934	(4,220)	(85.5)
Multifamily	210	--	210	--
Land development	8,149	11,428	(3,279)	(28.7)
Land	2,085	1,311	774	59.0
Commercial real estate	6,246	4,027	2,219	55.1
Commercial loans	1,955	3,367	(1,412)	(41.9)
Consumer loans	182	268	(86)	(32.1)
Total nonaccrual loans	<u>28,135</u>	<u>33,329</u>	<u>(5,194)</u>	<u>(15.6)</u>
Accruing loans 90 days or more past due	6,171	2,412	3,759	155.8
Real estate owned	<u>17,402</u>	<u>8,120</u>	<u>9,282</u>	<u>114.3</u>
Total nonperforming assets	<u>\$ 51,708</u>	<u>\$ 43,861</u>	<u>\$ 7,847</u>	<u>17.9%</u>
Total nonaccrual and accruing loans 90 days or more past due as a percentage of total loans receivable	<u>5.82%</u>	<u>5.56%</u>		
Total nonperforming assets as a percentage of total assets	<u>6.55%</u>	<u>5.54%</u>		

The decrease in nonaccrual loans is primarily related to the transfer of nonaccrual land development and speculative single family construction loans to real estate owned, which was offset somewhat by an increase in nonaccrual land loans and commercial real estate loans. The Northwest Arkansas market continues to experience an oversupply of lots and speculative homes. Certain of the Bank's homebuilders are experiencing extended marketing times for the sale of their homes which has resulted in inadequate cash flow to service the interest carry on their loans. The specific loan loss allowance related to loans to builders and developers was approximately \$2.6 million at September 30, 2008.

We expect a significant amount of the nonaccrual real estate loans to eventually migrate to real estate owned as \$15.7 million of the nonaccrual real estate loans reported above are in some stage of the foreclosure process as of September 30, 2008. Therefore, we expect real estate owned and associated expenses to continue to increase in future periods as such loans migrate from loans to real estate owned.

The level of nonaccrual speculative construction loans, land development loans and commercial real estate loans is attributable primarily to five loan relationships totaling \$13.0 million, or 46.3% of nonaccrual loans. These relationships are described in more detail in the paragraphs that follow.

The first relationship totaled \$2.2 million with a specific loan loss allowance of \$896,000 at September 30, 2008, and is comprised of a subdivision located in Cave Springs, Arkansas. The subdivision is 100% complete. The Bank obtained an updated valuation on the subdivision using discounted cash flow analysis. Due to the market conditions and the oversupply of lots in Northwest Arkansas, the valuation indicated lower lot prices and an extended marketing time over that in the original appraisal obtained when the loan was originated. Based on the nature of this loan and the possibility of continued adverse changes in the market conditions, we may incur losses in the future in excess of the specific allowance recorded as of September 30, 2008.

The second relationship totaled \$2.0 million at September 30, 2008, and consists of a \$1.3 million commercial loan secured by commercial real estate, franchise rights, inventory and equipment, a \$650,000 loan on the borrower's primary residence, and a \$20,000 unsecured loan. The loans in this relationship became over 90 days past due during the third quarter of 2007. Based on the borrower's workout plans, these loans were maintained on accrual status at that time. However, due to the passage of time with no progress on the workout plan, we placed the loans on nonaccrual status during the fourth quarter of 2007. The borrower is attempting to sell all of the collateral securing his loans. During the first nine months of 2008 three of the franchise sales closed and the Bank received proceeds from these sales. However, the Bank agreed to accept less than the full amount of proceeds on one of the sales as part of the workout. Based on this and other valuation changes during the first nine months of 2008, the Bank

recorded an additional \$555,000 in specific loan loss allowances, bringing the total specific allowance to \$576,000 with respect to this relationship as of September 30, 2008.

The third relationship totaled \$2.1 million and represents a single commercial real estate loan secured by a convenience store, car wash, and retail space. This loan became over 90 days past due during the third quarter of 2007. Based on our expectation that the guarantors would cooperate with us on a workout plan and our assessment of their financial strength, these loans were maintained on accrual status at that time. However, due to the passage of time with no progress on a workout plan, we placed this loan on nonaccrual status during the fourth quarter of 2007. In the event of a foreclosure and a possible deficiency judgment, we believe sufficient net worth exists among the guarantors to satisfy their obligation. As of September 30, 2008, based on the then current estimated fair value of the collateral, the Bank estimates it will incur no loss.

The fourth relationship totaled \$1.1 million at September 30, 2008, and is comprised primarily of loans totaling \$1.0 million for 35 completed lots in a subdivision located in Pea Ridge, Arkansas, and a \$98,000 loan on a completed speculative home. As of September 30, 2008, based on the then current estimated fair value of the collateral, the Bank has established a specific loan loss allowance of \$52,000. Based on the nature of this loan and the current adverse market conditions, we may incur losses in the future in excess of the specific allowance recorded at September 30, 2008.

The fifth relationship is new to nonaccrual status this quarter and totaled \$5.6 million with a specific loan loss allowance of \$973,000 at September 30, 2008. This relationship is comprised of two phases of a subdivision located in Elm Springs, Arkansas. The first phase consists of 48 lots and is 100% complete and the second phase consists of undeveloped land. Based on the nature of this loan and the current adverse market conditions, we may incur losses in the future in excess of the specific allowance recorded at September 30, 2008.

Accruing loans 90 days or more past due at September 30, 2008, consisted of three loans whose past due interest is expected to be paid after September 30, 2008.

The following table sets forth the amounts and categories of the Bank's real estate owned at the dates indicated.

	September 30, 2008	December 31, 2007	Increase	Percentage Change
	(Dollars in Thousands)			
Real estate owned				
One- to four-family residential	\$ 2,007	\$ 1,566	\$ 441	28.2%
Speculative one- to four-family construction ⁽¹⁾	5,798	5,956	(158)	(2.7)
Land ⁽²⁾	8,769	598	8,171	1,366.4
Commercial real estate	828	--	828	--
Total real estate owned	<u>\$ 17,402</u>	<u>\$ 8,120</u>	<u>\$ 9,282</u>	<u>114.3%</u>

(1) At September 30, 2008, \$4.9 million of these properties were 100% complete. The remainder range from 78% to 92% complete.

(2) At September 30, 2008, \$7.1 million of the land balance represented 192 finished subdivision lots. The remainder consisted of raw land.

The increase in real estate owned from December 31, 2007 to September 30, 2008 is primarily related to two subdivisions. The first totaled \$4.0 million, and represents two phases of the same subdivision located in Lowell, Arkansas, one of which is complete and the other is approximately 10% complete. The second subdivision totaled \$3.8 million for a 110 lot subdivision in Springdale, Arkansas. During the first nine months of 2008, thirteen single family residential properties were transferred to REO and thirteen were sold. During the same period, seventeen speculative single family properties were transferred to REO and twenty-two were sold. At September 30, 2008, the Bank owned eight foreclosed one- to four-family residential properties and twenty-three speculative single family residential properties compared to eight and twenty-eight properties, respectively, at December 31, 2007.

The Bank is diligently working to dispose of its REO and has dedicated an experienced special assets officer who is working full-time to liquidate the Bank's properties in the Northwest Arkansas market. Each property is evaluated on a case-by-case basis to determine the best course of action with respect to liquidation. Properties are marketed directly by the Bank or listed with local real estate agents utilizing appraisals, market information from realtors, market research reports, and our own market evaluations to make pricing and selling decisions. The Bank's Chief Lending Officer, loan officers, credit manager, special assets officer, and team members in the collections department all work together in this endeavor. The Bank's goal is to liquidate these properties in an orderly and efficient manner without incurring extraordinary losses due to quick sale pricing. During the nine months ended September 30, 2008, the Bank originated loans to facilitate the sales of real estate owned totaling \$5.1 million. The Bank offers attractive rates and financing options to prospective buyers of real estate owned to help facilitate sales.

Potential Problem Loans. Based on the oversupply of lots in Northwest Arkansas, our land development portfolio poses a higher risk of default. These loans are typically structured with interest due at maturity and lot sales as the source of repayment. Since lot sales in the Northwest Arkansas market are significantly slower than when these loans were originated, our borrowers typically must rely on a secondary source of funds to pay the interest as it becomes due. Due to the relatively large balances of these types of loans, the interest due at maturity is usually significant. At September 30, 2008, gross land development loans totaled \$32.4 million with \$2.3 million of accrued interest. Of this total, \$8.1 million is on nonaccrual status with \$1.2 million in accrued interest, \$11.2 million with \$492,000 in accrued interest is classified as special mention, and \$12.7 million with \$615,000 in accrued interest is on our watch list. There are three matured land development loans at September 30, 2008 with a total principal balance of \$6.7 million and accrued interest of \$733,000. We are working with all three borrowers and, as of the date of this report, expect to be repaid in full. However, should any of these land development loans default, the Bank may incur losses in the event of a decline in value of the land securing these loans.

Allowance for Loan Losses. A summary of the activity in the allowance for loan losses is as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 5,215	\$ 4,291	\$ 5,162	\$ 2,572
Provisions for estimated losses	1,611	1,330	4,110	3,662
Recoveries	242	43	436	132
Losses charged off	(246)	(628)	(2,886)	(1,330)
Balance at end of period	<u>\$ 6,822</u>	<u>\$ 5,036</u>	<u>\$ 6,822</u>	<u>\$ 5,036</u>

Changes in the composition of the allowance for loan losses between September 30, 2008 and December 31, 2007 are presented in the following table (in thousands):

	<u>September 30,</u>	<u>December 31,</u>	<u>Increase</u>
	<u>2008</u>	<u>2007</u>	
General	\$ 3,109	\$ 2,267	\$ 842
Specific	3,713	2,895	818
	<u>\$ 6,822</u>	<u>\$ 5,162</u>	<u>\$ 1,660</u>

The general component of the allowance for loan losses increased primarily due to increases in the loss factors applied to land loans, land development loans and commercial loans, partially offset by decreases in the related loan balances. These loss factors were increased due to the recent loss history on these types of loans. The specific component of the allowance for loan losses increased primarily due to a specific valuation allowance of \$973,000 recorded in the third quarter. See "Asset Quality."

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes it is likely that a loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses represents management's estimate of incurred credit losses inherent in the Company's loan portfolio as of the balance sheet date. The estimation of the allowance is based on a variety of factors, including past loan loss experience, the current credit profile of the Company's borrowers, adverse situations that have occurred that may affect the borrowers' ability to repay, the estimated value of underlying collateral, and general economic conditions. Losses are recognized when available information indicates that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or conditions change.

In determining the allowance for loan losses, the Company allocates a portion of the allowance to its various loan categories based on an analysis of individual loans and pools of loans. However, the entire allowance is available to absorb credit losses inherent in the total loan portfolio as of the balance sheet date.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the short fall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future

cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Multifamily residential, commercial real estate, land and land development, and commercial loans that are delinquent or where the borrower's total loan relationship exceeds \$1 million are evaluated on a loan by loan basis at least annually.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Homogeneous loans are those that are considered to have common characteristics that provide for evaluation on an aggregate or pool basis. The Bank considers the characteristics of (1) one- to four-family residential first mortgage loans; (2) unsecured consumer loans; and (3) collateralized consumer loans to permit consideration of the appropriateness of the allowance for losses of each group of loans on a pool basis. The primary methodology used to determine the appropriateness of the allowance for losses includes segregating certain specific, poorly performing loans based on their performance characteristics from the pools of loans as to type, valuing these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, and economic conditions in the primary market areas.

In estimating the amount of credit losses inherent in our loan portfolio, various judgments and assumptions are made. For example, when assessing the condition of the overall economic environment, assumptions are made regarding future market conditions and their impact on the loan portfolio. If the current downturn in the economy is prolonged, the loss factors applied to our portfolios may need to be revised, which may significantly impact the measurement of the allowance for loan losses. For impaired loans that are collateral dependent, the estimated fair value of the collateral may deviate significantly from the proceeds received when the collateral is sold in the event that the Bank has to foreclose or repossess the collateral.

Although we consider the allowance for loan losses of approximately \$6.8 million adequate to cover losses inherent in our loan portfolio at September 30, 2008, no assurance can be given that we will not sustain loan losses that are significantly different from the amount recorded, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, would not result in a significant change in the allowance for loan losses.

Investment Securities. Changes in the composition of investment securities held to maturity between September 30, 2008 and December 31, 2007 are presented in the following table (in thousands).

	September 30, 2008	December 31, 2007	Increase
U.S. Government and agency obligations	\$ 111,803	\$ 78,501	\$ 33,302
Municipal securities	19,634	17,089	2,545
Total	<u>\$ 131,437</u>	<u>\$ 95,590</u>	<u>\$ 35,847</u>

During the first nine months of 2008, investment securities totaling \$112.8 million with a weighted average tax equivalent yield of 6.06% were purchased and \$77.1 million with a weighted average tax equivalent yield of 6.15% matured or were called.

At September 30, 2008, estimated fair values of investment securities held to maturity were as follows (in thousands):

	Amortized Cost	Fair Value
U.S. Government and agency obligations	\$ 111,803	\$ 109,411
Municipal securities	19,634	18,674
Total	<u>\$ 131,437</u>	<u>\$ 128,085</u>

Accrued Interest Receivable. The decrease in accrued interest receivable was primarily due to a decrease in the loans receivable balance as well as a decrease in the loan yield and the number of days accrued at September 30, 2008 compared to December 31, 2007.

Real Estate Owned, net. Changes in the composition of real estate owned between September 30, 2008 and December 31, 2007 are presented in the following table (dollars in thousands).

	December 31,		Fair Value	Net Sales	Gain (Loss)	September 30,
	2007	Additions	Adjustments	Proceeds ⁽¹⁾		2008
One- to four-family residential	\$ 1,566	\$ 3,196	\$ (313)	\$ (2,363)	\$ (79)	\$ 2,007
Speculative one- to four-family	5,956	5,984	(797)	(5,212)	(133)	5,798
Land	598	10,013	(1,544)	(334)	36	8,769
Commercial real estate	--	859	(31)	--	--	828
	<u>\$ 8,120</u>	<u>\$20,052</u>	<u>\$ (2,685)</u>	<u>\$ (7,909)</u>	<u>\$ (176)</u>	<u>\$ 17,402</u>

(1) Net sales proceeds include \$5.1 million of loans made by the Bank to facilitate the sale of real estate owned.

Deposits. Changes in the composition of deposits between September 30, 2008 and December 31, 2007 are presented in the following table (dollars in thousands).

	September 30,	December 31,	Increase	Percentage
	2008	2007	(Decrease)	Change
Checking accounts	\$ 157,894	\$ 127,491	\$ 30,403	23.9%
Money Market accounts	46,665	51,424	(4,759)	(9.3)
Savings accounts	24,001	25,088	(1,087)	(4.3)
Certificates of deposit	<u>384,012</u>	<u>426,411</u>	<u>(42,399)</u>	<u>(9.9)</u>
Total deposits	<u>\$ 612,572</u>	<u>\$ 630,414</u>	<u>\$ (17,842)</u>	<u>(2.8)%</u>

Deposits decreased in the comparison period, primarily due to a decrease in certificates of deposit. The decrease was partially offset by an increase in checking accounts. The Bank focused its marketing efforts to increase checking accounts by offering a checking product which has a higher interest rate than the Bank's other checking account products. To earn the maximum rate under the new product, customers must qualify based on usage of electronic banking services such as debit card transactions, e-statements, and direct deposits or automatic payments. The Bank will continue to promote checking accounts as they are an attractive source of funds for the Bank as they offer overall low-interest deposits, fee income potential, and the opportunity to cross-sell other financial services.

Other Borrowings. During the first nine months of 2008, the use of FHLB of Dallas and Federal Reserve Bank borrowings increased by \$15.1 million or 18.3%. The Bank used the funds primarily to purchase investment securities and to pay deposit withdrawals.

Stockholders' Equity. Stockholders' equity increased approximately \$49,000 from December 31, 2007 to September 30, 2008. The increase in stockholders' equity was primarily due to net income totaling \$2.3 million during the first nine months of 2008. In addition, during the nine months ended September 30, 2008, cash dividends of approximately \$2.3 million were paid. See the Unaudited Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2008 for more detail.

Average Balance Sheets

The following table sets forth certain information relating to the Company's average balance sheets and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are based on daily balances during the period.

	Three Months Ended September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield/ Cost (Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:						
Loans receivable(1)	\$ 572,572	\$ 8,601	6.01%	\$ 632,106	\$ 11,020	6.97%
Investment securities(2)	132,143	1,743	5.28	85,666	1,129	5.27
Other interest-earning assets	20,949	107	2.04	18,111	232	5.13
Total interest-earning assets	725,664	10,451	5.76	735,883	12,381	6.73
Noninterest-earning assets	79,510			70,399		
Total assets	<u>805,174</u>			<u>806,282</u>		
Interest-bearing liabilities:						
Deposits	625,439	4,224	2.70	639,452	6,099	3.82
Other borrowings	99,261	931	3.75	85,806	987	4.60
Total interest-bearing liabilities	724,700	5,155	2.84	725,258	7,086	3.91
Noninterest-bearing liabilities	5,833			5,803		
Total liabilities	730,533			731,061		
Stockholders' equity	74,641			75,221		
Total liabilities and stockholders' equity	<u>\$ 805,174</u>			<u>\$ 806,282</u>		
Net interest income		<u>\$ 5,296</u>			<u>\$ 5,295</u>	
Net earning assets	<u>\$ 964</u>			<u>\$ 10,625</u>		
Interest rate spread			<u>2.92%</u>			<u>2.82%</u>
Net interest margin			<u>2.92%</u>			<u>2.88%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>100.13%</u>			<u>101.46%</u>
Nine Months Ended September 30,						
	2008			2007		
	Average Balance	Interest	Average Yield/ Cost (Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:						
Loans receivable(1)	\$ 585,597	\$ 28,096	6.40%	\$ 661,297	\$ 35,225	7.10%
Investment securities(2)	124,259	4,971	5.33	74,260	2,856	5.13
Other interest-earning assets	20,752	387	2.48	18,730	722	5.14
Total interest-earning assets	730,608	33,454	6.10	754,287	38,803	6.86
Noninterest-earning assets	76,527			67,917		
Total assets	<u>807,135</u>			<u>822,204</u>		
Interest-bearing liabilities:						
Deposits	634,797	14,572	3.06	643,475	17,991	3.73
Other borrowings	91,413	2,711	3.96	97,747	3,353	4.57
Total interest-bearing liabilities	726,210	17,283	3.17	741,222	21,344	3.84
Noninterest-bearing liabilities	6,583			5,644		
Total liabilities	732,793			746,866		
Stockholders' equity	74,342			75,338		
Total liabilities and stockholders' equity	<u>\$ 807,135</u>			<u>\$ 822,204</u>		
Net interest income		<u>\$ 16,171</u>			<u>\$ 17,459</u>	
Net earning assets	<u>\$ 4,398</u>			<u>\$ 13,065</u>		
Interest rate spread			<u>2.93%</u>			<u>3.02%</u>
Net interest margin			<u>2.95%</u>			<u>3.09%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>100.61%</u>			<u>101.76%</u>

(1) Includes nonaccrual loans.

(2) Includes FHLB of Dallas stock.

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by prior rate); (ii) changes in rate (change in rate multiplied by prior average volume); (iii) changes in rate-volume (changes in rate multiplied by the change in average volume); and (iv) the net change.

	Three Months Ended September 30, 2008 vs. 2007			Total Increase (Decrease)
	Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	
	(In Thousands)			
Interest income:				
Loans receivable	\$ (1,038)	\$ (1,525)	\$ 144	\$ (2,419)
Investment securities	613	1	--	614
Other interest-earning assets	36	(140)	(21)	(125)
Total interest-earning assets	<u>(389)</u>	<u>(1,664)</u>	<u>123</u>	<u>(1,930)</u>
Interest expense:				
Deposits	(134)	(1,780)	39	(1,875)
Other borrowings	155	(183)	(28)	(56)
Total interest-bearing liabilities	<u>21</u>	<u>(1,963)</u>	<u>11</u>	<u>(1,931)</u>
Net change in net interest income	<u>\$ (410)</u>	<u>\$ 299</u>	<u>\$ 112</u>	<u>\$ 1</u>

	Nine Months Ended September 30, 2008 vs. 2007			Total Increase (Decrease)
	Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	
	(In Thousands)			
Interest income:				
Loans receivable	\$ (4,032)	\$ (3,497)	\$ 400	\$ (7,129)
Investment securities	1,923	115	77	2,115
Other interest-earning assets	78	(373)	(40)	(335)
Total interest-earning assets	<u>(2,031)</u>	<u>(3,755)</u>	<u>437</u>	<u>(5,349)</u>
Interest expense:				
Deposits	(243)	(3,220)	44	(3,419)
Other borrowings	(217)	(454)	29	(642)
Total interest-bearing liabilities	<u>(460)</u>	<u>(3,674)</u>	<u>73</u>	<u>(4,061)</u>
Net change in net interest income	<u>\$ (1,571)</u>	<u>\$ (81)</u>	<u>\$ 364</u>	<u>\$ (1,288)</u>

CHANGES IN RESULTS OF OPERATIONS

The table below presents a comparison of results of operations for the three months ended September 30, 2008 and 2007 (dollars in thousands). Specific changes in captions are discussed in the sections which follow the table.

	Three Months Ended September 30,		Increase (Decrease) 2008 vs 2007	Percentage Change 2008 vs 2007
	2008	2007		
Interest income:				
Loans receivable	\$ 8,601	\$ 11,020	\$ (2,419)	(21.9)%
Investment securities	1,743	1,129	614	54.4
Other	107	232	(125)	(53.9)
Total interest income	10,451	12,381	(1,930)	(15.6)
Interest expense:				
Deposits	4,224	6,099	(1,875)	(30.7)
Other borrowings	931	987	(56)	(5.7)
Total interest expense	5,155	7,086	(1,931)	(27.3)
Net interest income before provision for loan losses	5,296	5,295	1	0.0
Provision for loan losses	1,611	1,330	281	21.1
Net interest income after provision for loan losses	3,685	3,965	(280)	(7.1)
Noninterest income:				
Deposit fee income	1,471	1,235	236	19.1
Earnings on life insurance policies	198	194	4	2.1
Gain on sale of loans	51	201	(150)	(74.6)
Other	493	365	128	35.1
Total noninterest income	2,213	1,995	218	10.9
Noninterest expenses:				
Salaries and employee benefits	3,085	3,287	(202)	(6.2)
Net occupancy expense	672	560	112	20.0%
Real estate owned, net	509	543	(34)	(6.3)
Other	1,500	1,419	81	5.7
Total noninterest expenses	5,766	5,809	(43)	(0.7)
Income before income taxes	132	151	(19)	(12.6)
Income tax provision	(86)	(150)	64	(42.7)
Net income	\$ 218	\$ 301	\$ (83)	(27.6)%
Basic earnings per share	\$ 0.05	\$ 0.06	\$ (0.01)	(16.7)%
Diluted earnings per share	\$ 0.05	\$ 0.06	\$ (0.01)	(16.7)%
Interest rate spread	2.92%	2.82%		
Net interest margin	2.92%	2.88%		
Average full-time equivalents	300	301		
Full-service offices	20	18		

The table below presents a comparison of results of operations for the nine months ended September 30, 2008 and 2007 (dollars in thousands). Specific changes in captions are discussed in the sections which follow the table.

	Nine Months Ended September 30,		Increase (Decrease) 2008 vs 2007	Percentage Change 2008 vs 2007
	2008	2007		
Interest income:				
Loans receivable	\$ 28,096	\$ 35,225	\$ (7,129)	(20.2)%
Investment securities	4,971	2,856	2,115	74.1
Other	387	722	(335)	(46.4)
Total interest income	33,454	38,803	(5,349)	(13.8)
Interest expense:				
Deposits	14,572	17,991	(3,419)	(19.0)
Other borrowings	2,711	3,353	(642)	(19.2)
Total interest expense	17,283	21,344	(4,061)	(19.0)
Net interest income before provision for loan losses	16,171	17,459	(1,288)	(7.4)
Provision for loan losses	4,110	3,662	448	12.2
Net interest income after provision for loan losses	12,061	13,797	(1,736)	(12.6)
Noninterest income:				
Deposit fee income	4,027	3,661	366	10.0
Earnings on life insurance policies	1,760	566	1,194	211.0
Gain on sale of loans	317	664	(347)	(52.3)
Other	1,362	924	438	47.4
Total noninterest income	7,466	5,815	1,651	28.4
Noninterest expenses:				
Salaries and employee benefits	9,717	10,016	(299)	(3.0)
Net occupancy expense	1,957	1,752	205	11.7
Real estate owned, net	1,207	826	381	46.1
Other	4,605	4,740	(135)	(2.8)
Total noninterest expenses	17,486	17,334	152	0.9
Income before income taxes	2,041	2,278	(237)	(10.4)
Income tax provision (benefit)	(273)	284	(557)	(196.1)
Net income	\$ 2,314	\$ 1,994	\$ 320	16.1%
Basic earnings per share	\$ 0.48	\$ 0.41	\$ 0.07	17.1%
Diluted earnings per share	\$ 0.48	\$ 0.41	\$ 0.07	17.1%
Interest rate spread	2.93%	3.02%		
Net interest margin	2.95%	3.09%		
Average full-time equivalents	303	304		
Full-service offices	20	18		

Net Interest Income. Net interest income is determined by the Company's interest rate spread (i.e., the difference between the yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. The decrease in net interest income was primarily due to the level of nonperforming loans.

INTEREST INCOME AND INTEREST EXPENSE

Dollar changes in interest income and interest expense for the comparison periods are presented in the Rate/Volume Analysis table which appears on a previous page.

Interest Income. The decrease in interest income for the three and nine month comparative periods was primarily due to a decrease in the average yield earned on loans receivable as well as a decrease in the average balance of loans receivable and an increase in the level of deferred interest on nonperforming loans. These decreases were offset by an increase in the average balance of investment securities. The decrease in average yields earned on loans receivable was due to decreases in market interest rates and the increased level of nonaccrual loans. The average balance of loans receivable decreased due to repayments and maturities as well as a decrease in loan originations.

Interest Expense. The decrease in interest expense for the three and nine month comparative periods was primarily due to a decrease in the average rates paid on deposits and borrowings. The decrease in the average rates paid on deposit accounts reflects the recent decreases in market interest rates.

Provision for Loan Losses. The provision for loan losses includes charges to maintain an allowance for loan losses adequate to cover probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as of the balance sheet date. Such provision and the adequacy of the allowance for loan losses is evaluated quarterly by management of the Bank based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

The provision for loan losses increased \$281,000 to \$1.6 million for the quarter ended September 30, 2008 compared to \$1.3 million for the quarter ended September 30, 2007 and increased \$448,000 to \$4.1 million for the nine months ended September 30, 2008 compared to \$3.7 million for the same period in 2007. The increases in the provisions for loan losses in both comparable periods were primarily due to an increase in our loss experience on commercial loans and land development loans.

Noninterest Income. The increase in the three month comparative period in 2008 was primarily related to deposit fee income due to an increased checking account fee structure put in place during the second quarter of 2008. The increase in other noninterest income for the nine month comparative period in 2008 was primarily due to a \$1.2 million increase in earnings on life insurance policies due to a death benefit claim recorded during the first quarter in 2008.

Noninterest Expense

Salaries and Employee Benefits. The changes in the composition of this line item are presented below (in thousands):

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2008	2007	2008 vs 2007	2008	2007	2008 vs 2007
Salaries	\$ 2,511	\$ 2,588	\$ (77)	\$ 7,692	\$ 7,824	\$ (132)
Payroll taxes	194	197	(3)	666	676	(10)
Insurance	169	168	1	507	508	(1)
401(k)	78	77	1	234	233	1
Defined benefit plan contribution	88	210	(122)	480	630	(150)
Other	45	47	(2)	138	145	(7)
Total	\$ 3,085	\$ 3,287	\$ (202)	\$ 9,717	\$ 10,016	\$ (299)

Net occupancy expense. The increase in net occupancy expense for the three month and nine month comparative periods was primarily due to two new branch locations opened during 2008.

Real estate owned, net. The changes in the composition of this line item are presented below (in thousands):

	Three Months Ended		Increase (Decrease)	Nine Months Ended		Increase
	September 30,			September 30,		
	2008	2007	2008 vs 2007	2008	2007	2008 vs 2007
Loss provisions	\$ 164	\$ 312	\$ (148)	\$ 480	\$ 390	\$ 90
Net loss (gain) on sales	179	67	112	207	119	88
Taxes and insurance	42	69	(27)	321	161	160
Other	124	95	29	199	156	43
Total	<u>\$ 509</u>	<u>\$ 543</u>	<u>\$ (34)</u>	<u>\$ 1,207</u>	<u>\$ 826</u>	<u>\$ 381</u>

Expenses associated with real estate owned have increased due to the increase in real estate owned balances as discussed in "Asset Quality." Real estate owned is expected to continue to increase in the foreseeable future and real estate owned expenses associated with maintaining the properties are expected to increase accordingly. Future levels of loss provisions and net gains or losses on sales of real estate owned will be dependent on market conditions.

Income Taxes. The income tax benefit increased for the nine months ended September 30, 2008 primarily due to an increase in nontaxable life insurance earnings. The decrease in income tax benefit for the three month comparative period was related to a decrease in taxable income resulting from decreased earnings and increased nontaxable interest from investment securities.

OFF-BALANCE SHEET ARRANGEMENTS

The Company, in the normal course of business, makes commitments to buy or sell assets or to incur or fund liabilities. Commitments include, but are not limited to:

- the origination, purchase or sale of loans;
- the fulfillment of commitments under letters-of-credit, extensions of credit on home equity lines of credit, construction loans, and predetermined overdraft protection limits; and
- the commitment to fund withdrawals of certificates of deposit at maturity.

At September 30, 2008, the Bank's off-balance sheet arrangements principally included lending commitments, which are described below. At September 30, 2008, the Company had no interests in non-consolidated special purpose entities.

At September 30, 2008, commitments included:

- total approved commitments to originate or purchase loans amounting to \$8.4 million, including \$249,000 of loans committed to sell;
- rate lock agreements with customers of \$3.0 million, all of which have been locked with an investor;
- funded mortgage loans committed to sell of \$322,000;
- unadvanced portion of construction loans of \$16.6 million;
- unused lines of credit of \$20.0 million;
- outstanding standby letters of credit of approximately \$3.8 million;
- total predetermined overdraft protection limits of \$15.1 million; and
- certificates of deposit scheduled to mature in one year or less totaling \$277.7 million.

Total unfunded commitments to originate loans for sale and the related commitments to sell of \$3.0 million meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at September 30, 2008.

Historically, a very small percentage of predetermined overdraft limits have been used. At September 30, 2008, overdrafts of accounts with Bounce Protection™ represented usage of 4.47% of the limit. We expect utilization of these overdraft limits to remain at comparable levels in the future.

Based on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. We anticipate that we will continue to have sufficient funds, through repayments, deposits and borrowings, to meet our current commitments.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's liquidity, represented by cash and cash equivalents and eligible investment securities, is a product of its operating, investing and financing activities. The Bank's primary sources of funds are deposits, borrowings, payments on outstanding loans, maturities and calls of investment securities and other short-term investments and funds provided from operations. While scheduled loan amortization and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Calls of investment securities are determined by the issuer and are generally influenced by the level of market interest rates at the bond's call date compared to the coupon rate of the bond. The Bank manages the pricing of its deposits to maintain deposit balances at levels commensurate with the operating, investing and financing activities of the Bank. In addition, the Bank invests excess funds in overnight deposits and other short-term interest-earning assets that provide liquidity to meet lending requirements and pay deposit withdrawals. When funds from the retail deposit market are inadequate for the liquidity needs of the Bank or the pricing of deposits is not as favorable as other sources, the Bank has borrowed from the FHLB of Dallas and the Federal Reserve Bank of St. Louis ("FRB"). During the first nine months of 2008, the use of FHLB and FRB borrowings increased by \$15.1 million or 18.3%. The Bank uses U.S. government agency investment securities and eligible one- to four-family loans as collateral for FHLB advances and commercial real estate and U.S. government agency investment securities as collateral for FRB borrowings. The Bank's borrowing capacity is based on the amount of securities and loans held in custody by the FHLB and FRB. The Bank may transfer additional collateral to provide additional borrowing capacity if needed. Currently, the Bank may borrow short-term FHLB advances with maturities up to thirty days. In addition, brokered deposits may be used to augment the Bank's primary funding sources. At September 30, 2008, the Bank had outstanding brokered deposits of \$1.1 million.

For each of the nine months ended September 30, 2008 and 2007, the Company paid dividends of \$0.48 per share. The determination of future dividends on the Company's common stock will depend on conditions existing at that time with consideration given to the Company's earnings, capital, and liquidity needs.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits and certificates of deposit. On a longer-term basis, the Bank maintains a strategy of investing in various lending products and investment securities. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing savings certificates and savings withdrawals, to repay maturing borrowings, to fund loan commitments, and to purchase investment securities.

As of September 30, 2008, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2008, the Bank's tangible, core and risk-based capital ratios amounted to 8.93%, 8.93% and 13.29%, respectively, compared to regulatory requirements of 1.5%, 4.0% and 8.0%, respectively.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related financial data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Bank's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

FORWARD-LOOKING STATEMENTS

The Company's Quarterly Report on Form 10-Q contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in this document, the words "anticipate", "believe," "estimate," "expect," "intend," "should" and similar expressions, or the negative thereof, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the market value of the Bank's portfolio equity since December 31, 2007. Similarly, while there has been no material change in the Company's asset and liability position since such time, the Bank's increased level of nonperforming assets continued to impact the level of net interest income during the nine months ended September 30, 2008. Correspondingly, the Bank's net interest margin decreased from 3.09% for the nine months ended September 30, 2007 to 2.95% for the same period in 2008. Based on the level of nonperforming assets and competitive pressures on loan and deposit rates, management anticipates continued pressure on the Bank's interest rate spread and interest margin for the fourth quarter of 2008 although the level of maturing certificate of deposits repricing to lower rates will somewhat offset the pressure on the interest rate spread and margin.

CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

Part II

Item 1. Legal Proceedings

Neither the Company nor the Bank is involved in any pending legal proceedings other than non-material legal proceedings occurring in the ordinary course of business.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those previously disclosed in the Company's Form 10-K for the year ended December 31, 2007.

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

ISSUER PURCHASES OF EQUITY SECURITIES

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2008	--	--	--	--
August 1 to August 31, 2008	--	--	--	--
September 1 to September 30, 2008	--	--	--	--

The Company is in its 19th announced repurchase program, which was approved by the board of directors on July 25, 2006, and publicly announced on November 8, 2006. Total shares approved to be purchased in this program are 245,197 of which 214,587 have been purchased as of September 30, 2008. All treasury stock purchases are made under publicly announced repurchase programs.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- Exhibit 31.1 – Certification of Chief Executive Officer,
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
- Exhibit 31.2 – Certification of Chief Financial Officer,
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
- Exhibit 32.1 – Certification of Chief Executive Officer,
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
- Exhibit 32.2 – Certification of Chief Financial Officer,
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

SIGNATURES

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

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

Date: October 28, 2008

By: /s/ Larry J. Brandt
Larry J. Brandt
Chief Executive Officer

Date: October 28, 2008

By: /s/ Sherri R. Billings
Sherri R. Billings
Chief Financial Officer and Chief Accounting Officer

**PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

I, Larry J. Brandt, certify that:

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

Date: October 28, 2008

By: /s/ Larry J. Brandt
Larry J. Brandt
Chief Executive Officer

**PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Sherri R. Billings, certify that:

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

Date: October 28, 2008

By: /s/ Sherri R. Billings
Sherri R. Billings
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of First Federal Bancshares of Arkansas, Inc. (the "Registrant") hereby certifies that the Registrant's Form 10-Q for the three and nine months ended September 30, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ Larry J. Brandt
Larry J. Brandt
Chief Executive Officer

Date: October 28, 2008

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of First Federal Bancshares of Arkansas, Inc. (the "Registrant") hereby certifies that the Registrant's Form 10-Q for the three and nine months ended September 30, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ Sherri R. Billings
Sherri R. Billings
Chief Financial Officer

Date: October 28, 2008