

SIMMONS FIRST NATIONAL CORP  
Form 10-Q  
May 10, 2007

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

**FORM 10-Q**

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

For Quarter Ended March 31, 2007

Commission File Number 0-6253

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

Arkansas  
(State or other jurisdiction of  
incorporation or organization)

71-0407808  
(I.R.S. Employer  
Identification No.)

501 Main Street, Pine Bluff, Arkansas  
(Address of principal executive offices)

71601  
(Zip Code)

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

Not Applicable

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Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of the Registrant's Common Stock as of April 27, 2007 was 14,127,731.

**Simmons First National Corporation**  
**Quarterly Report on Form 10-Q**  
**March 31, 2007**

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**Part I: Financial Information**  
**Item 1. Financial Statements**

**Simmons First National Corporation**  
**Consolidated Balance Sheets**  
**March 31, 2007 and December 31, 2006**

**ASSETS**

| (In thousands, except share data)                     | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|---|----------------------------------|----------------------|
| Cash and non-interest bearing balances due from banks | \$ 71,513                        | \$ 83,452            |
| Interest bearing balances due from banks              | 43,614                           | 45,829               |
| Federal funds sold                                    | 60,270                           | 21,870               |
| Cash and cash equivalents                             | 175,397                          | 151,151              |
| Investment securities                                 | 520,123                          | 527,126              |
| Mortgage loans held for sale                          | 8,718                            | 7,091                |
| Assets held in trading accounts                       | 10,464                           | 4,487                |
| Loans   | 1,798,234                        | 1,783,495            |
| Allowance for loan losses                             | (25,151)                         | (25,385)             |
| Net loans   | 1,773,083                        | 1,758,110            |
| Premises and equipment                                | 69,443                           | 67,926               |
| Foreclosed assets held for sale, net                  | 2,321                            | 1,940                |
| Interest receivable                                   | 21,312                           | 21,974               |
| Bank owned life insurance                             | 36,498                           | 36,133               |
| Goodwill  | 60,605                           | 60,605               |
| Core deposit premiums                                 | 3,993                            | 4,199                |
| Other assets  | 9,739                            | 10,671               |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 2,691,696</b>              | <b>\$ 2,651,413</b>  |

See Condensed Notes to Consolidated Financial Statements.

**Simmons First National Corporation**  
**Consolidated Balance Sheets**  
**March 31, 2007 and December 31, 2006**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| (In thousands, except share data)   | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|---|----------------------------------|----------------------|
| <b>LIABILITIES</b>  |                                  |                      |
| Non-interest bearing transaction accounts   | \$ 316,603                       | \$ 305,327           |
| Interest bearing transaction accounts and savings deposits  | 753,110                          | 738,763              |
| Time deposits   | 1,137,208                        | 1,131,441            |
| Total deposits  | 2,206,921                        | 2,175,531            |
| Federal funds purchased and securities sold<br>under agreements to repurchase   | 108,661                          | 105,036              |
| Short-term debt   | 5,009                            | 6,114                |
| Long-term debt  | 83,582                           | 83,311               |
| Accrued interest and other liabilities  | 25,353                           | 22,405               |
| Total liabilities   | 2,429,526                        | 2,392,397            |
| <b>STOCKHOLDERS' EQUITY</b>   |                                  |                      |
| Capital stock   |                                  |                      |
| Class A, common, par value \$0.01 a share, authorized<br>30,000,000 shares, 14,139,631 issued and outstanding<br>at 2007 and 14,196,855 at 2006 | 141                              | 142                  |
| Surplus   | 46,890                           | 48,678               |
| Undivided profits   | 216,483                          | 212,394              |
| Accumulated other comprehensive income (loss)   |                                  |                      |
| Unrealized depreciation on available-for-sale securities,<br>net of income tax credits of \$806 at 2007 and \$1,319 at 2006                     | (1,344)                          | (2,198)              |
| Total stockholders' equity  | 262,170                          | 259,016              |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 2,691,696</b>              | <b>\$ 2,651,413</b>  |

See Condensed Notes to Consolidated Financial Statements.

**Simmons First National Corporation**  
**Consolidated Statements of Income**  
**Three Months Ended March 31, 2007 and 2006**

| (In thousands, except per share data)   | Three Months Ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | 2007                            | 2006          |
|   | (Unaudited)                     |               |
| <b>INTEREST INCOME</b>  |                                 |               |
| Loans   | \$ 34,095                       | \$ 30,087     |
| Federal funds sold  | 701                             | 175           |
| Investment securities   | 5,721                           | 4,830         |
| Mortgage loans held for sale  | 104                             | 100           |
| Assets held in trading accounts   | 18                              | 25            |
| Interest bearing balances due from banks                                      | 510                             | 297           |
| <b>TOTAL INTEREST INCOME</b>  | <b>41,149</b>                   | <b>35,514</b> |
| <b>INTEREST EXPENSE</b>   |                                 |               |
| Deposits  | 16,194                          | 11,268        |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 1,456                           | 1,104         |
| Short-term debt   | 70                              | 96            |
| Long-term debt  | 1,198                           | 1,094         |
| <b>TOTAL INTEREST EXPENSE</b>   | <b>18,918</b>                   | <b>13,562</b> |
| <b>NET INTEREST INCOME</b>  | <b>22,231</b>                   | <b>21,952</b> |
| Provision for loan losses   | 751                             | 1,708         |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR LOAN LOSSES</b>                | <b>21,480</b>                   | <b>20,244</b> |
| <b>NON-INTEREST INCOME</b>  |                                 |               |
| Trust income  | 1,637                           | 1,367         |
| Service charges on deposit accounts   | 3,497                           | 3,763         |
| Other service charges and fees  | 808                             | 658           |
| Income on sale of mortgage loans, net of commissions                          | 679                             | 676           |
| Income on investment banking, net of commissions                              | 150                             | 107           |
| Credit card fees  | 2,649                           | 2,458         |
| Premiums on sale of student loans   | 882                             | 736           |
| Bank owned life insurance income  | 364                             | 301           |
| Other income  | 788                             | 546           |
| <b>TOTAL NON-INTEREST INCOME</b>  | <b>11,454</b>                   | <b>10,612</b> |
| <b>NON-INTEREST EXPENSE</b>   |                                 |               |
| Salaries and employee benefits  | 13,725                          | 13,505        |
| Occupancy expense, net  | 1,650                           | 1,520         |
| Furniture and equipment expense   | 1,466                           | 1,418         |
| Loss on foreclosed assets   | 24                              | 33            |
| Deposit insurance   | 67                              | 69            |
| Other operating expenses  | 6,282                           | 5,580         |

|                                   |    |        |    |        |
|-----------------------------------|----|--------|----|--------|
| <b>TOTAL NON-INTEREST EXPENSE</b> |    | 23,214 |    | 22,125 |
| <b>INCOME BEFORE INCOME TAXES</b> |    | 9,720  |    | 8,731  |
| Provision for income taxes        |    | 3,083  |    | 2,743  |
| <b>NET INCOME</b>                 | \$ | 6,637  | \$ | 5,988  |
| <b>BASIC EARNINGS PER SHARE</b>   | \$ | 0.47   | \$ | 0.42   |
| <b>DILUTED EARNINGS PER SHARE</b> | \$ | 0.46   | \$ | 0.41   |

See Condensed Notes to Consolidated Financial Statements.

**Simmons First National Corporation**  
**Consolidated Statements of Cash Flows**  
**Three Months Ended March 31, 2007 and 2006**

| (In thousands)  | March 31,<br>2007 | March 31,<br>2006 |
|---|-------------------|-------------------|
|   | (Unaudited)       |                   |
| <b>OPERATING ACTIVITIES</b>   |                   |                   |
| Net income  | \$ 6,637          | \$ 5,988          |
| Items not requiring (providing) cash  |                   |                   |
| Depreciation and amortization   | 1,408             | 1,657             |
| Provision for loan losses   | 751               | 1,708             |
| Net amortization of investment securities   | 48                | 115               |
| Deferred income taxes   | 110               | (414)             |
| Bank owned life insurance income  | (364)             | (301)             |
| Changes in  |                   |                   |
| Interest receivable   | 662               | 1,688             |
| Mortgage loans held for sale  | (1,627)           | 1,004             |
| Assets held in trading accounts   | (5,977)           | (16)              |
| Other assets  | 930               | (3,897)           |
| Accrued interest and other liabilities  | 249               | 2,015             |
| Income taxes payable  | 2,589             | 3,157             |
| Net cash provided by operating activities   | 5,416             | 12,704            |
| <b>INVESTING ACTIVITIES</b>   |                   |                   |
| Net originations of loans   | (16,551)          | 24,477            |
| Purchases of premises and equipment, net  | (2,718)           | (3,130)           |
| Proceeds from sale of foreclosed assets   | 446               | 316               |
| Proceeds from maturities of available-for-sale securities   | 35,756            | 8,480             |
| Purchases of available-for-sale securities  | (25,980)          | (17,700)          |
| Proceeds from maturities of held-to-maturity securities   | 4,220             | 12,230            |
| Purchases of held-to-maturity securities  | (6,188)           | (10,686)          |
| Net cash (used in) provided by investing activities   | (11,015)          | 13,987            |
| <b>FINANCING ACTIVITIES</b>   |                   |                   |
| Net increase in deposits  | 31,390            | 33,698            |
| Net repayments of short-term debt   | (1,105)           | (5,786)           |
| Dividends paid  | (2,548)           | (2,280)           |
| Proceeds from issuance of long-term debt  | 6,975             | --                |
| Repayment of long-term debt   | (6,704)           | (3,927)           |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | 3,625             | (15,406)          |
| Repurchase of common stock, net   | (1,788)           | (2,343)           |
| Net cash provided by financing activities   | 29,845            | 3,956             |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>24,246</b>     | <b>30,647</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>151,151</b>    | <b>101,573</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 175,397</b> | <b>\$ 132,220</b> |

See Condensed Notes to Consolidated Financial Statements.

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**Simmons First National Corporation**  
**Consolidated Statements of Stockholders' Equity**  
**Three Months Ended March 31, 2007 and 2006**

| (In thousands, except share data)   | Common<br>Stock | Surplus   | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Undivided<br>Profits | Total      |
|---|-----------------|-----------|--|----------------------|------------|
| Balance, December 31, 2005  | \$ 143          | \$ 53,723 | \$ (4,360)   | \$ 194,579           | \$ 244,085 |
| Comprehensive income  |                 |           |  |                      |            |
| Net income  | --              | --        | --   | 5,988                | 5,988      |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credit of \$143   | --              | --        | (239)  | --                   | (239)      |
| Comprehensive income  |                 |           |  |                      | 5,749      |
| Stock issued as bonus shares - 2,500 shares   | --              | 73        | --   | --                   | 73         |
| Exercise of stock options - 45,980 shares   | 1               | 728       | --   | --                   | 729        |
| Securities exchanged under stock option plan  | --              | (627)     | --   | --                   | (627)      |
| Repurchase of common stock - 89,500 shares  | (1)             | (2,517)   | --   | --                   | (2,518)    |
| Dividends paid - \$0.16 per share   | --              | --        | --   | (2,280)              | (2,280)    |
| Balance, March 31, 2006 (Unaudited)   | 143             | 51,380    | (4,599)  | 198,287              | 245,211    |
| Comprehensive income  |                 |           |  |                      |            |
| Net income  | --              | --        | --   | 21,493               | 21,493     |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credit of \$1,439 | --              | --        | 2,401  | --                   | 2,401      |
| Comprehensive income  |                 |           |  |                      | 23,894     |
| Stock issued as bonus shares - 7,700 shares   | --              | 202       | --   | --                   | 202        |
| Exercise of stock options - 60,900 shares   | --              | 788       | --   | --                   | 788        |
| Securities exchanged under stock option plan  | --              | (664)     | --   | --                   | (664)      |
| Repurchase of common stock - 113,600 shares   | (1)             | (3,028)   | --   | --                   | (3,029)    |
| Dividends paid - \$0.52 per share   | --              | --        | --   | (7,386)              | (7,386)    |
| Balance, December 31, 2006  | 142             | 48,678    | (2,198)  | 212,394              | 259,016    |
| Comprehensive income  |                 |           |  |                      |            |
| Net income  | --              | --        | --   | 6,637                | 6,637      |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of \$513        | --              | --        | 854  | --                   | 854        |
| Comprehensive income  |                 |           |  |                      | 7,491      |
|   | --              | 281       | --   | --                   | 281        |

Exercise of stock options - 15,800  
shares

|  |        |           |            |            |            |
|--|--------|-----------|------------|------------|------------|
| Securities exchanged under stock option plan       | --     | (98)      | --         | --         | (98)       |
| Stock granted under stock-based compensation plans | --     | 19        | --         | --         | 19         |
| Repurchase of common stock - 69,678 shares         | (1)    | (1,990)   | --         | --         | (1,991)    |
| Dividends paid - \$0.18 per share                  | --     | --        | --         | (2,548)    | (2,548)    |
| Balance, March 31, 2007 (Unaudited)                | \$ 141 | \$ 46,890 | \$ (1,344) | \$ 216,483 | \$ 262,170 |

See Condensed Notes to Consolidated Financial Statements.

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**SIMMONS FIRST NATIONAL CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1: BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of Simmons First National Corporation and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2006 has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2006 filed with the Securities and Exchange Commission.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, on January 1, 2007. See Note 6 - Income Taxes for additional information. There have been no other significant changes to the Company's accounting policies from the 2006 Form 10-K.

**Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial position, operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. Statement No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Statement No. 159 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial position, operations or cash flows.

In September 2006, the FASB ratified the consensus reached by the FASB's Emerging Issues Task Force (EITF) relating to EITF 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires employers accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with FASB Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion - 1967. Entities should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. EITF 06-4 is effective for the Company on January 1, 2008. The Company is currently evaluating the effect the implementation of EITF 06-4 will have on its financial position, operations or cash flows.

### Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three months ended March 31, 2007 and 2006.

| (In thousands, except per share data)    | 2007     | 2006     |
|--|----------|----------|
| Net Income                               | \$ 6,637 | \$ 5,988 |
| Average common shares outstanding        | 14,178   | 14,265   |
| Average potential dilutive common shares | 217      | 274      |
| Average diluted common shares            | 14,395   | 14,539   |
| Basic earnings per share                 | \$ 0.47  | \$ 0.42  |
| Diluted earnings per share               | \$ 0.46  | \$ 0.41  |

**NOTE 2: INVESTMENT SECURITIES**

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

| (In thousands)                   | March 31,<br>2007 |                              |                                 |                            | December 31,<br>2006 |                              |                                 |                            |
|----------------------------------|-------------------|------------------------------|---------------------------------|----------------------------|----------------------|------------------------------|---------------------------------|----------------------------|
|                                  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Estimated<br>Fair<br>Value | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Estimated<br>Fair<br>Value |
| <u>Held-to-Maturity</u>          |                   |                              |                                 |                            |                      |                              |                                 |                            |
| U.S. Government agencies         | \$ 54,998         | \$ 362                       | \$ (213)                        | \$ 55,147                  | \$ 54,998            | \$ 367                       | \$ (272)                        | \$ 55,093                  |
| Mortgage-backed securities       | 151               | 3                            | (1)                             | 153                        | 155                  | 3                            | (1)                             | 157                        |
| State and political subdivisions | 124,415           | 637                          | (897)                           | 124,155                    | 122,472              | 667                          | (892)                           | 122,247                    |
| Other securities                 | 2,337             | --                           | --                              | 2,337                      | 2,319                | --                           | --                              | 2,319                      |
|                                  | \$ 181,901        | \$ 1,002                     | \$ (1,111)                      | \$ 181,792                 | \$ 179,944           | \$ 1,037                     | \$ (1,165)                      | \$ 179,816                 |
| <u>Available-for-Sale</u>        |                   |                              |                                 |                            |                      |                              |                                 |                            |
| U.S. Treasury                    | \$ 11,452         | \$ 1                         | \$ (19)                         | \$ 11,434                  | \$ 6,970             | \$ --                        | \$ (30)                         | \$ 6,940                   |
| U.S. Government agencies         | 313,105           | 363                          | (2,857)                         | 310,611                    | 326,301              | 287                          | (4,177)                         | 322,411                    |
| Mortgage-backed securities       | 3,010             | 1                            | (63)                            | 2,948                      | 3,032                | --                           | (76)                            | 2,956                      |
| State and political subdivisions | 1,125             | 7                            | --                              | 1,132                      | 1,360                | 10                           | --                              | 1,370                      |
| Other securities                 | 11,680            | 417                          | --                              | 12,097                     | 13,035               | 470                          | --                              | 13,505                     |
|                                  | \$ 340,372        | \$ 789                       | \$ (2,939)                      | \$ 338,222                 | \$ 350,698           | \$ 767                       | \$ (4,283)                      | \$ 347,182                 |

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$389,408,000 at March 31, 2007 and \$400,668,000 at December 31, 2006.

The book value of securities sold under agreements to repurchase amounted to \$78,786,000 and \$80,566,000 for March 31, 2007 and December 31, 2006, respectively.

Income earned on securities for the three months ended March 31, 2007 and 2006 is as follows:

| (In thousands)     | 2007   | 2006   |
|--------------------|--------|--------|
| Taxable            |        |        |
| Held-to-maturity   | \$ 725 | \$ 319 |
| Available-for-sale | 3,761  | 3,352  |
| Non-taxable        |        |        |
| Held-to-maturity   | 1,219  | 1,120  |

|                    |    |       |    |       |
|--------------------|----|-------|----|-------|
| Available-for-sale |    | 16    |    | 39    |
| Total              | \$ | 5,721 | \$ | 4,830 |

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Maturities of investment securities at March 31, 2007 are as follows:

| (In thousands)               | Held-to-Maturity  |                   | Available-for-Sale |                   |
|------------------------------|-------------------|-------------------|--------------------|-------------------|
|                              | Amortized Cost    | Fair Value        | Amortized Cost     | Fair Value        |
| One year or less             | \$ 18,240         | \$ 18,199         | \$ 85,563          | \$ 84,837         |
| After one through five years | 57,733            | 57,568            | 110,119            | 108,647           |
| After five through ten years | 85,359            | 85,408            | 130,904            | 130,591           |
| After ten years              | 19,162            | 19,210            | 2,106              | 2,050             |
| Other securities             | 1,407             | 1,407             | 11,680             | 12,097            |
| <b>Total</b>                 | <b>\$ 181,901</b> | <b>\$ 181,792</b> | <b>\$ 340,372</b>  | <b>\$ 338,222</b> |

There were no realized gains or losses as of March 31, 2007 or 2006.

Most of the state and political subdivision debt obligations are non-rated bonds and represent small, Arkansas issues, which are evaluated on an ongoing basis.

### NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

The various categories are summarized as follows:

| (In thousands)                                      | March 31,<br>2007   | December 31,<br>2006 |
|---|---------------------|----------------------|
| <b>Consumer</b>                                     |                     |                      |
| Credit cards  | \$ 133,511          | \$ 143,359           |
| Student loans                                       | 84,358              | 84,831               |
| Other consumer                                      | 141,212             | 142,596              |
| <b>Real Estate</b>                                  |                     |                      |
| Construction  | 276,582             | 277,411              |
| Single family residential                           | 366,219             | 364,450              |
| Other commercial                                    | 536,421             | 512,404              |
| <b>Commercial</b>                                   |                     |                      |
| Commercial  | 182,548             | 178,028              |
| Agricultural  | 61,617              | 62,293               |
| Financial institutions                              | 5,080               | 4,766                |
| Other   | 10,686              | 13,357               |
| <b>Total loans before allowance for loan losses</b> | <b>\$ 1,798,234</b> | <b>\$ 1,783,495</b>  |

As of March 31, 2007, credit card loans, which are unsecured, were \$133,511,000, or 7.4% of total loans, versus \$143,359,000, or 8.0% of total loans at December 31, 2006. The credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Credit card loans are regularly reviewed to facilitate the identification and monitoring of creditworthiness.

At March 31, 2007 and December 31, 2006, impaired loans totaled \$9,810,000 and \$12,829,000, respectively. All impaired loans had either specific or general allocations within the allowance for loan losses. Allocations of the allowance for loan losses relative to impaired loans were \$3,151,000 at March 31, 2007 and \$3,418,000 at

December 31, 2006. Approximately \$73,000 and \$122,000 of interest income was recognized on average impaired loans of \$11,320,000 and \$14,020,000 as of March 31, 2007 and 2006, respectively. Interest recognized on impaired loans on a cash basis during the first three months of 2007 and 2006 was immaterial.



Transactions in the allowance for loan losses are as follows:

| (In thousands)  | 2007      | 2006      |
|---|-----------|-----------|
| Balance, beginning of year  | \$ 25,385 | \$ 26,923 |
| Additions   |           |           |
| Provision charged to expense  | 751       | 1,708     |
|   | 26,136    | 28,631    |
| Deductions  |           |           |
| Losses charged to allowance, net of recoveries of \$689 and \$691 for the first three months of 2007 and 2006, respectively | 985       | 643       |
| Reclassification of reserve related to unfunded commitments <sup>(1)</sup>  | --        | 1,525     |
| Balance, March 31   | \$ 25,151 | 26,463    |
| Additions   |           |           |
| Provision charged to expense  |           | 2,054     |
|   |           | 28,517    |
| Deductions  |           |           |
| Losses charged to allowance, net of recoveries of \$2,415 for the last nine months of 2006                                  |           | 3,132     |
| Balance, end of year  | \$        | 25,385    |

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(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.

**NOTE 4: GOODWILL AND CORE DEPOSIT PREMIUMS**

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Core deposit premiums are periodically evaluated as to the recoverability of their carrying value.

The carrying basis and accumulated amortization of core deposit premiums (net of core deposit premiums that were fully amortized) at March 31, 2007 and December 31, 2006, were as follows:

| (In thousands)            | March 31,<br>2007 | December 31,<br>2006 |
|---------------------------|-------------------|----------------------|
| Gross carrying amount     | \$ 6,822          | \$ 6,822             |
| Accumulated amortization  | (2,829)           | (2,623)              |
| Net core deposit premiums | \$ 3,993          | \$ 4,199             |

Core deposit premium amortization expense recorded for the three months ended March 31, 2007 and 2006, was \$207,000 and \$207,000, respectively. The Company's estimated amortization expense for the remainder of 2007 is \$611,000, and for each of the following four years is:

2008 - \$807,000; 2009 - \$802,000; 2010 - \$699,000; and 2011 - \$451,000.

**NOTE 5: TIME DEPOSITS**

Time deposits include approximately \$450,558,000 and \$450,310,000 of certificates of deposit of \$100,000 or more at March 31, 2007 and December 31, 2006 respectively.

**NOTE 6: INCOME TAXES**

The provision for income taxes is comprised of the following components:

| (In thousands)                 | March 31,<br>2007 | March 31,<br>2006 |
|--------------------------------|-------------------|-------------------|
| Income taxes currently payable | \$ 2,973          | \$ 3,157          |
| Deferred income taxes          | 110               | (414)             |
| Provision for income taxes     | \$ 3,083          | \$ 2,743          |

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The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

| (In thousands)  | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
| <b>Deferred tax assets</b>  |                   |                      |
| Allowance for loan losses   | \$ 8,814          | \$ 8,543             |
| Valuation of foreclosed assets  | 63                | 63                   |
| Deferred compensation payable   | 1,316             | 1,275                |
| FHLB advances   | 47                | 58                   |
| Vacation compensation   | 761               | 740                  |
| Loan interest   | 140               | 140                  |
| Available-for-sale securities   | 806               | 1,319                |
| Other   | 102               | 174                  |
| <b>Total deferred tax assets</b>  | <b>12,049</b>     | <b>12,312</b>        |
| <b>Deferred tax liabilities</b>   |                   |                      |
| Accumulated depreciation  | (755)             | (852)                |
| Deferred loan fee income and expenses, net                                | (812)             | (787)                |
| FHLB stock dividends  | (917)             | (887)                |
| Goodwill and core deposit premium amortization                            | (6,289)           | (6,051)              |
| Other   | (1,044)           | (880)                |
| <b>Total deferred tax liabilities</b>                                     | <b>(9,817)</b>    | <b>(9,457)</b>       |
| <b>Net deferred tax assets included in other assets on balance sheets</b> | <b>\$ 2,232</b>   | <b>\$ 2,855</b>      |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

| (In thousands)                             | March 31,<br>2007 | March 31,<br>2006 |
|--|-------------------|-------------------|
| Computed at the statutory rate (35%)       | \$ 3,402          | \$ 3,056          |
| <b>Increase (decrease) resulting from:</b> |                   |                   |
| Tax exempt income                          | (482)             | (455)             |
| Other differences, net                     | 163               | 142               |
| <b>Actual tax provision</b>                | <b>\$ 3,083</b>   | <b>\$ 2,743</b>   |

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, effective January 1, 2007. Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in

which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of Interpretation 48 did not have a significant impact on the Company's financial position, operations or cash flows.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction. The Company's U.S. federal income tax returns are open and subject to examinations from the 2003 tax year and forward. The Company's various state income tax returns are generally open from the 2003 and later tax return years based on individual state statute of limitations.

#### NOTE 7: SHORT-TERM AND LONG-TERM DEBT

Long-term debt at March 31, 2007 and December 31, 2006, consisted of the following components:

| (In thousands)  | March 31,<br>2007 | December 31,<br>2006 |
|---|-------------------|----------------------|
| Note Payable, due 2007, at a floating rate of 0.90% above the one-month LIBOR rate, reset monthly, unsecured  | \$ 2,000          | \$ 2,000             |
| FHLB advances, due 2007 to 2024, 2.58% to 8.41% secured by residential real estate loans  | 50,652            | 50,381               |
| Trust preferred securities, due 2033, fixed at 8.25%, callable in 2008 without penalty  | 10,310            | 10,310               |
| Trust preferred securities, due 2033, floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable in 2008 without penalty  | 10,310            | 10,310               |
| Trust preferred securities, due 2033, fixed rate of 6.97% through 2010, thereafter, in 2010 without penalty at a floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable | 10,310            | 10,310               |
|   | \$ 83,582         | \$ 83,311            |

At March 31, 2007, the Company had Federal Home Loan Bank ("FHLB") advances with original maturities of one year or less of \$4.5 million with a weighted average rate of 5.20% which are not included in the above table.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of each trust. The preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust's obligations under the trust securities issued by each respective trust.

Aggregate annual maturities of long-term debt at March 31, 2007 are:

| (In thousands) | Year       | Annual<br>Maturities |
|----------------|------------|----------------------|
|                | 2007       | \$ 8,410             |
|                | 2008       | 13,058               |
|                | 2009       | 5,291                |
|                | 2010       | 5,212                |
|                | 2011       | 4,012                |
|                | Thereafter | 47,599               |
|                | Total      | \$ 83,582            |

#### **NOTE 8: CONTINGENT LIABILITIES**

The Company and/or its subsidiaries have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries. The Company or its subsidiaries remain the subject of two (2) lawsuits asserting claims against the Company or its subsidiaries.

On October 1, 2003, an action in Pulaski County Circuit Court was filed by Thomas F. Carter, Tena P. Carter and certain related entities against Simmons First Bank of South Arkansas and Simmons First National Bank alleging wrongful conduct by the banks in the collection of certain loans. The plaintiffs are seeking \$2,000,000 in compensatory damages and \$10,000,000 in punitive damages. The Company and the banks have filed a Motion to Dismiss. The plaintiffs have been granted additional time to discover any evidence for litigation. At this time, no basis for any material liability has been identified. The Company and the banks continue to vigorously defend the claims asserted in the suit.

On April 3, 2006, an action in Johnson County Circuit Court was filed by Tria Xiong and Mai Lee Xiong against Simmons First Bank of Russellville and certain individuals alleging wrongful conduct by the bank in the underwriting and origination of certain loans. The plaintiffs are seeking an unspecified sum in compensatory damages and \$1,000,000.00 in punitive damages. Discovery is in process, and the suit is pending, with no court date set. At this time, no basis for any material liability has been identified. The Company and the bank plan to vigorously defend the claims asserted in the suit.

**NOTE 9: CAPITAL STOCK**

On May 25, 2004, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 5% of the then outstanding Common Stock, or 733,485 shares. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the three-month period ended March 31, 2007, the Company repurchased 69,678 shares of stock under the repurchase plan with a weighted average repurchase price of \$28.62 per share. Under the current stock repurchase plan, the Company can repurchase an additional 271,289 shares.

**NOTE 10: UNDIVIDED PROFITS**

The Company's subsidiary banks are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Comptroller of the Currency is required, if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits, as defined, for that year combined with its retained net profits of the preceding two years. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of current year earnings plus 75% of the retained net earnings of the preceding year. At March 31, 2007, the bank subsidiaries had approximately \$9 million available for payment of dividends to the Company, without prior approval of the regulatory agencies.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier 1 leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of March 31, 2007, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's "total risk-based capital" ratio was 13.61% at March 31, 2007.

**NOTE 11: STOCK BASED COMPENSATION**

The Company's Board of Directors has adopted various stock compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, and bonus stock awards. Pursuant to the plans, shares are reserved for future issuance by the Company, upon exercise of stock options or awarding of bonus shares granted to officers and other key employees.

The table below summarizes the transactions under the Company's active stock compensation plans for the three months ended March 31, 2007:

|                             | Stock Options Outstanding |                                 | Non-Vested Stock Awards Outstanding |  |
|-----------------------------|---------------------------|---------------------------------|-------------------------------------|--|
|                             | Number of Shares          | Weighted Average Exercise Price | Number of Shares                    | Weighted Average Grant-Date Fair-Value |
| Balance, January 1, 2007    | 516,670                   | \$ 16.32                        | 22,646                              | \$ 25.69                               |
| Granted                     | --                        | --                              | --                                  | --                                     |
| Stock Options Exercised     | (15,800)                  | 17.80                           | --                                  | --                                     |
| Stock Awards Vested         | --                        | --                              | (900)                               | 27.67                                  |
| Forfeited/Expired           | --                        | --                              | --                                  | --                                     |
| Balance, March 31, 2007     | 500,870                   | \$ 16.27                        | 21,746                              | \$ 25.60                               |
| Exercisable, March 31, 2007 | 436,368                   | \$ 14.86                        |                                     |  |

The following table summarizes information about stock options under the plans outstanding at March 31, 2007:

| Range of Exercise Prices | Options Outstanding | Options Outstanding                         |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          |                     | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
| \$10.56 to \$12.22       | 326,800             | 1.4 Years                                   | \$ 12.06                        | 326,800             | \$ 12.06                        |
| \$15.35 to \$16.32       | 13,660              | 1.5 Years                                   | \$ 15.82                        | 13,660              | \$ 15.82                        |
| \$23.78 to \$24.50       | 98,210              | 3.9 Years                                   | \$ 24.06                        | 86,808              | \$ 24.06                        |
| \$26.19 to \$27.67       | 62,200              | 5.3 Years                                   | \$ 26.20                        | 9,100               | \$ 26.21                        |

Stock-based compensation expense totaled \$19,395 and \$14,614 during the three months ended March 31, 2007 and 2006, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. Unrecognized stock-based compensation expense related to stock options totaled \$267,595 at March 31, 2007. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.88 years. Unrecognized stock-based compensation expense related to non-vested stock awards was \$556,781 at March 31, 2007. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.57 years.

Aggregate intrinsic values of outstanding stock options and exercisable stock options at March 31, 2007 were \$6.9 million and \$6.6 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$30.07 as of March 30, 2007, and the exercise price multiplied by the number of options outstanding. The total intrinsic values of stock options exercised during the three months ended March 31, 2007 and 2006, were \$193,825 and \$639,581, respectively.



**NOTE 12: ADDITIONAL CASH FLOW INFORMATION**

| (In thousands)    | Three Months Ended<br>March 31, |           |
|-------------------|---------------------------------|-----------|
|                   | 2007                            | 2006      |
| Interest paid     | \$ 16,675                       | \$ 13,440 |
| Income taxes paid | \$ 0                            | \$ 0      |

**NOTE 13: CERTAIN TRANSACTIONS**

From time to time the Company and its subsidiaries have made loans and other extensions of credit to directors, officers, their associates and members of their immediate families. From time to time directors, officers and their associates and members of their immediate families have placed deposits with the Company's subsidiary banks. Such loans, other extensions of credit and deposits were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features.

**NOTE 14: COMMITMENTS AND CREDIT RISK**

The Company grants agri-business, commercial and residential loans to customers throughout Arkansas, along with credit card loans to customers throughout the United States. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At March 31, 2007, the Company had outstanding commitments to extend credit aggregating approximately \$213,017,000 and \$454,438,000 for credit card commitments and other loan commitments, respectively. At December 31, 2006, the Company had outstanding commitments to extend credit aggregating approximately \$202,047,000 and \$529,697,000 for credit card commitments and other loan commitments, respectively.

Letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to \$9,890,000 and \$5,477,000 at March 31, 2007 and December 31, 2006, respectively, with terms ranging from 90 days to three years. At March 31, 2007 and December 31, 2006 the Company's deferred revenue under standby letter of credit agreements is approximately \$9,000 and \$35,000, respectively.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**BKD, LLP**

Certified Public Accountants  
200 East Eleventh  
Pine Bluff, Arkansas

Audit Committee, Board of Directors and Stockholders  
Simmons First National Corporation  
Pine Bluff, Arkansas

We have reviewed the accompanying consolidated balance sheet of **SIMMONS FIRST NATIONAL CORPORATION** as of March 31, 2007, and the related consolidated statements of income for the three-month periods ended March 31, 2007 and 2006, and the related consolidated statements of stockholders' equity and cash flows for the three-month periods ended March 31, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 19, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**BKD, LLP**

/s/ BKD, LLP

Pine Bluff, Arkansas  
May 3, 2007

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

Simmons First National Corporation recorded earnings of \$6,637,000, or \$0.46 diluted earnings per share for the first quarter of 2007, compared to earnings of \$5,988,000, or \$0.41 diluted earnings per share for same period in 2006. This represents a \$649,000, or 10.8% increase in the first quarter 2007 earnings over 2006. From March 31, 2006 to March 31, 2007, quarterly diluted earnings per share increased by \$0.05, or 12.2%. Return on average assets and return on average stockholders' equity for the three-month period ended March 31, 2007, were 1.01% and 10.25%, compared to 0.96% and 9.87%, respectively, for the same period in 2006. The increase in earnings for the quarter over the same period last year was due to growth in the loan portfolio, an improved yield in the securities portfolio, increased non-interest income and the continued control of non-interest expense, even during the Company's de novo expansion process. The primary reason for the increase in earnings was the continued improvement in asset quality and the related reduction in the provision for loan losses.

The non-performing assets ratio (the sum of non-performing loans and foreclosed assets divided by the sum of total loans and foreclosed assets) was 61 basis points and 67 basis points at March 31, 2007 and December 31, 2006, respectively. Non-performing loans to total loans were 48 basis points at the end of the quarter, compared to 56 basis points at December 31, 2006. The allowance for loan losses equaled 292% of non-performing loans as of March 31, 2007, compared to 252% as of year-end 2006. The allowance for loan losses as a percent of total loans equaled 1.40% and 1.42% as of March 31, 2007 and December 31, 2006, respectively.

Annualized net charge-offs to total loans for the first quarter of 2007 were 22 basis points. Excluding credit cards, annualized net charge-offs to total loans were 13 basis points. The credit card annualized net charge-offs as a percent of the credit card portfolio were 1.41% for the quarter ended March 31, 2007, nearly 350 basis points below the most recently published industry average of 4.85%. However, net credit card charge offs as a percent of the credit card portfolio increased from 1.05% in the previous quarter. Credit card charge-offs increased during the fourth quarter of 2005 due to a new bankruptcy law that went into effect in October of 2005. While bankruptcy filings have declined significantly from the high levels of the fourth quarter of 2005, the Company does not expect the year-to-date results to be maintained throughout the balance of 2007. The Company anticipates credit card charge-offs will gradually return to the Company's historical level of approximately 2.50%.

Total assets for the Company at March 31, 2007, were \$2.692 billion, an increase of \$40.3 million, or 1.5% from December 31, 2006. Stockholders' equity at the end of the first quarter of 2007 was \$262.2 million, a \$3.2 million, or 1.2% increase from December 31, 2006.

Simmons First National Corporation is an Arkansas based financial holding company with eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. The Company's eight banks conduct financial operations from 86 offices, of which 82 are financial centers, located in 48 communities.

## **CRITICAL ACCOUNTING POLICIES**

### **Overview**

Management has reviewed its various accounting policies. Based on this review management believes the policies most critical to the Company are the policies associated with its lending practices including the accounting for the allowance for loan losses, treatment of goodwill, recognition of fee income, estimates of income taxes and employee benefit plans as it relates to stock options.

### **Loans**

Loans which the Company has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any loans charged-off, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the accrual method and includes amortization of net deferred loan fees and costs over the estimated life of the loan. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well secured and in the process of collection.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

### **Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is maintained at a level considered adequate to provide for potential loan 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 period end. This estimate is based on management's evaluation of the loan portfolio, as well as on prevailing and anticipated economic conditions and historical losses by loan category. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral. The unallocated reserve generally serves to compensate for the uncertainty in estimating loan losses, including the possibility of changes in risk ratings and specific reserve allocations in the loan portfolio as a result of the Company's ongoing risk management system.

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Specific allocations are applied when quantifiable factors are present requiring a greater allocation than that established using the classified asset approach, as defined by the Office of the Comptroller of the Currency. Accrual of interest is discontinued and interest accrued and unpaid is removed at the time such amounts are delinquent 90 days, unless management is aware of circumstances which warrant continuing the interest accrual. Interest is recognized for nonaccrual loans only upon receipt and only after all principal amounts are current according to the terms of the contract.

### **Goodwill**

Goodwill represents the excess of cost over the fair value of net assets of acquired subsidiaries and branches. Financial Accounting Standards Board (FASB) Statement No. 142 and No. 147 eliminated the amortization for these assets as of January 1, 2002. While goodwill is not amortized, impairment testing of goodwill is performed annually, or more frequently if certain conditions occur. The Company did not record impairment of goodwill in 2007 or 2006.

### **Core Deposit Premiums**

Core deposit premiums are being amortized using both straight-line and accelerated methods over periods ranging from 8 to 11 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

### **Fee Income**

Periodic credit card fees, net of direct origination costs, are recognized as revenue on a straight-line basis over the period the fee entitles the cardholder to use the card. Origination fees and costs for other loans are being amortized over the estimated life of the loan.

### **Income Taxes**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, on January 1, 2007. See Note 6 - Income Taxes in the accompanying notes to consolidated financial statements included elsewhere in this report for additional information.

### **Employee Benefit Plans**

The Company has stock-based employee compensation plans and recognizes compensation expense for stock options in accordance with FASB Statement No. 123, Share-Based Payment (Revised 2004).

**NET INTEREST INCOME****Overview**

Net interest income, the Company's principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 37.50%.

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

For the three-month period ended March 31, 2007, net interest income on a fully taxable equivalent basis was \$23.1 million, an increase of \$325,000, or 1.4%, from the same period in 2006. The increase in net interest income was the result of a \$5.7 million increase in interest income offset by a \$5.4 million increase in interest expense.

The \$5.7 million increase in interest income primarily is the result of a 60 basis point increase in yield on earning assets associated with the repricing to a higher interest rate environment, as well as a \$134 million increase in average interest earning assets due to internal growth. The growth in average interest earning assets resulted in a \$2.2 million improvement in interest income. The growth in average loans accounted for \$1.6 million of this increase. The higher interest rates accounted for a \$3.5 million increase in interest income. The most significant component of this increase was the \$2.4 million increase associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio increased 57 basis points from 7.21% to 7.78%.

The \$5.4 million increase in interest expense is the result of an 87 basis point increase in cost of funds due to competitive repricing during a higher interest rate environment, coupled with a \$130.3 million increase in average interest bearing liabilities generated through internal growth. The higher interest rates accounted for a \$4.0 million increase in interest expense. The most significant component of this increase was the \$2.9 million increase associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits increased 109 basis points from 3.55% to 4.64%. The higher level of average interest bearing liabilities resulted in a \$1.3 million increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately \$125.1 million from internal deposit growth and \$5.2 million in federal funds purchased and other debt.

## Net Interest Margin

The Company's net interest margin decreased 17 basis points to 3.88% for the three-month period ended March 31, 2007, when compared to 4.05% for the same period in 2006. This decrease in the net interest margin was primarily due to the increase in the cost of funds resulting from deposit repricing, coupled with the effect of the inverted yield curve between short-term and long-term interest rates. Net interest margin increased by 2 basis points from the previous quarter due primarily to the improvement in the yield on securities from maturities and repricing in the first quarter. The rate of increase in the average cost of deposits also began to slow during the quarter. Due to the current inverted yield curve and the competitive deposit market, the Company anticipates a flat to slightly improving margin for the balance of 2007.

## Net Interest Income Tables

Table 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month periods ended March 31, 2007 and 2006, respectively, as well as changes in fully taxable equivalent net interest margin for the three-month periods ended March 31, 2007 versus March 31, 2006.

**Table 1: Analysis of Net Interest Income**

(FTE =Fully Taxable Equivalent)

| (\$ in thousands)                    | Period Ended March 31, |           |
|--------------------------------------|------------------------|-----------|
|                                      | 2007                   | 2006      |
| Interest income                      | \$ 41,149              | \$ 35,514 |
| FTE adjustment                       | 826                    | 780       |
| Interest income - FTE                | 41,975                 | 36,294    |
| Interest expense                     | 18,918                 | 13,562    |
| Net interest income - FTE            | \$ 23,057              | \$ 22,732 |
| Yield on earning assets - FTE        | 7.06%                  | 6.46%     |
| Cost of interest bearing liabilities | 3.70%                  | 2.83%     |
| Net interest spread - FTE            | 3.36%                  | 3.63%     |
| Net interest margin - FTE            | 3.88%                  | 4.05%     |

**Table 2: Changes in Fully Taxable Equivalent Net Interest Margin**

| (In thousands)  | March 31,<br>2007 vs. 2006 |         |
|---|----------------------------|---------|
| Increase due to change in earning assets                                      | \$                         | 2,230   |
| Increase due to change in earning asset yields                                |                            | 3,451   |
| Decrease due to change in interest bearing liabilities                        |                            | (1,337) |
| Decrease due to change in interest rates paid on interest bearing liabilities |                            | (4,018) |
| Increase in net interest income   | \$                         | 326     |

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three-month periods ended March 31, 2007 and 2006. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

**Table 3: Average Balance Sheets and Net Interest Income Analysis**

| (\$ in thousands)   | Three Months Ended March 31, |                            |                   |                 |                            |                   |
|---|------------------------------|----------------------------|-------------------|-----------------|----------------------------|-------------------|
|   | Average Balance              | 2007<br>Income/<br>Expense | Yield/<br>Rate(%) | Average Balance | 2006<br>Income/<br>Expense | Yield/<br>Rate(%) |
| <b><u>ASSETS</u></b>  |                              |                            |                   |                 |                            |                   |
| Earning Assets  |                              |                            |                   |                 |                            |                   |
| Interest bearing balances   |                              |                            |                   |                 |                            |                   |
| due from banks  | \$ 37,957                    | \$ 510                     | 5.45              | \$ 27,968       | \$ 297                     | 4.31              |
| Federal funds sold  | 51,383                       | 701                        | 5.53              | 16,235          | 175                        | 4.37              |
| Investment securities -<br>taxable  | 406,342                      | 4,485                      | 4.48              | 409,399         | 3,671                      | 3.64              |
| Investment securities -<br>non-taxable  | 123,024                      | 1,977                      | 6.52              | 116,325         | 1,854                      | 6.46              |
| Mortgage loans held for<br>sale   | 6,362                        | 104                        | 6.63              | 6,570           | 100                        | 6.17              |
| Assets held in trading<br>accounts  | 4,746                        | 18                         | 1.54              | 4,632           | 25                         | 2.19              |
| Loans   | 1,782,125                    | 34,180                     | 7.78              | 1,696,855       | 30,172                     | 7.21              |
| Total interest earning<br>assets  | 2,411,939                    | 41,975                     | 7.06              | 2,277,984       | 36,294                     | 6.46              |
| Non-earning assets  | 252,112                      |                            |                   | 245,476         |                            |                   |
| Total assets  | \$ 2,664,051                 |                            |                   | \$ 2,523,460    |                            |                   |
| <b><u>LIABILITIES AND<br/>STOCKHOLDERS'<br/>EQUITY</u></b>                            |                              |                            |                   |                 |                            |                   |
| Liabilities   |                              |                            |                   |                 |                            |                   |
| Interest bearing liabilities  |                              |                            |                   |                 |                            |                   |
| Interest bearing transaction<br>and savings accounts                                  | \$ 731,214                   | \$ 3,179                   | 1.76              | \$ 747,046      | \$ 2,544                   | 1.38              |
| Time deposits   | 1,138,113                    | 13,015                     | 4.64              | 997,156         | 8,724                      | 3.55              |
| Total interest bearing<br>deposits  | 1,869,327                    | 16,194                     | 3.51              | 1,744,202       | 11,268                     | 2.62              |
| Federal funds purchased<br>and<br>securities sold under<br>agreement<br>to repurchase | 118,011                      | 1,456                      | 5.00              | 109,299         | 1,104                      | 4.10              |
| Other borrowed funds  |                              |                            |                   |                 |                            |                   |
| Short-term debt   | 4,031                        | 70                         | 7.04              | 5,744           | 96                         | 6.78              |



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|  |              |           |      |              |           |      |
|--|--------------|-----------|------|--------------|-----------|------|
| Long-term debt                             | 82,185       | 1,198     | 5.94 | 83,961       | 1,094     | 5.28 |
| Total interest bearing liabilities         | 2,073,554    | 18,918    | 3.70 | 1,943,206    | 13,562    | 2.83 |
| Non-interest bearing liabilities           |              |           |      |              |           |      |
| Non-interest bearing deposits              | 306,020      |           |      | 316,178      |           |      |
| Other liabilities                          | 22,002       |           |      | 18,012       |           |      |
| Total liabilities                          | 2,401,576    |           |      | 2,277,396    |           |      |
| Stockholders' equity                       | 262,475      |           |      | 246,064      |           |      |
| Total liabilities and stockholders' equity | \$ 2,664,051 |           |      | \$ 2,523,460 |           |      |
| Net interest spread                        |              |           | 3.36 |              |           | 3.63 |
| Net interest margin                        |              | \$ 23,057 | 3.88 |              | \$ 22,732 | 4.05 |

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Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for the three-month period ended March 31, 2007, as compared to the same period of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

**Table 4: Volume/Rate Analysis**

| (In thousands, on a fully taxable equivalent basis)                        | Period Ended March 31 |                |        |
|--|-----------------------|----------------|--------|
|  | Volume                | Yield/<br>Rate | Total  |
| Increase (decrease) in   |                       |                |        |
| Interest income  |                       |                |        |
| Interest bearing balances  |                       |                |        |
| due from banks   | \$ 121                | \$ 91          | \$ 212 |
| Federal funds sold   | 469                   | 57             | 526    |
| Investment securities - taxable  | (27)                  | 842            | 815    |
| Investment securities - non-taxable  | 108                   | 15             | 123    |
| Mortgage loans held for sale   | (4)                   | 7              | 3      |
| Assets held in trading accounts  | 1                     | (7)            | (6)    |
| Loans  | 1,562                 | 2,446          | 4,008  |
| Total  | 2,230                 | 3,451          | 5,681  |
| Interest expense   |                       |                |        |
| Interest bearing transaction and savings accounts                          | (55)                  | 689            | 634    |
| Time deposits  | 1,352                 | 2,939          | 4,291  |
| Federal funds purchased and securities sold under agreements to repurchase | 93                    | 259            | 352    |
| Other borrowed funds   |                       |                |        |
| Short-term debt  | (30)                  | 4              | (26)   |
| Long-term debt   | (23)                  | 127            | 104    |
| Total  | 1,337                 | 4,018          | 5,355  |
| Increase (decrease) in net interest income                                 | \$ 893                | \$ (567)       | \$ 326 |

### **PROVISION FOR LOAN LOSSES**

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

The provision for loan losses for the three-month period ended March 31, 2007, was \$0.7 million, compared to \$1.7 million for the three-month period ended March 31, 2006, a reduction of \$1.0 million. The provision reduction was primarily driven by two factors.

First, there was improvement in the credit quality of the loan portfolio in 2006, particularly due to the payoff of two large credit relationships after March 31, 2006. One was upgraded two levels from substandard to watch, based on improved financial condition of the borrower, and was ultimately paid off. The other impaired relationship, graded substandard, was refinanced with another financial institution. A specific reserve was applied to both of these credit relationships. Additional loans were classified in 2006 and in the first quarter of 2007 as non-performing based upon various criteria; however, there were no specific reserve allocations required for these loans. Second, the Company saw a sustained decrease in credit card charge-offs, recording 1.41% credit card net charge-offs as a percent of the credit card portfolio during the quarter ended March 31, 2007, still well below its historical level of approximately 2.50%. The provision for loan losses was reduced due to the improvement in credit quality of loans with specific reserves and the continued significant reduction in credit card charge-offs.

### **NON-INTEREST INCOME**

Total non-interest income was \$11.5 million for the three-month period ended March 31, 2007, compared to \$10.6 million for the same period in 2006. Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance, and gains (losses) from sales of securities.

Table 5 shows non-interest income for the three-month period ended March 31, 2007 and 2006, respectively, as well as changes in 2007 from 2006.

**Table 5: Non-Interest Income**

| (In thousands)                                       | Period Ended March 31 |                  | 2007             |              |
|--|-----------------------|------------------|------------------|--------------|
|  | 2007                  | 2006             | Change from 2006 |              |
| Trust income   | \$ 1,637              | \$ 1,367         | \$ 270           | 19.75%       |
| Service charges on deposit accounts                  | 3,497                 | 3,763            | (266)            | (7.07)       |
| Other service charges and fees                       | 808                   | 658              | 150              | 22.80        |
| Income on sale of mortgage loans, net of commissions | 679                   | 676              | 3                | 0.44         |
| Income on investment banking, net of commissions     | 150                   | 107              | 43               | 40.19        |
| Credit card fees                                     | 2,649                 | 2,458            | 191              | 7.77         |
| Premiums on sale of student loans                    | 882                   | 736              | 146              | 19.84        |
| Bank owned life insurance income                     | 364                   | 301              | 63               | 20.93        |
| Other income   | 788                   | 546              | 242              | 44.32        |
| <b>Total non-interest income</b>                     | <b>\$ 11,454</b>      | <b>\$ 10,612</b> | <b>\$ 842</b>    | <b>7.93%</b> |

Recurring fee income for the three-month period ended March 31, 2007, was \$8.6 million, an increase of \$345,000, or 4.2% from the three-month period ended March 31, 2006. Trust income increased by \$270,000, due mainly to a billing change which distributes trust income more evenly throughout the year. Trust income for the balance of 2007 should return to levels comparable to 2006. Other service charges and fees increased by \$150,000, primarily due to an increase in ATM income, driven by an increase in pin based debit card volume and an improvement in the fee structure. Service charges on deposit accounts decreased by \$266,000 due to reduced income on insufficient funds charges. Credit card fees increased by \$191,000 due primarily to a higher volume of credit and debit card transactions.

Premiums of sale of student loans increased by \$146,000 for the three-months ended March 31, 2007, compared to the same period in 2006, due primarily to early sales to avoid losing the premium to consolidation lenders.

Other non-interest income for the three-months ended March 31, 2007, was \$788,000, an increase of \$242,000 over the three-months ended March 31, 2006. A number of items resulted in this increase, including additional ATM surcharge fees, gains on sale of other real estate and income from equity investments.

There were no gains or losses on sale of securities during the three months ended March 31, 2007 or 2006.

## **NON-INTEREST EXPENSE**

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

Non-interest expense for the three-month period ended March 31, 2007, was \$23.2 million, an increase of \$1.1 million, or 4.9% from the same period in 2006. This increase is primarily the result of an increase in normal ongoing operating expenses and the additional expense associated with the operation of three new financial centers opened in 2006 and early 2007. Two other items contributed significantly to the increase in non-interest expense.

Credit card expense increased for the three-month period ended March 31, 2007 over the same period in 2006 by \$230,000, or 31.0%. This increase is primary due the increased volume in credit card applications, card creation, interchange and other related expense resulting from the previously reported initiatives the Company has taken to stabilize its credit card portfolio.

Other non-interest expense for the three-months ended March 31, 2007, was \$2.9 million, an increase of \$392,000 over the three-months ended March 31, 2006. The increase is primarily due to student loan origination fees paid by the Company during the first quarter of 2007. The Federal Student Loan Program is phasing out origination fees on its loans over the next three years. Most of the national market has begun waiving and absorbing the fees themselves during the phase-out period; therefore, as a leader in the Arkansas student loan market, the Company decided to do the same in order to prevent putting itself at a competitive disadvantage. Proper accounting for these fees requires them to be amortized over the period in which the Company holds the loans. The Company expensed \$185,000 of student loan origination fees in the first quarter of 2007, compared to none in the same period of 2006. As future loans are originated with waived fees, management anticipates this expense to increase through March 31, 2008, then to gradually decline each quarter through the end of the three year phase-out period, March 31, 2009. Thereafter, the expense should decline as the remaining fees are amortized over the remaining life of the loans. The Company believes the full year 2007 impact of this expense will decrease income, net of income taxes, by approximately \$550,000, or \$.04 diluted earnings per share.

Table 6 below shows non-interest expense for the three-month period ended March 31, 2007 and 2006, respectively, as well as changes in 2007 from 2006.

**Table 6: Non-Interest Expense**

| (In thousands)                  | Period Ended March 31 |           | 2007             |         |
|---------------------------------|-----------------------|-----------|------------------|---------|
|                                 | 2007                  | 2006      | Change from 2006 |         |
| Salaries and employee benefits  | \$ 13,725             | \$ 13,505 | \$ 220           | 1.63%   |
| Occupancy expense, net          | 1,650                 | 1,520     | 130              | 8.55    |
| Furniture and equipment expense | 1,466                 | 1,418     | 48               | 3.39    |
| Loss on foreclosed assets       | 24                    | 33        | (9)              | (27.27) |
| Other operating expenses        |                       |           |                  |         |
| Professional services           | 742                   | 662       | 80               | 12.08   |
| Postage                         | 578                   | 573       | 5                | 0.87    |
| Telephone                       | 411                   | 471       | (60)             | (12.74) |
| Credit card expenses            | 972                   | 742       | 230              | 31.00   |
| Operating supplies              | 459                   | 404       | 55               | 13.61   |
| FDIC insurance                  | 67                    | 69        | (2)              | (2.90)  |
| Amortization of intangibles     | 207                   | 207       | --               | 0.00    |
| Other expense                   | 2,913                 | 2,521     | 392              | 15.55   |
| Total non-interest expense      | \$ 23,214             | \$ 22,125 | \$ 1,089         | 4.92%   |

**LOAN PORTFOLIO**

The Company's loan portfolio averaged \$1.782 billion and \$1.697 billion during the first three months of 2007 and 2006, respectively. As of March 31, 2007, total loans were \$1.798 billion, an increase of \$14.7 million from December 31, 2006. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

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

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were \$359.1 million at March 31, 2007, or 20.0% of total loans, compared to \$370.8 million, or 20.8% of total loans at December 31, 2006. The consumer loan decrease from December 31, 2006 to March 31, 2007 is the result of the seasonal decline in the Company's credit card portfolio.



As a general rule, the Company's credit card portfolio experiences seasonal fluctuations, reaching its highest level during the fourth quarter and dropping off with paydowns to its lowest level during the first quarter. The Company continues to experience significant competitive pressure from the credit card industry. From 2002 through 2005, the credit card portfolio decreased by approximately \$10 million to \$14 million each year, primarily due to closed accounts. However, the Company experienced a slow-down in this trend throughout 2006, with the credit card portfolio balance increasing by approximately \$300,000 from December 31, 2005 to December 31, 2006. The credit card portfolio balance at March 31, 2007 increased by \$3.7 million, or 2.83%, compared to the same period in 2006.

After five consecutive years of net decreases in the number of credit card accounts, the Company experienced an addition of 1,650 net new accounts in 2006. This year, through March 31, 2007, the Company has added over 2,600 net new accounts. Management believes the increase in outstanding balances and the addition of new accounts are the result of the introduction of several initiatives over the past two years to make the Company's credit card products more competitive. The latest of those initiatives was the introduction of a 7.25% fixed rate card in July 2006, with no fees and no rewards. While these results are positive, because of the significant competitive pressures in the credit card industry, management cannot be assured that a sustained growth trend has yet been established.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were \$1.179 billion at March 31, 2007, or 65.6% of total loans, compared to the \$1.154 billion, or 64.7% of total loans at December 31, 2006. Commercial real estate loans increased by \$24.0 million from December 31, 2006 to March 31, 2007, primarily due to increased loan demand in various growth areas of Arkansas.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were \$249.2 million at March 31, 2007, or 13.9% of total loans, compared to \$245.1 million, or 13.7% of total loans at December 31, 2006. The commercial loan increase is primarily due to the increased loan demand in the nonagricultural commercial area.



The amounts of loans outstanding at the indicated dates are reflected in Table 7, according to type of loan.

**Table 7: Loan Portfolio**

| (In thousands)                               | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
| Consumer                                     |                   |                      |
| Credit cards                                 | \$ 133,511        | \$ 143,359           |
| Student loans                                | 84,358            | 84,831               |
| Other consumer                               | 141,212           | 142,596              |
| Real Estate                                  |                   |                      |
| Construction                                 | 276,582           | 277,411              |
| Single family residential                    | 366,219           | 364,450              |
| Other commercial                             | 536,421           | 512,404              |
| Commercial                                   |                   |                      |
| Commercial                                   | 182,548           | 178,028              |
| Agricultural                                 | 61,617            | 62,293               |
| Financial institutions                       | 5,080             | 4,766                |
| Other  | 10,686            | 13,357               |
|  |                   |                      |
| Total loans before allowance for loan losses | \$ 1,798,234      | \$ 1,783,495         |

### **ASSET QUALITY**

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

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

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

At March 31, 2007, impaired loans were \$9.8 million compared to \$12.8 million at December 31, 2006.

Table 8 presents information concerning non-performing assets, including nonaccrual and other real estate owned.

**Table 8: Non-performing Assets**

| (\$ in thousands)  | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
| Nonaccrual loans   | \$ 7,738          | \$ 8,958             |
| Loans past due 90 days or more<br>(principal or interest payments) | 879               | 1,097                |
| <b>Total non-performing loans</b>                                  | <b>8,617</b>      | <b>10,055</b>        |
| <b>Other non-performing assets</b>                                 |                   |                      |
| Foreclosed assets held for sale                                    | 2,321             | 1,940                |
| Other non-performing assets  | 40                | 52                   |
| <b>Total other non-performing assets</b>                           | <b>2,361</b>      | <b>1,992</b>         |
| <b>Total non-performing assets</b>                                 | <b>\$ 10,978</b>  | <b>\$ 12,047</b>     |
| Allowance for loan losses to<br>non-performing loans               | 291.88%           | 252.46%              |
| Non-performing loans to total loans                                | 0.48%             | 0.56%                |
| Non-performing assets to total assets                              | 0.41%             | 0.45%                |
| Non-performing assets ratio <sup>(1)</sup>                         | 0.61%             | 0.67%                |

(1)  $(\text{Non-performing loans} + \text{foreclosed assets}) / (\text{total loans} + \text{foreclosed assets})$

There was no interest income on the nonaccrual loans recorded for the three-month periods ended March 31, 2007 and 2006.

## **ALLOWANCE FOR LOAN LOSSES**

### **Overview**

The Company maintains an allowance for loan losses. This allowance is created through charges to income and maintained at a sufficient level to absorb expected losses in the Company's loan portfolio. The allowance for loan losses is determined monthly based on management's assessment of several factors such as 1) historical loss experience based on volumes and types, 2) reviews or evaluations of the loan portfolio and allowance for loan losses, 3) trends in volume, maturity and composition, 4) off balance sheet credit risk, 5) volume and trends in delinquencies and non-accruals, 6) lending policies and procedures including those for loan losses, collections and recoveries, 7) national and local economic trends and conditions, 8) concentrations of credit that might affect loss experience across one or more components of the loan portfolio, 9) the experience, ability and depth of lending management and staff and 10) other factors and trends, which will affect specific loans and categories of loans.

As the Company evaluates the allowance for loan losses, it is categorized as follows: 1) specific allocations, 2) allocations for classified assets with no specific allocation, 3) general allocations for each major loan category and 4) unallocated portion.

### **Specific Allocations**

Specific allocations are made when factors are present requiring a greater reserve than would be required when using the assigned risk rating allocation. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. The evaluation process in specific allocations for the Company includes a review of appraisals or other collateral analysis. These values are compared to the remaining outstanding principal balance. If a loss is determined to be reasonably possible, the possible loss is identified as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the expected future cash flows of the loan.

### **Allocations for Classified Assets with no Specific Allocation**

The Company establishes allocations for loans rated “watch” through “doubtful” in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each category of these loan categories to determine the level of dollar allocation.

### **General Allocations**

The Company establishes general allocations for each major loan category. This section also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. The Company gives consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

### **Unallocated Portion**

Allowance allocations other than specific, classified and general for the Company are included in unallocated.

### **Reserve for Unfunded Commitments**

Historically, the Company has included reserves for unfunded commitments in the allowance for loan losses. On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities. This reserve will be maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to the Company’s methodology for determining the allowance for loan losses. Future net adjustments to the reserve for unfunded commitments will be included in other non-interest expense.

An analysis of the allowance for loan losses is shown in Table 9.

**Table 9: Allowance for Loan Losses**

| (In thousands)   | 2007      | 2006      |
|--|-----------|-----------|
| Balance, beginning of year   | \$ 25,385 | \$ 26,923 |
| Loans charged off  |           |           |
| Credit card  | 735       | 593       |
| Other consumer   | 425       | 272       |
| Real estate  | 295       | 260       |
| Commercial   | 219       | 209       |
| Total loans charged off  | 1,674     | 1,334     |
| Recoveries of loans previously charged off                                 |           |           |
| Credit card  | 261       | 236       |
| Other consumer   | 105       | 153       |
| Real estate  | 162       | 198       |
| Commercial   | 161       | 104       |
| Total recoveries   | 689       | 691       |
| Net loans charged off  | 985       | 643       |
| Reclassification of reserve related to unfunded commitments <sup>(1)</sup> | --        | (1,525)   |
| Provision for loan losses  | 751       | 1,708     |
| Balance, March 31  | \$ 25,151 | \$ 26,463 |
| Loans charged off  |           |           |
| Credit card  |           | 1,861     |
| Other consumer   |           | 970       |
| Real estate  |           | 1,608     |
| Commercial   |           | 1,108     |
| Total loans charged off  |           | 5,547     |
| Recoveries of loans previously charged off                                 |           |           |
| Credit card  |           | 804       |
| Other consumer   |           | 476       |
| Real estate  |           | 703       |
| Commercial   |           | 432       |
| Total recoveries   |           | 2,415     |
| Net loans charged off  |           | 3,132     |
| Provision for loan losses  |           | 2,054     |
| Balance, end of year   |           | \$ 25,385 |

(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.



### **Provision for Loan Losses**

The amount of provision to the allowance during the three-month periods ended March 31, 2007 and 2006, and for the year ended December 31, 2006, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on at least a quarterly basis, but generally on a monthly basis, to determine the level of provision made to the allowance after considering the factors noted above.

### **Allocated Allowance for Loan Losses**

The Company utilizes a consistent methodology in the calculation and application of its allowance for loan losses. Because there are portions of the portfolio that have not matured to the degree necessary to obtain reliable loss statistics from which to calculate estimated losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent when estimating credit losses.

Several factors in the national economy, including seventeen successive interest-rate increases by the Federal Reserve from June 2004 through June 2006, the effect of fuel prices on the commercial and consumer market, and certain loan sectors which may be exhibiting weaknesses, further justifies the need for unallocated reserves.

As of March 31, 2007, the allowance for loan losses reflects a decrease of approximately \$234,000 from December 31, 2006. As a general rule, the allocation in each category within the allowance reflects the overall changes in loan portfolio mix.

The Company still has some concerns over the uncertainty of the economy and the impact of pricing in the poultry and timber industries in Arkansas. The Company is also cautious regarding the softening of the real estate market in Arkansas. Based on our analysis of loans within these business sectors, the Company believes the allowance for loan losses is adequate for the period ended March 31, 2007. Management actively monitors the status of these industries as they relate to the Company's loan portfolio and makes changes to the allowance for loan losses as necessary.

An analysis of the allocation of allowance for loan losses is presented in Table 10.

**Table 10: Allocation of Allowance for Loan Losses**

| (\$ in thousands) | March 31, 2007   |                           | December 31, 2006 |                           |
|-------------------|------------------|---------------------------|-------------------|---------------------------|
|                   | Allowance Amount | % of loans <sup>(1)</sup> | Allowance Amount  | % of loans <sup>(1)</sup> |
| Credit cards      | \$ 3,707         | 7.4%                      | \$ 3,702          | 8.0%                      |
| Other consumer    | 1,526            | 12.5%                     | 1,402             | 12.8%                     |
| Real estate       | 9,945            | 65.6%                     | 9,835             | 64.7%                     |
| Commercial        | 2,595            | 13.9%                     | 2,856             | 13.7%                     |
| Other             | --               | 0.6%                      | --                | 0.8%                      |
| Unallocated       | 7,378            |                           | 7,590             |                           |
| <b>Total</b>      | <b>\$ 25,151</b> | <b>100.0%</b>             | <b>\$ 25,385</b>  | <b>100.0%</b>             |

(1) Percentage of loans in each category to total loans

## **DEPOSITS**

Deposits are the Company's primary source of funding for earning assets and are primarily developed through the Company's network of 82 financial centers as of March 31, 2007. The Company offers a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. The Company's core deposits consist of all deposits excluding time deposits of \$100,000 or more and brokered deposits. As of March 31, 2007, core deposits comprised 77.5% of the Company's total deposits.

The Company continually monitors the funding requirements at each affiliate bank along with competitive interest rates in the markets it serves. Because the Company has a community banking philosophy, managers in the local markets establish the interest rates being offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet each affiliate bank's respective funding requirements. The Company believes it is paying a competitive rate, when compared with pricing in those markets. As a result, year-to-date internal deposit growth was \$31.4 million. More specifically, total deposits as of March 31, 2007, were \$2.207 billion versus \$2.176 billion on December 31, 2006.

The Company manages its interest expense through deposit pricing and does not anticipate a significant change in total deposits. The Company believes that additional funds can be attracted and deposit growth can be accelerated through promotion and deposit pricing if it experiences accelerated loan demand or other liquidity needs beyond its current projections. The Company also utilizes brokered deposits as an additional source of funding to meet liquidity needs.

Total time deposits increased approximately \$5.8 million to \$1.137 billion at March 31, 2007, from \$1.131 billion at December 31, 2006. Non-interest bearing transaction accounts increased \$11.3 million to \$316.6 million at March 31, 2007, compared to \$305.3 million at December 31, 2006. Interest bearing transaction and savings accounts were \$753.1 million at March 31, 2007, a \$14.3 million increase compared to \$738.8 million on December 31, 2006. The Company had \$46.7 million and \$42.5 million of brokered deposits at March 31, 2007 and December 31, 2006, respectively.





## **LONG-TERM DEBT**

During the three month period ended March 31, 2007, the Company decreased long-term debt by \$271,000, or 0.33% from December 31, 2006. This decrease is primarily the result of scheduled principal pay downs on FHLB long-term advances.

## **CAPITAL**

### **Overview**

At March 31, 2007, total capital reached \$262.2 million. Capital represents shareholder ownership in the Company - the book value of assets in excess of liabilities. At March 31, 2007, the Company's equity to asset ratio was 9.74% compared to 9.77% at year-end 2006.

### **Capital Stock**

At the Company's annual shareholder meeting held on April 10, 2007, the shareholders approved an amendment to the Articles of Incorporation increasing the number of authorized shares of Class A, \$0.01 par value, Common Stock from 30,000,000 to 60,000,000. Class A Common Stock is the Company's only outstanding class of stock.

### **Stock Repurchase**

On May 25, 2004, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 5% of the then outstanding Common Stock, or 733,485 shares. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the three-month period ended March 31, 2007, the Company repurchased 69,678 shares of stock under the repurchase plan with a weighted average repurchase price of \$28.62 per share. Under the current stock repurchase plan, the Company can repurchase an additional 271,289 shares.

### **Cash Dividends**

The Company declared cash dividends on its common stock of \$0.18 per share for the first three months of 2007 compared to \$0.16 per share for the first three months of 2006. In recent years, the Company increased dividends no less than annually and presently plans to continue with this practice.

### **Parent Company Liquidity**

The primary sources for payment of dividends by the Company to its shareholders and the share repurchase plan are the current cash on hand at the parent company plus the future dividends received from the eight affiliate banks. Payment of dividends by the eight affiliate banks is subject to various regulatory limitations. Reference is made to the Liquidity and Market Risk Management discussions of Item 3 - Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

### **Risk Based Capital**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of March 31, 2007, the Company meets all capital adequacy requirements to which it is subject.

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

The Company's risk-based capital ratios at March 31, 2007 and December 31, 2006, are presented in table 11.

**Table 11: Risk-Based Capital**

| (\$ in thousands)  | March 31,<br>2007   | December 31,<br>2006 |
|--|---------------------|----------------------|
| Tier 1 capital   |                     |                      |
| Stockholders' equity   | \$ 262,170          | \$ 259,016           |
| Trust preferred securities   | 30,000              | 30,000               |
| Intangible assets  | (64,367)            | (64,334)             |
| Unrealized loss on available-for-sale securities, net of taxes     | 1,344               | 2,198                |
| <b>Total Tier 1 capital</b>  | <b>229,147</b>      | <b>226,880</b>       |
| Tier 2 capital   |                     |                      |
| Qualifying unrealized gain on available-for-sale equity securities | 129                 | 167                  |
| Qualifying allowance for loan losses                               | 23,237              | 22,953               |
| <b>Total Tier 2 capital</b>  | <b>23,366</b>       | <b>23,120</b>        |
| <b>Total risk-based capital</b>                                    | <b>\$ 252,513</b>   | <b>\$ 250,000</b>    |
| <b>Risk weighted assets</b>  | <b>\$ 1,855,511</b> | <b>\$ 1,831,063</b>  |
| <b>Assets for leverage ratio</b>                                   | <b>\$ 2,603,178</b> | <b>\$ 2,568,472</b>  |
| Ratios at end of period  |                     |                      |
| Leverage ratio   | 8.80%               | 8.83%                |
| Tier 1 capital   | 12.35%              | 12.39%               |
| Total risk-based capital   | 13.61%              | 13.65%               |
| Minimum guidelines   |                     |                      |
| Leverage ratio   | 4.00%               | 4.00%                |
| Tier 1 capital   | 4.00%               | 4.00%                |
| Total risk-based capital   | 8.00%               | 8.00%                |

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial position, operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. Statement No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Statement No. 159 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial position, operations or cash flows.

In September 2006, the FASB ratified the consensus reached by the FASB's Emerging Issues Task Force (EITF) relating to EITF 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires employers accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with FASB Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion - 1967. Entities should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. EITF 06-4 is effective for the Company on January 1, 2008. The Company is currently evaluating the effect the implementation of EITF 06-4 will have on its financial position, operations or cash flows.

### **FORWARD-LOOKING STATEMENTS**

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

We caution the reader not to place undue reliance on the forward-looking statements contained in this Report in that actual results could differ materially from those indicated in such forward-looking statements, due to a variety of factors. These factors include, but are not limited to, changes in the Company's operating or expansion strategy, availability of and costs associated with obtaining adequate and timely sources of liquidity, the ability to maintain credit quality, possible adverse rulings, judgments, settlements and other outcomes of pending litigation, the ability of the Company to collect amounts due under loan agreements, changes in consumer preferences, effectiveness of the Company's interest rate risk management strategies, laws and regulations affecting financial institutions in general or relating to taxes, the effect of pending or future legislation, the ability of the Company to repurchase its Common Stock on favorable terms and other risk factors. Other relevant risk factors may be detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this Report.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

#### **Parent Company**

The Company has leveraged its investment in subsidiary banks and depends upon the dividends paid to it, as the sole shareholder of the subsidiary banks, as a principal source of funds for dividends to shareholders, stock repurchase and debt service requirements. At March 31, 2007, undivided profits of the Company's subsidiaries were approximately \$148.3 million, of which approximately \$9 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

#### **Banking Subsidiaries**

Generally speaking, the Company's banking subsidiaries rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash used in investing activities. Typical of most banking companies, significant financing activities include: deposit gathering; use of short-term borrowing facilities, such as federal funds purchased and repurchase agreements; and the issuance of long-term debt. The banks' primary investing activities include loan originations and purchases of investment securities, offset by loan payoffs and investment maturities.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers, by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets, as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of each bank subsidiary monitor these same indicators and make adjustments as needed. At March 31, 2007, each subsidiary bank was within established guidelines and total corporate liquidity remains strong. At March 31, 2007, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 19.8% of total assets, as compared to 19.4% at December 31, 2006.

## Liquidity Management

The objective of the Company's liquidity management is to access adequate sources of funding to ensure that cash flow requirements of depositors and borrowers are met in an orderly and timely manner. Sources of liquidity are managed so that reliance on any one funding source is kept to a minimum. The Company's liquidity sources are prioritized for both availability and time to activation.

The Company's liquidity is a primary consideration in determining funding needs and is an integral part of asset/liability management. Pricing of the liability side is a major component of interest margin and spread management. Adequate liquidity is a necessity in addressing this critical task. There are six primary and secondary sources of liquidity available to the Company. The particular liquidity need and timeframe determine the use of these sources.

The first source of liquidity available to the Company is Federal funds. Federal funds, primarily from downstream correspondent banks, are available on a daily basis and are used to meet the normal fluctuations of a dynamic balance sheet. In addition, the Company and its affiliates have approximately \$106 million in Federal funds lines of credit from upstream correspondent banks that can be accessed, when needed. In order to ensure availability of these upstream funds, the Company has a plan for rotating the usage of the funds among the upstream correspondent banks, thereby providing approximately \$40 million in funds on a given day. Historical monitoring of these funds has made it possible for the Company to project seasonal fluctuations and structure its funding requirements on month-to-month basis.

A second source of liquidity is the retail deposits available through the Company's network of affiliate banks throughout Arkansas. Although this method can be somewhat of a more expensive alternative to supplying liquidity, this source can be used to meet intermediate term liquidity needs.

Third, the Company's affiliate banks have lines of credits available with the Federal Home Loan Bank. While the Company uses portions of those lines to match off longer-term mortgage loans, the Company also uses those lines to meet liquidity needs. Approximately \$413 million of these lines of credit are currently available, if needed.

Fourth, the Company uses a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 65% of the investment portfolio is classified as available-for-sale. The Company also uses securities held in the securities portfolio to pledge when obtaining public funds.

The fifth source of liquidity is the ability to access large deposits from both the public and private sector to fund short-term liquidity needs.

Finally, the Company has established a \$5 million unsecured line of credit with a major commercial bank that could be used to meet unexpected liquidity needs at both the parent company level as well as at any affiliate bank.

The Company believes the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

## **Market Risk Management**

Market risk arises from changes in interest rates. The Company has risk management policies to monitor and limit exposure to market risk. In asset and liability management activities, policies are in place designed to minimize structural interest rate risk. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

## **Interest Rate Sensitivity**

Interest rate risk represents the potential impact of interest rate changes on net income and capital resulting from mismatches in repricing opportunities of assets and liabilities over a period of time. A number of tools are used to monitor and manage interest rate risk, including simulation models and interest sensitivity gap analysis. Management uses simulation models to estimate the effects of changing interest rates and various balance sheet strategies on the level of the Company's net income and capital. As a means of limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed-rate assets and liabilities, change pricing schedules and manage investment maturities during future security purchases.

The simulation models incorporate management's assumptions regarding the level of interest rates or balance changes for indeterminate maturity deposits for a given level of market rate changes. These assumptions have been developed through anticipated pricing behavior. Key assumptions in the simulation models include the relative timing of prepayments, cash flows and maturities. In addition, the impact of planned growth and anticipated new business is factored into the simulation models. These assumptions are inherently uncertain and, as a result, the models cannot precisely estimate net interest income or precisely predict the impact of a change in interest rates on net income or capital. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

Table A below presents the Company's interest rate sensitivity position at March 31, 2007. This analysis is based on a point in time and may not be meaningful because assets and liabilities are categorized according to contractual maturities, repricing periods and expected cash flows rather than estimating more realistic behaviors, as is done in the simulation models. Also, this analysis does not consider subsequent changes in interest rate level or spreads between asset and liability categories.

**Table A: Interest Rate Sensitivity**

| (In thousands,<br>except ratios)                  | Interest Rate Sensitivity Period |                |                |                 |                |                |                 | Total            |
|---|----------------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|------------------|
|   | 0-30<br>Days                     | 31-90<br>Days  | 91-180<br>Days | 181-365<br>Days | 1-2<br>Years   | 2-5<br>Years   | Over 5<br>Years |                  |
| <b>Earning assets</b>                             |                                  |                |                |                 |                |                |                 |                  |
| Short-term investments                            | \$ 103,884                       | \$ --          | \$ --          | \$ --           | \$ --          | \$ --          | \$ --           | \$ 103,884       |
| Assets held in trading accounts                   | 10,464                           | --             | --             | --              | --             | --             | --              | 10,464           |
| Investment securities                             | 6,081                            | 25,263         | 17,005         | 54,815          | 79,141         | 78,851         | 258,967         | 520,123          |
| Mortgage loans held for sale                      | 8,718                            | --             | --             | --              | --             | --             | --              | 8,718            |
| Loans   | 603,345                          | 139,280        | 249,433        | 262,505         | 304,615        | 226,723        | 12,333          | 1,798,234        |
| <b>Total earning assets</b>                       | <b>732,492</b>                   | <b>164,543</b> | <b>266,438</b> | <b>317,320</b>  | <b>383,756</b> | <b>305,574</b> | <b>271,300</b>  | <b>2,441,423</b> |
| <b>Interest bearing liabilities</b>               |                                  |                |                |                 |                |                |                 |                  |
| Interest bearing transaction and savings deposits | 420,840                          | --             | --             | --              | 66,454         | 199,361        | 66,455          | 753,110          |
| Time deposits                                     | 130,060                          | 168,139        | 280,022        | 453,382         | 78,681         | 26,924         | --              | 1,137,208        |
| Short-term debt                                   | 113,670                          | --             | --             | --              | --             | --             | --              | 113,670          |
| Long-term debt                                    | 10,872                           | 1,478          | 4,325          | 7,028           | 9,142          | 12,684         | 38,053          | 83,582           |
| <b>Total interest bearing liabilities</b>         | <b>675,442</b>                   | <b>169,617</b> | <b>284,347</b> | <b>460,410</b>  | <b>154,277</b> | <b>238,969</b> | <b>104,508</b>  | <b>2,087,570</b> |
| Interest rate sensitivity Gap                     | \$ 57,050                        | \$ (5,074)     | \$ (17,909)    | \$ (143,090)    | \$ 229,479     | \$ 66,605      | \$ 166,792      | \$ 353,853       |
| Cumulative interest rate sensitivity Gap          | \$ 57,050                        | \$ 51,976      | \$ 34,067      | \$ (109,023)    | \$ 120,456     | \$ 187,061     | \$ 353,853      |                  |



|  |        |        |        |       |        |        |        |
|--|--------|--------|--------|-------|--------|--------|--------|
| Cumulative<br>rate sensitive<br>asset<br>to rate<br>sensitive<br>liabilities | 108.4% | 106.2% | 103.0% | 93.1% | 106.9% | 109.4% | 117.0% |
| Cumulative<br>Gap as a % of<br>earning assets                                | 2.3%   | 2.1%   | 1.4%   | -4.5% | 4.9%   | 7.7%   | 14.5%  |

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in 15 C.F.R. 240.13a-15(e) or 15 C.F.R. 240.15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective.

##### Changes in Internal Control over Financial Reporting

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

**Part II: Other Information****Item 1A. Risk Factors**

There has not been any material change in the risk factors disclosure from that contained in the Company's 2006 Form 10-K for the fiscal year ended December 31, 2006.

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

(c) Issuer Purchases of Equity Securities. The Company made the following purchases of its common stock during the three months ended March 31, 2007:

| Period                   | Total Number<br>of Shares<br>Purchased | Maximum<br>Average<br>Price Paid<br>Per Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans | Number of<br>Shares that May<br>Yet be<br>Purchased<br>Under the Plans |
|--------------------------|--|---|---|--|
| January 1 - January 31   | 8,000                                  | \$ 30.01                                      | 8,000   | 332,967  |
| February 1 - February 28 | 16,500                                 | 30.23   | 16,500  | 316,467  |
| March 1 - March 31       | 45,178                                 | 27.79   | 45,178  | 271,289  |
| <b>Total</b>             | <b>69,678</b>                          | <b>\$ 28.62</b>                               | <b>69,678</b>   |  |

**Item 6. Exhibits****Exhibit Description  
No.**

- 3.1 Restated Articles of Incorporation of Simmons First National Corporation (incorporated by reference to Exhibit 4 to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2004 (File No. 0-6253)).
- 3.2 Amended By-Laws of Simmons First National Corporation (incorporated by reference to Exhibit 3.2 to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005 (File No. 0-6253)).
- 10.1 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.2 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

- 10.3 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust II (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

- 10.4 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.5 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.6 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust III (incorporated by reference to Exhibit 10.6 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.7 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.7 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.8 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.8 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

- 10.9 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.9 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 10.10 Long-Term Executive Incentive Agreement, dated as of January 1, 2005, by and between the Company and J. Thomas May (incorporated by reference to Exhibit 10.10 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2005 (File No. 0-6253)).
- 14 Code of Ethics, dated December 2003, for CEO, CFO, controller and other accounting officers (incorporated by reference to Exhibit 14 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification - J. Thomas May, Chairman and Chief Executive Officer.\*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification - Robert A. Fehlman, Chief Financial Officer.\*
- 32.1 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - J. Thomas May, Chairman and Chief Executive Officer.\*
- 32.2 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Robert A. Fehlman, Chief Financial Officer.\*

\* Filed herewith.

**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.

**SIMMONS FIRST NATIONAL CORPORATION**

(Registrant)

Date: May 8, 2007

/s/ J. Thomas May  
J. Thomas May  
Chairman and  
Chief Executive Officer

Date: May 8, 2007

/s/ Robert A. Fehlman  
Robert A. Fehlman  
Executive Vice President  
and  
Chief Financial Officer