

SIMMONS FIRST NATIONAL CORP  
Form 10-K  
March 14, 2006

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

**FORM 10-K**

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934  
For the fiscal year ended: December 31, 2005

or

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

Commission file number 0-6253

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

Arkansas  
(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)

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

Title of Each Class  
None

Name of Each Exchange  
on Which Registered  
None

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

Common Stock, \$0.01 par value  
(Title of Class)

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or in information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).  Yes  No

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

The aggregate market value of the Registrant's Common Stock, par value \$0.01 per share, held by non-affiliates on June 30, 2005, was \$346,727,899 based upon the last trade price as reported on the Nasdaq National Market® of \$27.11.

The number of shares outstanding of the Registrant's Common Stock as of February 9, 2006 was 14,249,485.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of shareholders to be held on April 11, 2006.

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## Introduction

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

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

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

### FORM 10-K INDEX

#### **Part I**

|                                                                   |   |
|-------------------------------------------------------------------|---|
| Item 1 <u>Business</u>                                            | 1 |
| Item <u>Risk Factors</u>                                          | 6 |
| 1A                                                                |   |
| Item <u>Unresolved Staff Comments</u>                             | 7 |
| 1B                                                                |   |
| Item 2 <u>Properties</u>                                          | 7 |
| Item 3 <u>Legal Proceedings</u>                                   | 7 |
| Item 4 <u>Submission of Matters to a Vote of Security-Holders</u> | 7 |

#### **Part**

#### **II**

|                                                                                                     |    |
|-----------------------------------------------------------------------------------------------------|----|
| Item 5 <u>Market for Registrant's Common Equity and Related Stockholder Matters</u>                 | 8  |
| Item 6 <u>Selected Consolidated Financial Data</u>                                                  | 10 |
| Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| Item <u>Quantitative and Qualitative Disclosures About Market Risk</u>                              | 37 |
| 7A                                                                                                  |    |
| Item 8 <u>Consolidated Financial Statements and Supplementary Data</u>                              | 40 |
| Item 9 <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>  | 72 |
| Item <u>Controls and Procedures</u>                                                                 | 72 |
| 9A                                                                                                  |    |
| Item <u>Other Information</u>                                                                       | 72 |
| 9B                                                                                                  |    |

#### **Part**

#### **III**

|                                                             |    |
|-------------------------------------------------------------|----|
| Item <u>Directors and Executive Officers of the Company</u> | 72 |
| 10                                                          |    |
| Item <u>Executive Compensation</u>                          | 72 |
| 11                                                          |    |

|         |                                                                       |    |
|---------|-----------------------------------------------------------------------|----|
| Item 12 | <u>Security Ownership of Certain Beneficial Owners and Management</u> | 72 |
| Item 13 | <u>Certain Relationships and Related Transactions</u>                 | 72 |
| Item 14 | <u>Principal Accounting Fees and Services</u>                         | 72 |

**Part**  
**IV**

|         |                                                   |    |
|---------|---------------------------------------------------|----|
| Item 15 | <u>Exhibits and Financial Statement Schedules</u> | 73 |
|         | <u>Signatures</u>                                 | 75 |

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## PART I

### ITEM 1. BUSINESS

#### The Company and the Banks

Simmons First National Corporation (the "Company") is a financial holding company registered under the Bank Holding Company Act of 1956. The Gramm-Leach-Bliley-Act ("GLB Act") has substantially increased the financial activities that certain banks, bank holding companies, insurance companies and securities brokerage companies are permitted to undertake. Under the GLB Act, expanded activities in insurance underwriting, insurance sales, securities brokerage and securities underwriting not previously allowed for banks and bank holding companies are now permitted upon satisfaction of certain guidelines concerning management, capitalization and satisfaction of the applicable Community Reinvestment Act guidelines for the banks. Generally these new activities are permitted for bank holding companies whose banking subsidiaries are well managed, well capitalized and have at least a satisfactory rating under the Community Reinvestment Act. A bank holding company must apply to become a financial holding company and the Board of Governors of the Federal Reserve System must approve its application.

The Company's application to become a financial holding company was approved by the Board of Governors on March 13, 2000. The Company has reviewed the new activities permitted under the Act. If the appropriate opportunity presents itself, the Company is interested in expanding into other financial services.

The Company was the largest publicly traded financial holding company headquartered in Arkansas with consolidated total assets of \$2.5 billion, consolidated loans of \$1.7 billion, consolidated deposits of \$2.1 billion and total equity capital of \$244 million as of December 31, 2005. The Company owns eight community banks in Arkansas. The Company's banking subsidiaries conduct their operations through 81 offices, of which 79 are financial centers, located in 46 communities in Arkansas.

Simmons First National Bank (the "Bank") is the Company's lead bank. The Bank is a national bank, which has been in operation since 1903. The Bank's primary market area, with the exception of its nationally provided credit card product, is Central and Western Arkansas. At December 31, 2005 the Bank had total assets of \$1.2 billion, total loans of \$820 million and total deposits of \$975 million. Simmons First Trust Company N.A., a wholly owned subsidiary of the Bank, performs the trust and fiduciary business operations for the Bank as well as the Company. Simmons First Investment Group, Inc. ("SFIG"), a wholly owned subsidiary of the Bank, which is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers (NASD), performs the broker-dealer operations of the Bank.

Simmons First Bank of Jonesboro ("Simmons/Jonesboro") is a state bank, which was acquired in 1984. Simmons/Jonesboro's primary market area is Northeast Arkansas. At December 31, 2005, Simmons/Jonesboro had total assets of \$253 million, total loans of \$221 million and total deposits of \$227 million.

Simmons First Bank of South Arkansas ("Simmons/South") is a state bank, which was acquired in 1984. Simmons/South's primary market area is Southeast Arkansas. At December 31, 2005, Simmons/South had total assets of \$132 million, total loans of \$76 million and total deposits of \$116 million.

Simmons First Bank of Northwest Arkansas ("Simmons/Northwest") is a state bank, which was acquired in 1995. Simmons/Northwest's primary market area is Northwest Arkansas. At December 31, 2005, Simmons/Northwest had total assets of \$265 million, total loans of \$196 million and total deposits of \$231 million.

Simmons First Bank of Russellville ("Simmons/Russellville") is a state bank, which was acquired in 1997. Simmons/Russellville's primary market area is Russellville, Arkansas. At December 31, 2005, Simmons/Russellville

had total assets of \$200 million, total loans of \$129 million and total deposits of \$151 million.

Simmons First Bank of Searcy (“Simmons/Searcy”) is a state bank, which was acquired in 1997. Simmons/Searcy’s primary market area is Searcy, Arkansas. At December 31, 2005, Simmons/Searcy had total assets of \$133 million, total loans of \$96 million and total deposits of \$103 million.

Simmons First Bank of El Dorado, N.A. (“Simmons/El Dorado”) is a national bank, which was acquired in 1999. Simmons/El Dorado’s primary market area is South Central Arkansas. At December 31, 2005, Simmons/El Dorado had total assets of \$210 million, total loans of \$105 million and total deposits of \$179 million.

Simmons First Bank of Hot Springs (“Simmons/Hot Springs”) is a state bank, which was acquired in 2004. Simmons/Hot Springs’ primary market area is Hot Springs, Arkansas. At December 31, 2005, Simmons/Hot Springs had total assets of \$162 million, total loans of \$75 million and total deposits of \$115 million.

The Company's subsidiaries provide complete banking services to individuals and businesses throughout the market areas they serve. Services include consumer (credit card, student and other consumer), real estate (construction, single family residential and other commercial) and commercial (commercial, agriculture and financial institutions) loans, checking, savings and time deposits, trust and investment management services, and securities and investment services.

### **Loan Risk Assessment**

As part of the ongoing risk assessment, the Company has an Asset Quality Review Committee of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for all of its subsidiary banks. The allowance for loan losses is determined based upon the aforementioned performance factors, and adjustments are made accordingly. Also, an unallocated reserve is established to compensate for the uncertainty in estimating loan losses, including the possibility of improper risk ratings and specific reserve allocations.

The Board of Directors of each of the Company's subsidiary banks reviews the adequacy of its allowance for loan losses on a monthly basis giving consideration to past due loans, non-performing loans, other impaired loans, and current economic conditions. The Company's loan review department monitors each of its subsidiary bank's loan information monthly. In addition, the loan review department prepares an analysis of the allowance for loan losses for each subsidiary bank twice a year, and reports the results to the Company's Audit and Security Committee. In order to verify the accuracy of the monthly analysis of the allowance for loan losses, the loan review department performs an on-site detailed review of each subsidiary bank's loan files on a semi-annual basis.

### **Growth Strategy**

The Company's growth strategy is to primarily focus on the state of Arkansas. More specifically, the Company is interested in expansion by opening new financial centers or by acquisitions of financial centers in growth or strategic markets, preferably with assets totaling \$200 million or more. For example, in 2005 the Company added three branch locations in the Little Rock/Conway metropolitan area, one in the Fayetteville/Springdale/Rogers metropolitan area and one in the Fort Smith metropolitan area. For 2006, the Company plans to add financial centers in Little Rock, North Little Rock, Beebe, Paragould, El Dorado and White Hall. While new financial centers can be dilutive to earnings in the short-term, the Company believes they will reward shareholders in the intermediate and long-term. As the Company nears completion of its desired footprint within the state of Arkansas, it may evaluate opportunities to expand into contiguous states.

With an expanded presence in Arkansas, ongoing investments in technology, and enhanced products and services, the Company is in position to meet the demands of customers in the markets it serves.

### **Competition**

The activities engaged in by the Company and its subsidiaries are highly competitive. In all aspects of its business, the Company encounters intense competition from other banks, lending institutions, credit unions, savings and loan associations, brokerage firms, mortgage companies, industrial loan associations, finance companies, and several other financial and financial service institutions. The amount of competition among commercial banks and other financial institutions has increased significantly over the past few years since the deregulation of the banking industry. The Company's subsidiary banks actively compete with other banks and financial institutions in their efforts to obtain

deposits and make loans, in the scope and type of services offered, in interest rates paid on time deposits and charged on loans and in other aspects of commercial banking.

The Company's banking subsidiaries are also in competition with major national and international retail banking establishments, brokerage firms and other financial institutions within and outside Arkansas. Competition with these financial institutions is expected to increase, especially with the increase in interstate banking.



## Employees

As of February 9, 2006, the Company and its subsidiaries had approximately 1,110 full time equivalent employees. None of the employees is represented by any union or similar groups, and the Company has not experienced any labor disputes or strikes arising from any such organized labor groups. The Company considers its relationship with its employees to be good.

## Executive Officers of the Company

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

| NAME              | AGE | POSITION                                                | YEARS SERVED |
|-------------------|-----|---------------------------------------------------------|--------------|
| J. Thomas May     | 59  | Chairman, President and Chief Executive Officer         | 19           |
| Barry L. Crow     | 62  | Executive Vice President and Chief Operating Officer    | 35           |
| (1)               |     |                                                         |              |
| Robert A. Fehlman | 41  | Senior Vice President and Chief Financial Officer       | 17           |
| Tommie K. Jones   | 58  | Senior Vice President and Human Resources Director      | 31           |
| L. Ann Gill       | 58  | Senior Vice President and Auditor                       | 40           |
| Kevin J. Archer   | 42  | Senior Vice President/Credit Policy and Risk Assessment | 10           |
| David W. Garner   | 36  | Vice President and Controller                           | 8            |
| John L. Rush      | 71  | Secretary                                               | 38           |

(1) Retired December 31, 2005

## Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2005, along with their principal occupation.

| NAME                  | PRINCIPAL OCCUPATION                                                   |
|-----------------------|------------------------------------------------------------------------|
| William E. Clark      | Chairman and Chief Executive Officer<br>CDI Contractors, LLC           |
| Steven A. Cosseø      | Executive Vice President and General Counsel<br>Murphy Oil Corporation |
| Lara F. Hutt, III     | President<br>Hutt Building Material Company, Inc.                      |
| George A. Makris, Jr. | President<br>M.K. Distributors, Inc.                                   |
| J. Thomas May         | Chairman, President and Chief Executive Officer                        |

Simmons First National Corporation

W. Scott  
McGeorge

President

Pine Bluff Sand and Gravel Company

Harry L. Ryburn, Orthodontist  
D.D.S.

Henry F. Trotter, President  
Jr.

Trotter Ford, Inc.; Trotter Auto, Inc.

## **SUPERVISION AND REGULATION**

### **The Company**

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

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

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

The Company is subject to certain laws and regulations of the state of Arkansas applicable to financial and bank holding companies, including examination and supervision by the Arkansas Bank Commissioner. Under Arkansas law, a financial or bank holding company is prohibited from owning more than one subsidiary bank, if any subsidiary bank owned by the holding company has been chartered for less than 5 years and, further, requires the approval of the Arkansas Bank Commissioner for any acquisition of more than 25% of the capital stock of any other bank located in Arkansas. No bank acquisition may be approved if, after such acquisition, the holding company would control, directly or indirectly, banks having 25% of the total bank deposits in the state of Arkansas, excluding deposits of other banks and public funds.

Legislation enacted in 1994, allows bank holding companies (including financial holding companies) from any state to acquire banks located in any state without regard to state law, provided that the holding company (1) is adequately capitalized, (2) is adequately managed, (3) would not control more than 10% of the insured deposits in the United States or more than 30% of the insured deposits in such state, and (4) such bank has been in existence at least five years if so required by the applicable state law.

### **Subsidiary Banks**

Simmons First National Bank, Simmons/El Dorado and Simmons First Trust Company N.A., as national banking associations, are subject to regulation and supervision, of which regular bank examinations are a part, by the Office of the Comptroller of the Currency of the United States ("OCC"). Simmons/Jonesboro, Simmons/South, Simmons/Northwest and Simmons/Hot Springs, as state chartered banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Deposit Insurance Corporation ("FDIC") and the Arkansas State Bank Department. Simmons/Russellville and Simmons/Searcy, as state chartered member banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Reserve Board and the Arkansas State Bank Department. The lending powers of each of the subsidiary banks are generally subject to certain restrictions, including the amount, which may be lent to a single borrower.

Prior to passage of the GLB Act in 1999, the subsidiary banks, with numerous exceptions, were subject to the application of the laws of the state of Arkansas, regarding the limitation of the maximum permissible interest rate on loans. The Arkansas limitation for general loans was 5% over the Federal Reserve Discount Rate, with an additional maximum limitation of 17% per annum for consumer loans and credit sales. Certain loans secured by first liens on residential real estate and certain loans controlled by federal law (e.g., guaranteed student loans, SBA loans, etc.) were exempt from this limitation; however, a substantial portion of the loans made by the subsidiary banks, including all credit card loans, have historically been subject to this limitation. The GLB Act included a provision which sets the maximum interest rate on loans made in Arkansas, by banks with Arkansas as their home state, at the greater of the rate authorized by Arkansas law or the highest rate permitted by any of the out-of-state banks which maintain branches in Arkansas. An action was brought in the Western District of Arkansas, attacking the validity of the statute in 2000. Subsequently, the District Court issued a decision upholding the statute, and during October 2001, the Eighth Circuit Court of Appeals upheld the statute on appeal. Thus, in the fourth quarter of 2001, the Company began to implement the changes permitted by the GLB Act.

All of the Company's subsidiary banks are members of the FDIC, which currently insures the deposits of each member bank to a maximum of \$100,000 per deposit relationship. For this protection, each bank pays a statutory assessment to the FDIC each year.

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

### **Potential Enforcement Action for Bank Holding Companies and Banks**

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

### **Risk-Weighted Capital Requirements for the Company and the Banks**

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution is one that has at least a 10% "total risk-based capital" ratio. For a tabular summary of the Company's risk-weighted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital" and Note 19 of the Notes to Consolidated Financial Statements.

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

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

Under the risk-based capital guidelines, balance sheet assets and certain off-balance sheet items, such as standby letters of credit, are assigned to one of four-risk weight categories (0%, 20%, 50%, or 100%), according to the nature of the asset, its collateral or the identity of the obligor or guarantor. The aggregate amount in each risk category is adjusted by the risk weight assigned to that category, to determine weighted values, which are then added to determine the total risk-weighted assets for the banking organization. For example, an asset, such as a commercial loan, assigned to a 100% risk category, is included in risk-weighted assets at its nominal face value, but a loan secured by a one-to-four family residence is included at only 50% of its nominal face value. The applicable ratios reflect capital, as so determined, divided by risk-weighted assets, as so determined.



## **Federal Deposit Insurance Corporation Improvement Act**

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

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

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

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

## **Securities and Exchange Commission Filings**

The Company maintains an Internet website at [www.simmonsfirst.com](http://www.simmonsfirst.com). On this website under the section, investor relations - documents, the Company makes its filings with the Securities and Exchange Commission available free of charge.

## **ITEM RISK FACTORS**

### **1A.**

Investments in the Company's common stock involve risk. The market price of the Company's common stock may fluctuate significantly in response to a number of factors, including:

- changes in securities analysts' estimates of financial performance
- volatility of stock market prices and volumes
- rumors or erroneous information
- changes in market valuations of similar companies
- changes in interest rates
- new developments in the banking industry
- variations in quarterly or annual operating results

- new litigation or changes in existing litigation
- regulatory actions
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies

If the Company does not adjust to changes in the financial services industry, its financial performance may suffer. The Company's ability to maintain its history of strong financial performance and return on investment to shareholders will depend in part on its ability to expand its scope of available financial services to its customers. In addition to other banks, competitors include securities dealers, brokers, mortgage bankers, investment advisors, and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial service providers.



Future governmental regulation and legislation could limit growth. The Company and its subsidiaries are subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of its operations. Changes to these laws could affect the Company's ability to deliver or expand its services and diminish the value of its business.

Changes in interest rates could reduce income and cash flow. The Company's income and cash flow depends to a great extent on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. Interest rates are beyond the Company's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits.

Additional risks and uncertainties could have a negative effect on financial performance. Additional factors could have a negative effect on the financial performance of the Company and the Company's common stock. Some of these factors are general economic and financial market conditions, competition, continuing consolidation in the financial services industry, new litigation or changes in existing litigation, regulatory actions, and losses.

#### **ITEM UNRESOLVED STAFF COMMENTS**

##### **1B.**

There are currently no unresolved Commission staff comments.

#### **ITEM 2. PROPERTIES**

The principal offices of the Company and the Bank consist of an eleven-story office building and adjacent office space, located in the central business district of the city of Pine Bluff, Arkansas.

The Company and its subsidiaries own or lease additional offices throughout the state of Arkansas. The Company's eight banks are conducting financial operations from 81 offices, of which 79 are financial centers, in 46 communities throughout Arkansas.

#### **ITEM 3. LEGAL PROCEEDINGS**

The Company and/or its subsidiary banks 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. However, 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 has filed a Motion to Dismiss. At this time, it appears remote that this matter will constitute a material loss to the Company or the Banks. The Banks continue to vigorously defend the claims asserted in the suit.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS**

No matters were submitted to a vote of security-holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

**PART II**

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on The Nasdaq Stock Market<sup>®</sup> in the National Market System under the symbol "SFNC". The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing bid prices for the Company's Common Stock.

|             | Price Per Common Share |          | Quarterly Dividends Per Common Share |
|-------------|------------------------|----------|--------------------------------------|
|             | High                   | Low      |                                      |
| <b>2005</b> |                        |          |                                      |
| 1st quarter | \$ 29.57               | \$ 22.72 | \$ 0.15                              |
| 2nd quarter | 27.42                  | 21.40    | 0.15                                 |
| 3rd quarter | 28.75                  | 25.59    | 0.15                                 |
| 4th quarter | 29.96                  | 26.08    | 0.16                                 |
| <b>2004</b> |                        |          |                                      |
| 1st quarter | \$ 30.39               | \$ 25.81 | \$ 0.14                              |
| 2nd quarter | 28.54                  | 23.21    | 0.14                                 |
| 3rd quarter | 27.17                  | 22.65    | 0.14                                 |
| 4th quarter | 30.05                  | 25.40    | 0.15                                 |

As of February 9, 2006, there were 1,466 shareholders of record of the Company's Common Stock.

The Company's policy is to declare regular quarterly dividends based upon the Company's earnings, financial position, capital requirements and such other factors deemed relevant by the Board of Directors. This dividend policy is subject to change, however, and the payment of dividends by the Company is necessarily dependent upon the availability of earnings and the Company's financial condition in the future. The payment of dividends on the Common Stock is also subject to regulatory capital requirements.

The Company's principal source of funds for dividend payments to its stockholders is dividends received from its subsidiary banks. Under applicable banking laws, the declaration of dividends by the Bank and Simmons/El Dorado in any year, in excess of its net profits, as defined, for that year, combined with its retained net profits of the preceding two years, must be approved by the Office of the Comptroller of the Currency. Further, as to Simmons/Jonesboro, Simmons/Northwest, Simmons/South, Simmons/Hot Springs, Simmons/Russellville and Simmons/Searcy regulators have specified that the maximum dividends state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. At December 31, 2005, approximately \$15.0 million was available for the payment of dividends by the subsidiary banks without regulatory approval. For further discussion of restrictions on the payment of dividends, see "Quantitative and Qualitative Disclosures About Market Risk - Liquidity and Market Risk Management," and Note 19 of Notes to Consolidated Financial Statements.

### Recent Sales of Unregistered Securities

The following transactions are sales of unregistered shares of Common Stock of the registrant, for the fourth quarter of 2005, which were issued to executive and senior management officers upon the exercise of rights granted under one of the Company's stock option plans. No underwriters were involved and no underwriter's discount or commissions were involved. Exemption from registration is claimed under Section 4(2) of the Securities Act of 1933 as private placements. The Company received cash and/or exchanged shares of the Company's Common Stock as the consideration for the transactions.

| Identity    | Date of Sale   | Number of Shares | Price <sup>(1)</sup> | Type of Transaction    |
|-------------|----------------|------------------|----------------------|------------------------|
| 1 Officer   | November, 2005 | 800              | 10.5625              | Incentive Stock Option |
| 1 Officer   | November, 2005 | 9,000            | 12.1250              | Incentive Stock Option |
| 4 Officers  | November, 2005 | 1,800            | 12.2188              | Incentive Stock Option |
| 8 Officers  | November, 2005 | 8,100            | 12.8334              | Incentive Stock Option |
| 1 Officer   | November, 2005 | 360              | 16.0000              | Incentive Stock Option |
| 1 Officer   | December, 2005 | 400              | 10.5625              | Incentive Stock Option |
| 13 Officers | December, 2005 | 5,500            | 12.2188              | Incentive Stock Option |

(1) The per share price paid for incentive stock options represents the fair market value of the stock as determined under the terms of the Plan on the date the incentive stock option was granted to the officer. The price paid and numbers of shares issued have been adjusted to reflect the effect of the 50% stock dividend paid on December 6, 1996 and the two for one stock split on May 1, 2003.

### Stock Repurchase

The Company made the following purchases of its common stock during the three months ended December 31, 2005:

| Period                   | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet be Purchased Under the Plans |
|--------------------------|----------------------------------|------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------|
| October 1 - October 31   | 13,200                           | 27.29                        | 13,200                                                               | 560,325                                                            |
| November 1 - November 30 | 8,259                            | 28.31                        | 8,259                                                                | 552,066                                                            |
| December 1 - December 31 | 7,999                            | 28.15                        | 7,999                                                                | 544,067                                                            |
| Total                    | 29,458                           | \$ 27.81                     | 29,458                                                               |                                                                    |

On May 25, 2004, the Company announced the adoption by the Board of Directors of a new stock repurchase program. The program authorizes the repurchase of up to 5% of the 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 exercise, payment of future stock dividends and general corporate purposes.

### **Forward Looking Statements**

Certain statements contained in this Annual Report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “estimate,” “expect,” “foresee,” “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 statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

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 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Earnings per common share and dividends per common share presented in the financial statements have been restated retroactively to reflect the effects of the May 1, 2003, two for one stock split for shareholders of record as of April 18, 2003. The selected consolidated financial data set forth below should be read in conjunction with the financial statements of the Company and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

**SELECTED CONSOLIDATED FINANCIAL DATA**Years Ended December 31 <sup>(1)</sup>

| (In thousands,<br>except per share data)                         | 2005      | 2004      | 2003      | 2002      | 2001      |
|------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Income statement data:                                           |           |           |           |           |           |
| Net interest income                                              | \$ 90,257 | \$ 85,636 | \$ 77,870 | \$ 75,708 | \$ 67,405 |
| Provision for loan losses                                        | 7,526     | 8,027     | 8,786     | 10,223    | 9,958     |
| Net interest income after provision<br>for loan losses           | 82,731    | 77,609    | 69,084    | 65,485    | 57,447    |
| Non-interest income                                              | 42,318    | 40,705    | 38,717    | 35,303    | 33,569    |
| Non-interest expense                                             | 85,584    | 82,385    | 73,117    | 69,013    | 68,130    |
| Provision for income taxes                                       | 12,503    | 11,483    | 10,894    | 9,697     | 6,358     |
| Net income                                                       | 26,962    | 24,446    | 23,790    | 22,078    | 16,528    |
| Per share data:                                                  |           |           |           |           |           |
| Basic earnings                                                   | 1.88      | 1.68      | 1.69      | 1.56      | 1.16      |
| Diluted earnings                                                 | 1.84      | 1.65      | 1.65      | 1.54      | 1.15      |
| Diluted operating earnings <sup>(2)</sup>                        | 1.84      | 1.68      | 1.62      | 1.54      | 1.15      |
| Book value                                                       | 17.04     | 16.29     | 14.89     | 13.97     | 12.87     |
| Dividends                                                        | 0.61      | 0.57      | 0.53      | 0.48      | 0.44      |
| Balance sheet data at period end:                                |           |           |           |           |           |
| Assets                                                           | 2,523,768 | 2,413,944 | 2,235,778 | 1,977,579 | 2,016,918 |
| Loans                                                            | 1,718,107 | 1,571,376 | 1,418,314 | 1,257,305 | 1,258,784 |
| Allowance for loan losses                                        | 26,923    | 26,508    | 25,347    | 21,948    | 20,496    |
| Deposits                                                         | 2,059,958 | 1,959,195 | 1,803,468 | 1,619,196 | 1,686,404 |
| Long-term debt                                                   | 87,020    | 94,663    | 100,916   | 54,282    | 42,150    |
| Stockholders' equity                                             | 244,085   | 238,222   | 209,995   | 197,605   | 182,363   |
| Capital ratios at period end:                                    |           |           |           |           |           |
| Stockholders' equity to<br>total assets                          | 9.67%     | 9.87%     | 9.39%     | 9.99%     | 9.04%     |
| Leverage <sup>(3)</sup>                                          | 8.62%     | 8.46%     | 9.89%     | 9.29%     | 8.26%     |
| Tier 1                                                           | 12.26%    | 12.72%    | 14.12%    | 14.02%    | 12.76%    |
| Total risk-based                                                 | 13.54%    | 14.00%    | 15.40%    | 15.30%    | 14.04%    |
| Selected ratios:                                                 |           |           |           |           |           |
| Return on average assets                                         | 1.08%     | 1.03%     | 1.18%     | 1.12%     | 0.84%     |
| Return on average equity                                         | 11.24%    | 10.64%    | 11.57%    | 11.56%    | 9.23%     |
| Return on average tangible equity<br><sup>(4)</sup>              | 15.79%    | 14.94%    | 14.03%    | 13.99%    | 12.73%    |
| Net interest margin <sup>(5)</sup>                               | 4.13%     | 4.08%     | 4.34%     | 4.37%     | 3.92%     |
| Allowance/nonperforming loans                                    | 319.48%   | 220.84%   | 219.13%   | 179.07%   | 137.12%   |
| Allowance for loan losses as a<br>percentage of period-end loans | 1.57%     | 1.69%     | 1.79%     | 1.75%     | 1.63%     |
| Nonperforming loans as a<br>percentage<br>of period-end loans    | 0.49%     | 0.76%     | 0.82%     | 0.97%     | 1.19%     |
| Net charge-offs as a percentage                                  |           |           |           |           |           |

|                         |        |        |        |        |        |
|-------------------------|--------|--------|--------|--------|--------|
| of average total assets | 0.28%  | 0.34%  | 0.41%  | 0.46%  | 0.54%  |
| Dividend payout         | 33.15% | 33.80% | 31.14% | 30.75% | 37.76% |

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(1) The selected consolidated financial data set forth above should be read in conjunction with the financial statements of the Company and related Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this report.

(2) Diluted operating earnings exclude nonrecurring items.

(3) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investments.

(4) Tangible calculations eliminate the effect of goodwill and acquisition related intangible assets and the corresponding amortization expense on a tax-effected basis where applicable.

(5) Fully taxable equivalent (assuming an income tax rate of 37.5%).



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

### 2005 Overview

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Simmons First National Corporation recorded net income of \$26,962,000 for the year ended December 31, 2005, a 10.3% increase from net income of \$24,446,000 in 2004. Net income in 2003 was \$23,790,000. Diluted earnings per share increased \$0.19, or 11.5%, to \$1.84 in 2005 compared to \$1.65 in 2004. Diluted earnings per share in 2003 were \$1.65. The Company's return on average assets and return on average stockholders' equity for the year ended December 31, 2005, were 1.08% and 11.24%, when compared to 1.03% and 10.64%, respectively, for the year ended 2004.

Operating earnings (net income less nonrecurring items) for the years ended December 31, 2005, and 2004, were \$26,962,000 and \$24,916,000, respectively. Diluted operating earnings per share for these same periods were \$1.84 and \$1.68, respectively. This represents a \$0.16 per share, or 9.5% increase. On December 31, 2004, the Company recorded a nonrecurring \$470,000 after tax charge, or a \$0.03 reduction in diluted earnings per share, related to the write off of deferred debt issuance cost associated with the redemption of its 9.12% trust preferred securities. During the second quarter 2003, the Company recorded a nonrecurring \$0.03 addition to earnings per share, resulting from the sale of its mortgage-servicing portfolio.

At December 31, 2005, the Company's loan portfolio totaled \$1.718 billion, which is a \$146.7 million, or a 9.3%, increase from the same period last year. This increase is due primarily to increased loan demand the Company experienced in its commercial and real estate loan portfolios.

As of December 2005, asset quality remained strong with non-performing assets declining by \$3.9 million from the same period last year, a 28% decrease. Non-performing loans to total loans improved to 0.49% from 0.76% from the same period last year, and the allowance for loan losses improved to 319% of non-performing loans, compared to 221% from the same period last year. At year-end, the allowance for loan losses equaled 1.57% of total loans, which reflects the improvement in the loan portfolio compared to 1.69% at year-end 2004.

Total assets for the Company at December 31, 2005, were \$2.524 billion, an increase of \$110 million, or 4.6%, over the period ended December 31, 2004. Stockholders' equity as of December 31, 2005 was \$244 million, an increase of \$5.8 million, or approximately 2.5%, from December 31, 2004.

Simmons First National Corporation is an Arkansas based, Arkansas committed financial holding company with \$2.5 billion in assets and 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 81 offices, of which 79 are financial centers, in 46 communities.

### Critical Accounting Policies

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#### 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 plan as it relates to stock options.

#### Loans

Loans the Company has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal adjusted for any loans charged off and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest 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 uncollectability 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 Statement No. 142 and No. 147 eliminated the amortization for these assets as of January 1, 2002. Although goodwill is not being amortized, it is tested annually for impairment.

### **Fee Income**

Periodic bankcard 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**

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

**Employee Benefit Plans**

The Company has a stock-based employee compensation plan. The Company accounts for this plan under recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the grant date.

In December 2004, FASB issued SFAS No. 123, Share-Based Payment (Revised 2004), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. The standard requires companies to expense the fair value of all stock options that have future vesting provisions, are modified, or are newly granted beginning on the grant date of such options. SFAS 123R became effective and was adopted by the Company on January 1, 2006. See Note 17, New Accounting Standards, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report.

## Acquisitions

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On November 1, 2005, the Company completed a branch purchase in which Bank of Little Rock sold its Southwest Little Rock, Arkansas location at 8500 Geyer Springs Road to Simmons First National Bank, a subsidiary of the Company. The acquisition included approximately \$3.5 million in total deposits in addition to the fixed assets used in the branch operation. No loans were involved in the transaction. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$151,000 and \$31,000, respectively.

On June 25, 2004, the Company completed a branch purchase in which Cross County Bank sold its Weiner, Arkansas location to Simmons First Bank of Jonesboro, a subsidiary of the Company. The acquisition included approximately \$6 million in total deposits and the fixed assets used in the branch operation. No loans were involved in the transaction. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$344,000 and \$117,000, respectively.

On March 19, 2004, the Company merged with ABI. ABI owned Alliance Bank of Hot Springs, Hot Springs, Arkansas with consolidated assets (including goodwill and core deposits), loans and deposits of approximately \$155 million, \$70 million and \$110 million, respectively. During the second quarter of 2004, Alliance Bank changed its name to Simmons First Bank of Hot Springs and continues to operate as a separate community bank with virtually the same board of directors, management and staff. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$14,690,000 and \$1,245,000, respectively.

On November 21, 2003, the Company completed the purchase of nine financial centers from Union Planters Bank, N.A. Six locations in North Central Arkansas include Clinton, Marshall, Mountain View, Fairfield Bay, Leslie and Bee Branch. Three locations in Northeast Arkansas communities include Hardy, Cherokee Village and Mammoth Spring. At acquisition, the nine locations had combined deposits of \$130 million with acquired assets of \$119 million including selected loans, premises, cash and other assets. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$12,282,000 and \$4,817,000, respectively.

The system integration for the 2005 acquisition was completed on the acquisition date. The system integration for the 2004 mergers and acquisitions were completed during the second quarter of 2004. The systems integration for the 2003 acquisition was completed on the acquisition date.

## Sale of Mortgage Servicing

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During the second quarter 2003, the Company recorded a nonrecurring \$0.03 addition to earnings per share. On June 30, 1998, the Company sold its \$1.2 billion residential mortgage-servicing portfolio. As a result of this sale, the Company established a reserve for potential liabilities due to certain representations and warranties made on the sale date. The time period for making claims under the terms of the mortgage servicing sale's representations and warranties expired on June 30, 2003. Thus, the Company reversed this remaining reserve in the second quarter of 2003, which is reflected in the \$771,000 pre-tax gain on sale of mortgage servicing. Excluding this nonrecurring gain, the Company would have reported \$1.62 diluted earnings per share for the year ended December 31, 2003.

## **Net Interest Income**

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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 Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began 2003 at 1.25% and decreased 25 basis points to end the year at 1.00%. During 2004, the Federal Funds rate increased 100 basis points to end the year at 2.25%. During 2005, the Federal Funds rate increased 50 basis points in each of the four quarters to end the year at 4.25%.

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 year ended December 31, 2005, net interest income on a fully taxable equivalent basis was \$93.5 million, an increase of \$4.7 million, or 5.3%, from the same period in 2004. The increase in net interest income was the result of a \$17.0 million increase in interest income and a \$12.4 million increase in interest expense. As a result, the net interest margin increased 5 basis points to 4.13% for the year ended December 31, 2005, when compared to 4.08% for 2004. Although net interest margin increased 5 basis points from 2004 to 2005, in 2006 the Company expects to see continued pressure on the margin driven primarily by the increase in cost of funds resulting from competitive deposit repricing.

The \$17.0 million increase in interest income for the year ended December 31, 2005, primarily is the result of internal growth in loans along with a 54 basis point increase in the yield earned on earning assets associated with the repricing to a higher interest rate environment. The growth in average loans accounted for an increase of \$8.2 million in interest income. The higher interest rates resulted in a \$9.5 million increase in interest income. More specifically, \$7.2 million of the increase is 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. As a result, the average rate earned on the loan portfolio increased 46 basis points from 6.36% to 6.82%.

The \$12.4 million increase in interest expense for the year ended December 31, 2005, primarily is the result of a 56 basis point increase in cost of funds due to competitive repricing during a higher interest rate environment, coupled with a \$98 million increase in average interest bearing liabilities generated through internal growth. The higher interest rates accounted for an \$11.3 million increase in interest expense. The most significant component of this increase was the \$7.0 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. As a result of this repricing, the average rate paid on time deposits increased 74 basis points from 2.04% to 2.78%. The higher level of average interest bearing liabilities resulted in a \$1.1 million increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately \$91.2 million from internal deposit growth and \$28.4 million from fed funds purchased and short-term debt, offset by a \$21.4 million reduction in average long-term debt due primarily to the payoff of \$17.3 million of trust preferred securities in December of 2004.

For the year ended December 31, 2004, net interest income on a fully taxable equivalent basis was \$88.8 million, an increase of \$7.8 million, or 9.6%, from the same period in 2003. The increase in net interest income was the result of an \$8.5 million increase in interest income and a \$691,000 increase in interest expense. As a result, the net interest margin decreased 26 basis points to 4.08% for the year ended December 31, 2004, when compared to 4.34% for 2003. Interest expense for 2004 includes the interest costs associated with the \$30 million of trust preferred securities issued during December 2003.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2005, 2004 and 2003, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2005 versus 2004 and 2004 versus 2003.

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

(FTE =Fully Taxable Equivalent)

| (In thousands)                       | Years Ended December 31 |            |            |
|--------------------------------------|-------------------------|------------|------------|
|                                      | 2005                    | 2004       | 2003       |
| Interest income                      | \$ 133,071              | \$ 116,064 | \$ 107,607 |
| FTE adjustment                       | 3,234                   | 3,173      | 3,112      |
| Interest income - FTE                | 136,305                 | 119,237    | 110,719    |
| Interest expense                     | 42,814                  | 30,428     | 29,737     |
| Net interest income - FTE            | \$93,491                | \$88,809   | \$80,982   |
| Yield on earning assets - FTE        | 6.02%                   | 5.48%      | 5.94%      |
| Cost of interest bearing liabilities | 2.21%                   | 1.65%      | 1.91%      |
| Net interest spread - FTE            | 3.81%                   | 3.83%      | 4.03%      |
| Net interest margin - FTE            | 4.13%                   | 4.08%      | 4.34%      |

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

| (In thousands)                                                                           | 2005 vs. 2004 | 2004 vs. 2003 |
|------------------------------------------------------------------------------------------|---------------|---------------|
| Increase (decrease) due to change in earning assets                                      | \$ 7,570      | \$ 17,999     |
| Increase (decrease) due to change in earning asset yields                                | 9,501         | (9,481)       |
| Increase (decrease) due to change in interest rates paid on interest bearing liabilities | (11,302)      | 4,432         |
| Increase (decrease) due to change in interest bearing liabilities                        | (1,086)       | (5,123)       |
| Increase in net interest income                                                          | \$4,683       | \$7,827       |



Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2005. 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)                                     | Years Ended December 31 |                 |                |                 |                 |                |                 |                 |                |
|----------------------------------------------------|-------------------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|
|                                                    | 2005                    |                 |                | 2004            |                 |                | 2003            |                 |                |
|                                                    | Average Balance         | Income/ Expense | Yield/ Rate(%) | Average Balance | Income/ Expense | Yield/ Rate(%) | Average Balance | Income/ Expense | Yield/ Rate(%) |
| <b><u>ASSETS</u></b>                               |                         |                 |                |                 |                 |                |                 |                 |                |
| Earning Assets                                     |                         |                 |                |                 |                 |                |                 |                 |                |
| Interest bearing balances                          |                         |                 |                |                 |                 |                |                 |                 |                |
| due from banks                                     | \$ 20,837               | \$ 580          | 2.78           | \$ 36,587       | \$ 400          | 1.09           | \$ 51,325       | \$ 494          | 0.96           |
| Federal funds sold                                 | 30,598                  | 925             | 3.02           | 56,423          | 748             | 1.33           | 63,642          | 652             | 1.02           |
| Investment securities - taxable                    | 425,030                 | 13,898          | 3.27           | 411,467         | 12,416          | 3.02           | 311,722         | 10,958          | 3.52           |
| Investment securities - non-taxable                | 122,047                 | 7,670           | 6.28           | 126,349         | 7,843           | 6.21           | 115,416         | 7,641           | 6.62           |
| Mortgage loans held for sale                       | 9,356                   | 552             | 5.90           | 10,087          | 575             | 5.70           | 22,692          | 1,220           | 5.38           |
| Assets held in trading accounts                    | 4,584                   | 99              | 2.16           | 4,980           | 41              | 0.82           | 1,146           | 37              | 3.23           |
| Loans                                              | 1,651,950               | 112,581         | 6.82           | 1,528,447       | 97,214          | 6.36           | 1,298,127       | 89,717          | 6.91           |
| Total interest earning assets                      | 2,264,402               | 136,305         | 6.02           | 2,174,340       | 119,237         | 5.48           | 1,864,070       | 110,719         | 5.94           |
| Non-earning assets                                 | 233,132                 |                 |                | 203,440         |                 |                | 157,469         |                 |                |
| Total assets                                       | \$ 2,497,534            |                 |                | \$ 2,377,780    |                 |                | \$ 2,021,539    |                 |                |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b> |                         |                 |                |                 |                 |                |                 |                 |                |
| Liabilities                                        |                         |                 |                |                 |                 |                |                 |                 |                |
| Interest bearing liabilities                       |                         |                 |                |                 |                 |                |                 |                 |                |
| Interest bearing transaction and savings deposits  |                         |                 |                |                 |                 |                |                 |                 |                |
| \$ 762,558                                         | \$ 7,777                | 1.02            | \$ 729,842     | \$ 4,965        | 0.68            | \$ 579,618     | \$ 4,594        | 0.79            |                |
| Time deposits                                      | 950,820                 | 26,431          | 2.78           | 892,360         | 18,198          | 2.04           | 813,973         | 19,921          | 2.45           |
| Total interest bearing deposits                    | 1,713,378               | 34,208          | 2.00           | 1,622,202       | 23,163          | 1.43           | 1,393,591       | 24,515          | 1.76           |

|                                                                           |              |        |      |              |        |      |              |        |      |
|---------------------------------------------------------------------------|--------------|--------|------|--------------|--------|------|--------------|--------|------|
| Federal funds purchased and securities sold under agreement to repurchase | 102,041      | 3,104  | 3.04 | 94,465       | 1,227  | 1.30 | 87,847       | 941    | 1.07 |
| Other borrowed funds                                                      |              |        |      |              |        |      |              |        |      |
| Short-term debt                                                           | 32,076       | 1,101  | 3.43 | 11,252       | 175    | 1.56 | 5,489        | 89     | 1.62 |
| Long-term debt                                                            | 89,590       | 4,401  | 4.91 | 110,946      | 5,863  | 5.28 | 72,211       | 4,192  | 5.81 |
| Total interest bearing liabilities                                        | 1,937,085    | 42,814 | 2.21 | 1,838,865    | 30,428 | 1.65 | 1,559,138    | 29,737 | 1.91 |
| Non-interest bearing liabilities                                          |              |        |      |              |        |      |              |        |      |
| Non-interest bearing deposits                                             | 303,974      |        |      | 293,060      |        |      | 242,902      |        |      |
| Other liabilities                                                         | 16,499       |        |      | 16,136       |        |      | 13,816       |        |      |
| Total liabilities                                                         | 2,257,558    |        |      | 2,148,061    |        |      | 1,815,856    |        |      |
| Stockholders' equity                                                      | 239,976      |        |      | 229,719      |        |      | 205,683      |        |      |
| Total liabilities and stockholders equity                                 | \$ 2,497,534 |        |      | \$ 2,377,780 |        |      | \$ 2,021,539 |        |      |
| Net interest spread                                                       |              |        | 3.81 |              |        | 3.83 |              |        | 4.03 |
| Net interest margin                                                       | \$ 93,491    |        | 4.13 | \$ 88,809    |        | 4.08 | \$ 80,892    |        | 4.34 |

Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for each of the years ended December 31, 2005 and 2004, as compared to prior years. 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)                        | Years Ended December 31 |                   |                 |                  |                   |                 |
|----------------------------------------------------------------------------|-------------------------|-------------------|-----------------|------------------|-------------------|-----------------|
|                                                                            | 2005 over 2004          |                   |                 | 2004 over 2003   |                   |                 |
|                                                                            | Volume                  | Yield/<br>Rate    | Total           | Volume           | Yield/<br>Rate    | Total           |
| <b>Increase (decrease) in</b>                                              |                         |                   |                 |                  |                   |                 |
| <b>Interest income</b>                                                     |                         |                   |                 |                  |                   |                 |
| <b>Interest bearing balances</b>                                           |                         |                   |                 |                  |                   |                 |
| due from banks                                                             | \$ (230)                | \$ 410            | \$ 180          | \$ (155)         | \$ 61             | \$ (94)         |
| Federal funds sold                                                         | (457)                   | 635               | 178             | (80)             | 176               | 96              |
| Investment securities - taxable                                            | 419                     | 1,064             | 1,483           | 3,161            | (1,703)           | 1,458           |
| Investment securities - non-taxable                                        | (269)                   | 96                | (173)           | 697              | (495)             | 202             |
| Mortgage loans held for sale                                               | (43)                    | 20                | (23)            | (715)            | 70                | (645)           |
| Assets held in trading accounts                                            | (3)                     | 62                | 59              | 49               | (45)              | 4               |
| Loans                                                                      | 8,153                   | 7,214             | 15,367          | 15,042           | (7,545)           | 7,497           |
| <b>Total</b>                                                               | <b>7,570</b>            | <b>9,501</b>      | <b>17,071</b>   | <b>17,999</b>    | <b>(9,481)</b>    | <b>8,518</b>    |
| <b>Interest expense</b>                                                    |                         |                   |                 |                  |                   |                 |
| <b>Interest bearing transaction and savings deposits</b>                   |                         |                   |                 |                  |                   |                 |
| Time deposits                                                              | 232                     | 2,581             | 2,813           | 1,082            | (711)             | 371             |
| Federal funds purchased and securities sold under agreements to repurchase | 1,258                   | 6,976             | 8,234           | 1,801            | (3,524)           | (1,723)         |
| Other borrowed funds                                                       |                         |                   |                 |                  |                   |                 |
| Short-term debt                                                            | 105                     | 1,772             | 1,877           | 75               | 211               | 286             |
| Long-term debt                                                             | 561                     | 366               | 927             | 89               | (3)               | 86              |
|                                                                            | (1,070)                 | (393)             | (1,463)         | 2,076            | (405)             | 1,671           |
| <b>Total</b>                                                               | <b>1,086</b>            | <b>11,302</b>     | <b>12,388</b>   | <b>5,123</b>     | <b>(4,432)</b>    | <b>691</b>      |
| <b>Increase (decrease) in net interest income</b>                          | <b>\$ 6,484</b>         | <b>\$ (1,801)</b> | <b>\$ 4,683</b> | <b>\$ 12,876</b> | <b>\$ (5,049)</b> | <b>\$ 7,827</b> |

**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 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 2005, 2004 and 2003 was \$7.5, \$8.0 and \$8.8 million, respectively. The decrease in the provision for loan losses reflects the continued improvement in the Company's asset quality.

**Non-Interest Income**

Total non-interest income was \$42.3 million in 2005, compared to \$40.7 million in 2004 and \$38.7 million in 2003. 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 years ended December 31, 2005, 2004 and 2003, respectively, as well as changes in 2005 from 2004 and in 2004 from 2003.

**Table 5: Non-Interest Income**

| (In thousands)                                          | Years Ended December 31 |           |           | 2005                |          | 2004                |          |
|---------------------------------------------------------|-------------------------|-----------|-----------|---------------------|----------|---------------------|----------|
|                                                         | 2005                    | 2004      | 2003      | Change from<br>2004 |          | Change from<br>2003 |          |
| Trust income                                            | \$ 5,589                | \$ 5,421  | \$ 5,487  | \$ 168              | 3.10%    | \$ (66)             | (1.20)%  |
| Service charges on deposit accounts                     | 15,818                  | 14,564    | 10,589    | 1,254               | 8.61     | 3,975               | 37.54    |
| Other service charges and fees                          | 2,017                   | 2,016     | 1,508     | 1                   | 0.05     | 508                 | 33.69    |
| Income on sale of mortgage loans,<br>net of commissions | 2,919                   | 3,391     | 4,931     | (472)               | (13.92)  | (1,540)             | (31.23)  |
| Income on investment banking,<br>net of commissions     | 416                     | 645       | 1,887     | (229)               | (35.50)  | (1,242)             | (65.82)  |
| Credit card fees                                        | 10,252                  | 10,001    | 9,782     | 251                 | 2.51     | 219                 | 2.24     |
| Premiums on sale of student loans                       | 1,822                   | 2,114     | 1,479     | (292)               | (13.81)  | 635                 | 42.93    |
| Bank owned life insurance income                        | 953                     | 261       | 157       | 692                 | 265.13   | 104                 | 66.24    |
| Other income                                            | 2,700                   | 2,292     | 2,140     | 408                 | 17.80    | 152                 | 7.10     |
| Gain on sale of mortgage servicing                      | –                       | –         | 771       | –                   | –        | (771)               | (100.00) |
| Loss on sale of securities, net                         | (168)                   | –         | (14)      | (168)               | (100.00) | 14                  | 100.00   |
| Total non-interest income                               | \$ 42,318               | \$ 40,705 | \$ 38,717 | \$ 1,613            | 3.96%    | \$ 1,960            | 5.06%    |

Recurring fee income for 2005 was \$33.7 million, an increase of \$1.7 million, or 5.2%, when compared with the 2004 amounts. The increase in service charges on deposit accounts for 2005 can be primarily attributed to normal growth in transaction accounts and improvement in the fee structure associated with the Company's deposit accounts.

Recurring fee income for 2004 was \$32.0 million, an increase of \$4.6 million, or 17.0%, when compared with the 2003 amounts. This increase was attributable to the growth in service charges on deposit accounts and other service charges and fees. This growth was principally the result of acquisitions in the fourth quarter of 2003 and during 2004, growth in our transaction accounts, an improvement in the service charge fee structure and new product offerings associated with the Company's deposit accounts. The increase from new product offerings is primarily associated with the Company's overdraft protection program, which accounted for approximately half of the increase on service charges on deposit accounts for 2004. The increase in credit card fees was primarily the result of a pricing change

related to interchange fees.

During the years ended December 31, 2005 and 2004, combined income on the sale of mortgage loans and income on investment banking decreased \$701,000 and \$2.8 million, respectively, from the years ended in 2004 and 2003. The decrease was primarily the result of a reduced demand for those products due to the rising interest rate environment.

Premiums on sale of student loans decreased by \$292,000, or 13.8%, in 2005 over 2004. The decrease was due to accelerating the sale of student loans during 2004. Normally, as student loans reach payout status, the Company generally sells student loans into the secondary market. Because of changes in the industry in 2004 relative to loan consolidations, and in order to protect the premium on these loans, the Company made the decision to sell student loans prior to the payout period. This resulted in recognition of the premium in 2004 on loans that normally would have been sold in 2005. Premiums on sale of student loans increased by \$635,000, or 42.9%, in 2004 over 2003 due to the accelerated sales and premium recognition during 2004.

On April 29, 2005, the Company invested an additional \$25 million in Bank Owned Life Insurance ("BOLI"). BOLI income increased by \$692,000 in 2005 over 2004, with the increase almost entirely attributable to this purchase.

During the second quarter of 2005, the Company sold certain available-for-sale investment securities obtained in a prior acquisition that did not fit our current investment portfolio strategy. As a result of this liquidation, we recognized an after-tax loss on sale of securities of \$168,000. There were no gains or losses on sale of securities during 2004, and a net loss of \$14,000 in 2003.

### **Non-Interest Expense**

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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.

The Company closed four small financial centers during 2005. The decisions to close these financial centers were a part of on-going efforts to improve the efficiency of the Company's branching network, many of which were acquired through mergers and acquisitions.

Non-interest expense for 2005 was \$85.6 million, an increase of \$3.2 million or 3.9%, from 2004. The increase in non-interest expense during 2005, compared to 2004 is primarily attributed to normal on-going operating expenses and the additional expenses of approximately \$748,000 associated with the operation of new financial centers opened during 2005. During 2004, the Company recorded a nonrecurring expense of \$771,000 related to the write off of deferred debt issuance cost associated with the redemption of our 9.12% trust preferred securities. When normalized for both the prepayment of the trust preferred securities and the additional expenses from our expansion, non-interest expense for 2005 increased by the same 3.9% over 2004.

The increase in credit card expense was primarily attributable the Company's travel rewards program. Accumulated travel rewards expire after 36 months. The Company has introduced several new initiatives to make our product more competitive. The key initiative has been to move as many qualifying accounts as possible from our standard VISA product to our Platinum VISA Rewards product. To date, we have converted approximately 15,000 accounts, or 50% of those targeted, to our Platinum card, which now is one of the most competitive products on the market. As a result of this conversion process, we will experience increased travel rewards expense in 2006.

Non-interest expense for 2004 was \$82.4 million, an increase of \$9.3 million or 12.7%, from 2003. Without the \$771,000 charge in 2004 related to the write-off of debt issuance cost, non-interest expense would have increased 9.2% from 2003. The increase in non-interest expense during 2004, compared to 2003 is primarily attributed to normal on-going operating expenses and the additional expenses associated with the acquisitions completed during the fourth quarter of 2003 and throughout 2004. The reduction in credit card expense was primarily attributable the expiration of accumulated travel rewards. 2004 marked the Company's fourth year in the travel rewards program. Accumulated travel rewards expire after 36 months; thus, the Company experienced the initial travel rewards expirations during 2004.

Core deposit premium amortization expense recorded for the years ended December 31, 2005, 2004 and 2003, was \$830,000, \$791,000 and \$172,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2006 - \$830,000; 2007 - \$818,000; 2008 - \$807,000; 2009 - \$802,000; and 2010 - \$698,000. The increases reflect the core deposit premium recorded associated with 2003, 2004 and 2005 acquisitions.



Table 6 below shows non-interest expense for the years ended December 31, 2005, 2004 and 2003, respectively, as well as changes in 2005 from 2004 and in 2004 from 2003.

**Table 6: Non-Interest Expense**

| (In thousands)                           | Years Ended December 31 |           |           | 2005             |          | 2004             |         |
|------------------------------------------|-------------------------|-----------|-----------|------------------|----------|------------------|---------|
|                                          | 2005                    | 2004      | 2003      | Change from 2004 |          | Change from 2003 |         |
| Salaries and employee benefits           | \$ 51,270               | \$ 48,533 | \$ 42,979 | \$ 2,737         | 5.64%    | \$ 5,554         | 12.92%  |
| Occupancy expense, net                   | 5,840                   | 5,500     | 5,080     | 340              | 6.18     | 420              | 8.27    |
| Furniture and equipment expense          | 5,758                   | 5,646     | 5,195     | 112              | 1.98     | 451              | 8.68    |
| Loss on foreclosed assets                | 191                     | 346       | 269       | (155)            | (44.80)  | 77               | 28.62   |
| Deposit insurance                        | 279                     | 284       | 273       | (5)              | (1.76)   | 11               | 4.03    |
| Other operating expenses                 |                         |           |           |                  |          |                  |         |
| Professional services                    | 2,201                   | 2,029     | 1,999     | 172              | 8.48     | 30               | 1.50    |
| Postage                                  | 2,281                   | 2,256     | 2,024     | 25               | 1.11     | 232              | 11.46   |
| Telephone                                | 1,847                   | 1,784     | 1,498     | 63               | 3.53     | 286              | 19.09   |
| Credit card expense                      | 2,693                   | 2,374     | 2,679     | 319              | 13.44    | (305)            | (11.38) |
| Operating supplies                       | 1,555                   | 1,528     | 1,488     | 27               | 1.77     | 40               | 2.69    |
| Amortization of core deposits            | 830                     | 791       | 172       | 39               | 4.93     | 619              | 359.88  |
| Write off of deferred debt issuance cost | –                       | 771       | –         | (771)            | (100.00) | 771              | 100.00  |
| Other expense                            | 10,839                  | 10,543    | 9,461     | 296              | 2.81     | 1,082            | 11.44   |
| Total non-interest expense               | \$ 85,584               | \$ 82,385 | \$ 73,117 | \$ 3,199         | 3.88%    | \$ 9,268         | 12.68%  |

### Income Taxes

The provision for income taxes for 2005 was \$12.5 million, compared to \$11.5 million in 2004 and \$10.9 million in 2003. The effective income tax rates for the years ended 2005, 2004 and 2003 were 31.7%, 32.0% and 31.4%, respectively.

### Loan Portfolio

The Company's loan portfolio averaged \$1.652 billion during 2005 and \$1.528 billion during 2004. As of December 31, 2005, total loans were \$1.718 billion, compared to \$1.571 billion on December 31, 2004. 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 collectable amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were \$370.9 million at December 31, 2005, or 21.6% of total loans, compared to \$367.2 million, or 23.4% of total loans at December 31, 2004. The \$3.7 million consumer loan increase from 2004 to 2005 is the result of an increase in student loans and indirect lending, offset by a \$12.3 million decline in credit cards. As student loans reach payout status, the Company generally sells these loans into the secondary market. Because of changes in the industry relative to loan consolidations, and in order to protect the premium, the Company made the decision to sell some student loans prior to the payout period in 2004. These early sales created a decline in the portfolio balances at December 31, 2004. The increase in student loans from 2004 to 2005 was the result of the student loan portfolio returning to historical levels at December 31, 2005. The increase in the indirect consumer loan portfolio was primarily the result of more aggressive marketing efforts by the Company, along with less attractive finance incentives offered by car manufacturers. The credit card portfolio continued to decline as the result of an on-going decrease in the number of cardholder accounts resulting from competitive pressure in the credit card industry.

The Company continues to experience significant competitive pressure from the credit card industry. Over the previous two years, our credit card portfolio has decreased by approximately \$10 to \$12 million each year, and, as anticipated, our average credit card portfolio balance decreased by approximately \$11 million in 2005. In order to reverse this trend, we introduced several new initiatives to make the product more competitive. As part of our retention strategy, our goal is to move as many qualifying accounts as possible from a standard VISA product to a Platinum VISA Rewards product. The standard VISA product is the one that has been primarily impacted by the competitive teaser rates. The Platinum VISA Rewards product is now one of the most competitive products on the market, carrying a low fixed interest rate of 8.95%, and offering customers competitive rewards based on their purchases. During 2005, the Company converted approximately 15,000 accounts, or approximately 50% of the targeted accounts, to our Platinum card. As a result of this conversion process, we have been able to reduce the number of closed accounts. The Company received excellent publicity during 2005 in articles in the Wall Street Journal and other newspapers throughout the country, relative to the quality of our Platinum card versus the market. This publicity, along with several new marketing initiatives, has resulted in an increase in application volume.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were \$1.1 billion at December 31, 2005, or 61.7% of total loans, compared to \$969.2 million, or 61.7% of total loans at December 31, 2004. Construction loans accounted for \$69.9 million of the increase in real estate loans, while single-family residential loans increased by \$22.4 million during 2005. These increases are primarily due to increased loan demand in various growth areas of Arkansas.

Commercial loans consist of commercial loans, agricultural loans and financial institution loans. Commercial loans were \$274.2 million at December 31, 2005, or 16.0% of total loans, compared to the \$222.0 million, or 14.1% of total loans at December 31, 2004. The commercial loan increase is largely due to a \$26.3 million increase in other commercial loans and a \$19.4 million increase in loans to financial institutions.

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)            | Years Ended December 31 |                     |                     |                     |                     |
|---------------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                           | 2005                    | 2004                | 2003                | 2002                | 2001                |
| <b>Consumer</b>           |                         |                     |                     |                     |                     |
| Credit cards              | \$ 143,058              | \$ 155,326          | \$ 165,919          | \$ 180,439          | \$ 196,710          |
| Student loans             | 89,818                  | 83,283              | 86,301              | 83,890              | 74,860              |
| Other consumer            | 138,051                 | 128,552             | 142,995             | 153,103             | 179,138             |
| <b>Real Estate</b>        |                         |                     |                     |                     |                     |
| Construction              | 238,898                 | 169,001             | 111,567             | 90,736              | 83,628              |
| Single family residential | 340,839                 | 318,488             | 261,936             | 233,193             | 224,122             |
| Other commercial          | 479,684                 | 481,728             | 408,452             | 290,469             | 263,539             |
| <b>Commercial</b>         |                         |                     |                     |                     |                     |
| Commercial                | 184,920                 | 158,613             | 162,122             | 144,678             | 153,617             |
| Agricultural              | 68,761                  | 62,340              | 57,393              | 58,585              | 60,794              |
| Financial institutions    | 20,499                  | 1,079               | 6,370               | 6,504               | 5,861               |
| Other                     | 13,579                  | 12,966              | 15,259              | 15,708              | 16,515              |
| <b>Total loans</b>        | <b>\$ 1,718,107</b>     | <b>\$ 1,571,376</b> | <b>\$ 1,418,314</b> | <b>\$ 1,257,305</b> | <b>\$ 1,258,784</b> |

Table 8 reflects the remaining maturities and interest rate sensitivity of loans at December 31, 2005.

**Table 8: Maturity and Interest Rate Sensitivity of Loans**

| (In thousands)     | 1 year<br>or less   | Over 1<br>year<br>through<br>5 years | Over<br>5 years  | Total               |
|--------------------|---------------------|--------------------------------------|------------------|---------------------|
| Consumer           | \$ 296,647          | \$ 74,229                            | \$ 51            | \$ 370,927          |
| Real estate        | 687,844             | 361,109                              | 10,468           | 1,059,421           |
| Commercial         | 210,069             | 61,334                               | 2,777            | 274,180             |
| Other              | 5,949               | 7,274                                | 356              | 13,579              |
| <b>Total</b>       | <b>\$ 1,200,509</b> | <b>\$ 503,946</b>                    | <b>\$ 13,652</b> | <b>\$ 1,718,107</b> |
| Predetermined rate | \$ 806,203          | \$ 455,175                           | \$ 13,003        | \$ 1,274,381        |
| Floating rate      | 394,306             | 48,771                               | 649              | 443,726             |
| <b>Total</b>       | <b>\$ 1,200,509</b> | <b>\$ 503,946</b>                    | <b>\$ 13,652</b> | <b>\$ 1,718,107</b> |

### 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 uncollectable, the portion of the loan determined to be uncollectable 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 uncollectable. 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 uncollectable.

Table 9 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned.

**Table 9: Non-performing Assets**

| (In thousands)                                                     | Years Ended December 31 |           |           |           |           |
|--------------------------------------------------------------------|-------------------------|-----------|-----------|-----------|-----------|
|                                                                    | 2005                    | 2004      | 2003      | 2002      | 2001      |
| Nonaccrual loans                                                   | \$ 7,296                | \$ 10,918 | \$ 10,049 | \$ 10,443 | \$ 11,956 |
| Loans past due 90 days or more<br>(principal or interest payments) | 1,131                   | 1,085     | 1,518     | 1,814     | 2,991     |
| Restructured                                                       | —                       | —         | —         | —         | —         |
| Total non-performing loans                                         | 8,427                   | 12,003    | 11,567    | 12,257    | 14,947    |
| Other non-performing assets                                        |                         |           |           |           |           |
| Foreclosed assets held for sale                                    | 1,540                   | 1,839     | 2,979     | 2,705     | 1,084     |
| Other non-performing assets                                        | 16                      | 83        | 393       | 426       | 631       |
| Total other non-performing assets                                  | 1,556                   | 1,922     | 3,372     | 3,131     | 1,715     |
| Total non-performing assets                                        | \$ 9,983                | \$ 13,925 | \$ 14,939 | \$ 15,388 | \$ 16,662 |
| Allowance for loan losses to<br>non-performing loans               | 319.48%                 | 220.84%   | 219.13%   | 179.07%   | 137.12%   |
| Non-performing loans to total<br>loans                             | 0.49%                   | 0.76%     | 0.82%     | 0.97%     | 1.19%     |
| Non-performing assets to total<br>assets                           | 0.40%                   | 0.58%     | 0.67%     | 0.78%     | 0.83%     |

There was no interest income on the nonaccrual loans recorded for the years ended December 31, 2005, 2004 and 2003.

At December 31, 2005, impaired loans were \$14.8 million compared to \$16.6 million in 2004. The decrease in impaired loans from December 31, 2004, primarily relates to the decrease of borrowers that are still performing, but for which management has internally identified as impaired. This decrease is mainly due to the general improvement of the Company's smaller commercial loan relationships, and is indicative of the overall improvement in the asset quality of the Company. In addition, workout efforts were completed in 2005 on one large catfish loan relationship. On an ongoing basis, management evaluates the underlying collateral on all impaired loans and allocates specific reserves, where appropriate, in order to absorb potential losses if the collateral were ultimately foreclosed.

## **Allowance for Loan Losses**

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### **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) miscellaneous allocations.

### **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.

### **Miscellaneous Allocations**

Allowance allocations other than specific, classified and general for the Company are included in the miscellaneous section. This primarily consists of unfunded loan commitments.

An analysis of the allowance for loan losses for the last five years is shown in table 10.

**Table 10: Allowance for Loan Losses**

| (In thousands)                                            | 2005      | 2004      | 2003      | 2002      | 2001      |
|-----------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Balance, beginning of year                                | \$ 26,508 | \$ 25,347 | \$ 21,948 | \$ 20,496 | \$ 21,157 |
| <b>Loans charged off</b>                                  |           |           |           |           |           |
| Credit card                                               | 4,950     | 4,589     | 4,705     | 4,703     | 4,431     |
| Other consumer                                            | 1,240     | 2,144     | 1,987     | 2,320     | 3,063     |
| Real estate                                               | 1,048     | 1,263     | 1,504     | 1,813     | 1,378     |
| Commercial                                                | 3,688     | 2,409     | 2,674     | 2,310     | 3,476     |
| Total loans charged off                                   | 10,926    | 10,405    | 10,870    | 11,146    | 12,348    |
| <b>Recoveries of loans previously charged off</b>         |           |           |           |           |           |
| Credit card                                               | 832       | 720       | 670       | 640       | 515       |
| Other consumer                                            | 636       | 683       | 644       | 677       | 668       |
| Real estate                                               | 251       | 277       | 218       | 253       | 146       |
| Commercial                                                | 2,096     | 751       | 987       | 558       | 400       |
| Total recoveries                                          | 3,815     | 2,431     | 2,519     | 2,128     | 1,729     |
| Net loans charged off                                     | 7,111     | 7,974     | 8,351     | 9,018     | 10,619    |
| <b>Allowance for loan losses of acquired institutions</b> |           |           |           |           |           |
| Provision for loan losses                                 | 7,526     | 8,027     | 8,786     | 10,223    | 9,958     |
| Balance, end of year                                      | \$ 26,923 | \$ 26,508 | \$ 25,347 | \$ 21,948 | \$ 20,496 |
| Net charge-offs to average loans                          | 0.43%     | 0.52%     | 0.64%     | 0.72%     | 0.82%     |
| Allowance for loan losses to period-end loans             | 1.57%     | 1.69%     | 1.79%     | 1.75%     | 1.63%     |
| Allowance for loan losses to net charge-offs              | 378.6%    | 332.4%    | 303.5%    | 243.4%    | 193.0%    |

### Provision for loan losses

The amount of provision to the allowance each year was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due loans and net losses from loans charged off for the last five years. It is management's practice to review the allowance on a monthly basis to determine whether additional provisions should be 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.

As of December 31, 2005, the allowance for loan losses reflects an increase of approximately \$415,000 from December 31, 2004, due primarily to increases in the loan portfolio. As a general rule, the allocation in each category within the allowance reflects the overall changes in loan portfolio mix.

The Company's allocation of the allowance for loan losses at December 31, 2005 remained relatively consistent with the allocation at December 31, 2004. The unallocated portion of allowance decreased \$866,000 during the year ended 2005. This decrease in unallocated allowance is primarily related to increases in general allocations based on growth of the loan portfolio. The unallocated portion of the allowance as a percent of total loans was 0.36% and 0.45% for the years ended December 31, 2005, and 2004, respectively.



The Company still has some concerns over the uncertainty of the economy and the impact of pricing in the catfish and timber industries in Arkansas. In addition, the Company continues to review regulatory filings and financial statements of a public utility company that was impacted by the hurricanes of August and September of 2005. Based on our analysis of loans within these business sectors, we believe the allowance for loan losses is adequate for the year ended December 31, 2005. In 2006, management will actively monitor the status of these industries as they relate to the Company's loan portfolio and make changes to the allowance for loan losses as necessary.

The Company allocates the allowance for loan losses according to the amount deemed to be reasonably necessary to provide for losses incurred within the categories of loans set forth in table 11.

**Table 11: Allocation of Allowance for Loan Losses**

| (In thousands) | 2005                |                              | 2004                |                              | December 31<br>2003 |                              | 2002                |                              | 2001                |                              |
|----------------|---------------------|------------------------------|---------------------|------------------------------|---------------------|------------------------------|---------------------|------------------------------|---------------------|------------------------------|
|                | Allowance<br>Amount | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount | % of<br>loans <sup>(1)</sup> |
| Credit cards   | \$ 3,887            | 8.3%                         | \$ 4,217            | 9.9%                         | \$ 3,913            | 11.7%                        | \$ 4,270            | 14.4%                        | \$ 4,156            | 15.6%                        |
| Other consumer | 1,158               | 13.3%                        | 1,097               | 13.5%                        | 1,597               | 16.2%                        | 1,745               | 18.8%                        | 2,042               | 20.2%                        |
| Real estate    | 9,870               | 61.7%                        | 9,357               | 61.7%                        | 8,723               | 55.1%                        | 7,393               | 48.9%                        | 8,029               | 45.4%                        |
| Commercial     | 5,857               | 15.9%                        | 4,820               | 14.1%                        | 5,113               | 15.9%                        | 4,398               | 16.7%                        | 3,485               | 17.5%                        |
| Other          | –                   | 0.8%                         | –                   | 0.8%                         | 4                   | 1.1%                         | –                   | 1.2%                         | –                   | 1.3%                         |
| Unallocated    | 6,151               |                              | 7,017               |                              | 5,997               |                              | 4,142               |                              | 2,784               |                              |
| <b>Total</b>   | <b>\$ 26,923</b>    | <b>100.0%</b>                | <b>\$ 26,508</b>    | <b>100.0%</b>                | <b>\$ 25,347</b>    | <b>100.0%</b>                | <b>\$ 21,948</b>    | <b>100.0%</b>                | <b>\$ 20,496</b>    | <b>100.0%</b>                |

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

## Investments and Securities

The Company's securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as either held-to-maturity (HTM), available-for-sale (AFS) or trading.

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

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

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

Held-to-maturity and available-for-sale investment securities were \$150.3 million and \$371.5 million, respectively, at December 31, 2005, compared to the held-to-maturity amount of \$151.3 million and available-for-sale amount of \$390.8 million at December 31, 2004.

As of December 31, 2005, \$29.0 million, or 19.3%, of the held-to-maturity securities were invested in U.S. Treasury securities and obligations of U.S. government agencies, 79.3% of which will mature in less than five years. In the available-for-sale securities, \$351.9 million, or 94.7% were in U.S. Treasury and U.S. government agency securities, 85.3% of which will mature in less than five years.

In order to reduce the Company's income tax burden, an additional \$117.1 million, or 77.9%, of the held-to-maturity securities portfolio, as of December 31, 2005, was invested in tax-exempt obligations of state and political subdivisions. In the available-for-sale securities, \$3.0 million, or 0.8% were invested in tax-exempt obligations of state and political subdivisions. Most of the state and political subdivision debt obligations are non-rated bonds and represent relatively small, Arkansas issues, which are evaluated on an ongoing basis. There are no securities of any one state and political subdivision issuer exceeding ten percent of the Company's stockholders' equity at December 31, 2005.

The Company has approximately \$187,000, or 0.1%, in mortgaged-backed securities in the held-to-maturity portfolio at December 31, 2005. In the available-for-sale securities, \$3.3 million, or 0.9% were invested in mortgaged-backed securities.

As of December 31, 2005, the held-to-maturity investment portfolio had gross unrealized gains of \$700,000 and gross unrealized losses of \$1.8 million.

The Company had no gross realized gains during the years ended December 31, 2005 and 2004, resulting from the sales and/or calls of securities. Gross realized gains of \$2,000 resulting from sales and/or calls of securities were realized for the year ended December 31, 2003. Gross realized losses of \$275,000, \$0 and \$16,000 resulting from sales and/or calls of securities were realized for the years ended December 31, 2005, 2004 and 2003, respectively.

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

Table 12 presents the carrying value and fair value of investment securities for each of the years indicated.

**Table 12: Investment Securities**

| (In thousands)                   | Years Ended December 31 |                        |                           |                      |                   |                        |                           |                      |
|----------------------------------|-------------------------|------------------------|---------------------------|----------------------|-------------------|------------------------|---------------------------|----------------------|
|                                  | 2005                    |                        |                           | 2004                 |                   |                        |                           |                      |
|                                  | Amortized Cost          | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| <b>Held-to-Maturity</b>          |                         |                        |                           |                      |                   |                        |                           |                      |
| U.S. Treasury                    | \$ 1,004                | \$ -                   | \$ (20)                   | \$ 984               | \$ 4,020          | \$ 12                  | \$ (19)                   | \$ 4,013             |
| U.S. Government agencies         | 28,000                  | -                      | (473)                     | 27,527               | 21,500            | 18                     | (76)                      | 21,442               |
| Mortgage-backed securities       | 187                     | 3                      | -                         | 190                  | 307               | 7                      | (1)                       | 313                  |
| State and political subdivisions | 117,148                 | 662                    | (1,298)                   | 116,512              | 122,457           | 1,617                  | (390)                     | 123,684              |
| Other securities                 | 3,960                   | -                      | -                         | 3,960                | 2,980             | -                      | -                         | 2,980                |
| <b>Total HTM</b>                 | <b>\$ 150,299</b>       | <b>\$ 665</b>          | <b>\$ (1,791)</b>         | <b>\$ 149,173</b>    | <b>\$ 151,264</b> | <b>\$ 1,654</b>        | <b>\$ (486)</b>           | <b>\$ 152,432</b>    |
| <b>Available-for-Sale</b>        |                         |                        |                           |                      |                   |                        |                           |                      |
| U.S. Treasury                    | \$ 10,989               | \$ -                   | \$ (102)                  | \$ 10,887            | \$ 24,218         | \$ 3                   | \$ (125)                  | \$ 24,096            |

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|                                  |                   |               |                   |                   |                   |                 |                   |                   |
|----------------------------------|-------------------|---------------|-------------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| U.S. Government agencies         | 348,570           | 35            | (7,615)           | 340,990           | 343,716           | 226             | (2,856)           | 341,086           |
| Mortgage-backed securities       | 3,392             | 9             | (92)              | 3,309             | 3,919             | 13              | (55)              | 3,877             |
| State and political subdivisions | 3,014             | 39            | –                 | 3,053             | 4,616             | 130             | –                 | 4,746             |
| Other securities                 | 12,561            | 690           | –                 | 13,251            | 16,154            | 1,111           | (276)             | 16,989            |
| <b>Total AFS</b>                 | <b>\$ 378,526</b> | <b>\$ 773</b> | <b>\$ (7,809)</b> | <b>\$ 371,490</b> | <b>\$ 392,623</b> | <b>\$ 1,483</b> | <b>\$ (3,312)</b> | <b>\$ 390,794</b> |

Table 13 reflects the amortized cost and estimated fair value of securities at December 31, 2005, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis, assuming a 37.5% tax rate) of such securities. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

**Table 13: Maturity Distribution of Investment Securities**

| (In thousands)                   | December 31, 2005 |                             |                               |                 |                   |             | Total             | Par Value         | Par Value         |
|----------------------------------|-------------------|-----------------------------|-------------------------------|-----------------|-------------------|-------------|-------------------|-------------------|-------------------|
|                                  | 1 year or less    | Over 1 year through 5 years | Over 5 years through 10 years | Over 10 years   | No fixed maturity |             |                   |                   |                   |
| <b>Held-to-Maturity</b>          |                   |                             |                               |                 |                   |             |                   |                   |                   |
| U.S. Treasury                    | \$ 1,004          | \$ -                        | \$ -                          | \$ -            | \$ -              | \$ -        | \$ 1,004          | \$ 1,000          | \$ 984            |
| U.S. Government agencies         | 5,000             | 17,000                      | 6,000                         | -               | -                 | -           | 28,000            | 28,000            | 27,527            |
| Mortgage-backed securities       | -                 | 6                           | 20                            | 161             | -                 | -           | 187               | 186               | 190               |
| State and political subdivisions | 18,307            | 37,458                      | 58,403                        | 2,980           | -                 | -           | 117,148           | 117,085           | 116,512           |
| Other securities                 | -                 | -                           | -                             | 930             | 3,030             | -           | 3,960             | 3,960             | 3,960             |
| <b>Total HTM</b>                 | <b>\$ 24,311</b>  | <b>\$ 54,464</b>            | <b>\$ 64,423</b>              | <b>\$ 4,071</b> | <b>\$ 3,030</b>   | <b>\$ -</b> | <b>\$ 150,299</b> | <b>\$ 150,231</b> | <b>\$ 149,173</b> |
| Percentage of total              | 16.2%             | 36.2%                       | 42.9%                         | 2.7%            | 2.0%              | -           | 100.0%            |                   |                   |
| Weighted average yield           | 3.2%              | 4.2%                        | 4.1%                          | 4.2%            | 2.4%              | -           | 4.0%              |                   |                   |
| <b>Available-for-Sale</b>        |                   |                             |                               |                 |                   |             |                   |                   |                   |
| U.S. Treasury                    | \$ 6,494          | \$ 4,495                    | \$ -                          | \$ -            | \$ -              | \$ -        | \$ 10,989         | \$ 11,000         | \$ 10,887         |
| U.S. Government agencies         | 73,345            | 215,675                     | 59,550                        | -               | -                 | -           | 348,570           | 348,585           | 340,990           |
| Mortgage-backed securities       | -                 | 214                         | 928                           | 2,250           | -                 | -           | 3,392             | 3,434             | 3,309             |
| State and political subdivisions | 705               | 1,810                       | 499                           | -               | -                 | -           | 3,014             | 3,015             | 3,053             |
| Other securities                 | -                 | -                           | -                             | -               | 12,561            | -           | 12,561            | 13,251            | 13,251            |
| <b>Total AFS</b>                 | <b>\$ 80,544</b>  | <b>\$ 222,194</b>           | <b>\$ 60,977</b>              | <b>\$ 2,250</b> | <b>\$ 12,561</b>  | <b>\$ -</b> | <b>\$ 378,526</b> | <b>\$ 379,285</b> | <b>\$ 371,490</b> |
| Percentage of total              | 21.3%             | 58.7%                       | 16.1%                         | 0.6%            | 3.3%              | -           | 100.0%            |                   |                   |
| Weighted average yield           | 2.7%              | 3.7%                        | 5.5%                          | 5.2%            | 4.9%              | -           | 3.8%              |                   |                   |

### Deposits

Deposits are the Company's primary source of funding for earning assets and are primarily developed through the Company's network of 79 financial centers as of December 31, 2005. 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 December 31, 2005, core deposits comprised 79.9% 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 of the Company's community banking philosophy, affiliate executives in the local markets establish the interest rates offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet the funding requirements. The Company believes it is paying a competitive rate, when compared with pricing in those markets.

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 deposit pricing if it experiences increased loan demand or other liquidity needs. The Company began to utilize brokered deposits during 2005 as an additional source of funding to meet liquidity needs.

The Company's total deposits as of December 31, 2005 were \$2.060 billion, an increase of \$101 million, or 5.15%, from \$1.959 billion at December 31, 2004. The Company had \$51 million of brokered deposits at December 31, 2005.

Table 14 reflects the classification of the average deposits and the average rate paid on each deposit category, which are in excess of 10 percent of average total deposits for the three years ended December 31, 2005.

**Table 14: Average Deposit Balances and Rates**

| (In thousands)                                    | 2005                |                   | December 31 2004    |                   | 2003                |                   |
|---------------------------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                                                   | Average Amount      | Average Rate Paid | Average Amount      | Average Rate Paid | Average Amount      | Average Rate Paid |
| Non-interest bearing transaction accounts         | \$ 303,974          | —                 | \$ 293,060          | —                 | \$ 242,902          | —                 |
| Interest bearing transaction and savings deposits | 762,558             | 1.02%             | 729,842             | 0.68%             | 579,618             | 0.79%             |
| Time deposits                                     |                     |                   |                     |                   |                     |                   |
| \$100,000 or more                                 | 371,871             | 2.83%             | 349,224             | 2.00%             | 316,245             | 2.34%             |
| Other time deposits                               | 578,949             | 2.74%             | 543,136             | 2.06%             | 497,728             | 2.52%             |
| <b>Total</b>                                      | <b>\$ 2,017,352</b> | <b>1.79%</b>      | <b>\$ 1,915,262</b> | <b>1.21%</b>      | <b>\$ 1,636,493</b> | <b>1.50%</b>      |

The Company's maturities of large denomination time deposits at December 31, 2005 and 2004 are presented in table 15.

**Table 15: Maturities of Large Denomination Time Deposits**

| (In thousands)             | 2005      |         | Time Certificates of Deposit (\$100,000 or more) December 31 |         | 2004    |         |
|----------------------------|-----------|---------|--------------------------------------------------------------|---------|---------|---------|
|                            | Balance   | Percent | Balance                                                      | Percent | Balance | Percent |
| <b>Maturing</b>            |           |         |                                                              |         |         |         |
| Three months or less       | \$ 97,676 | 26.8%   | \$ 131,551                                                   | 36.9%   |         |         |
| Over 3 months to 6 months  | 80,763    | 22.2%   | 92,048                                                       | 25.8%   |         |         |
| Over 6 months to 12 months | 113,968   | 31.3%   | 89,399                                                       | 25.0%   |         |         |
| Over 12 months             | 71,770    | 19.7%   | 43,928                                                       | 12.3%   |         |         |

|       |    |         |         |    |         |         |
|-------|----|---------|---------|----|---------|---------|
| Total | \$ | 364,177 | 100.00% | \$ | 356,926 | 100.00% |
|-------|----|---------|---------|----|---------|---------|



## Short-Term Debt

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Federal funds purchased and securities sold under agreements to repurchase were \$107.2 million at December 31, 2005, as compared to \$104.8 million at December 31, 2004. Other short-term borrowings, consisting of U.S. TT&L Notes and short-term FHLB borrowings, were \$8.0 million at December 31, 2005, as compared to \$2.4 million at December 31, 2004.

The Company has historically funded its growth in earning assets through the use of core deposits, large certificates of deposits from local markets, FHLB borrowings and federal funds purchased. Management anticipates that these sources will provide necessary funding in the foreseeable future.

## Long-Term Debt

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The Company's long-term debt was \$87.0 million and \$94.7 million at December 31, 2005 and 2004, respectively. The outstanding balance for December 31, 2005 includes \$4.0 million in long-term debt, \$52.1 million in FHLB long-term advances and \$30.9 million of trust preferred securities. The outstanding balance for December 31, 2004, includes \$6.0 million in long-term debt, \$57.7 million in FHLB long-term advances and \$30.9 million of trust preferred securities.

During the year ended December 31, 2005, the Company decreased long-term debt by \$7.7 million, or 8.1% from December 31, 2004. This decrease is attributable to the Company's annual \$2.0 million payment on its note payable along with scheduled principal pay downs on FHLB long-term advances.

On December 31, 2004, the Company redeemed the entire issue of Simmons First Capital Trust 9.12% Trust Preferred Securities, due June 30, 2027, with an aggregate face amount of \$17,250,000.

Aggregate annual maturities of long-term debt at December 31, 2005 are presented in table 16.

**Table 16: Maturities of Long-Term Debt**

| (In thousands) | Year       | Annual<br>Maturities |
|----------------|------------|----------------------|
|                | 2006       | \$ 13,020            |
|                | 2007       | 11,440               |
|                | 2008       | 7,164                |
|                | 2009       | 5,396                |
|                | 2010       | 5,396                |
|                | Thereafter | 44,604               |
|                | Total      | \$ 87,020            |

## Capital

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### Overview

At December 31, 2005, total capital reached \$244.1 million. Capital represents shareholder ownership in the Company -- the book value of assets in excess of liabilities. At December 31, 2005, the Company's equity to asset ratio was 9.67% compared to 9.87% at year-end 2004.

### **Capital Stock**

At the Company's annual shareholder meeting held on March 30, 2004, the shareholders approved an amendment to the Articles of Incorporation reducing the par value of the Class A Common Stock from \$1.00 to \$0.01 and eliminating the authority of the Company to issue Class B Common Stock, Class A Preferred Stock and Class B Preferred Stock.

## **Stock Repurchase**

On May 25, 2004, the Company announced the adoption by the Board of Directors of a repurchase program. The program authorizes the repurchase of up to 5% of the 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 exercise, payment of future stock dividends and general corporate purposes.

During the year ended December 31, 2005, the Company repurchased a total of 371,453 shares of stock with a weighted average repurchase price of \$26.10 per share. There were 121,453 shares with a weighted average repurchase price of \$26.31 per share repurchased under the plan, while there were 250,000 shares with a weighted average repurchase price of \$26.00 per share repurchased in a separately negotiated private transaction outside the plan.

## **Cash Dividends**

The Company declared cash dividends on its Common Stock of \$0.61 per share for the twelve months ended 2005 compared to \$0.57 per share for the twelve months ended 2004. In recent years, the Company increased dividends no less than annually and presently plans to continue with this practice.

## **Parent Company Liquidity**

The primary liquidity needs of the Parent Company are the payment of dividends to shareholders, the funding of debt obligations and the share repurchase plan. The primary sources for meeting these liquidity needs are the current cash on hand at the parent company and 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 Item 7A Liquidity and Qualitative Disclosures About Market Risk discussion 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). Management believes that, as of December 31, 2005, 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 December 31, 2005 and 2004 are presented in table 17.

**Table 17: Risk-Based Capital**

| (In thousands)                                                     | December 31         |                     |
|--------------------------------------------------------------------|---------------------|---------------------|
|                                                                    | 2005                | 2004                |
| <b>Tier 1 capital</b>                                              |                     |                     |
| Stockholders' equity                                               | \$ 244,085          | \$ 238,222          |
| Trust preferred securities                                         | 30,000              | 30,000              |
| Goodwill and core deposits                                         | (65,278)            | (66,283)            |
| Unrealized loss on available-for-sale securities                   | 4,360               | 1,124               |
| Other                                                              | -                   | (738)               |
| <b>Total Tier 1 capital</b>                                        | <b>213,167</b>      | <b>202,325</b>      |
| <b>Tier 2 capital</b>                                              |                     |                     |
| Qualifying unrealized gain on available-for-sale equity securities | 338                 | 392                 |
| Qualifying allowance for loan losses                               | 21,811              | 19,961              |
| <b>Total Tier 2 capital</b>                                        | <b>22,149</b>       | <b>20,353</b>       |
| <b>Total risk-based capital</b>                                    | <b>\$ 235,316</b>   | <b>\$ 222,678</b>   |
| <b>Risk weighted assets</b>                                        | <b>\$ 1,739,771</b> | <b>\$ 1,590,373</b> |
| <b>Ratios at end of year</b>                                       |                     |                     |
| Leverage ratio                                                     | 8.61%               | 8.46%               |
| Tier 1 capital                                                     | 12.25%              | 12.72%              |
| Total risk-based capital                                           | 13.53%              | 14.00%              |
| <b>Minimum guidelines</b>                                          |                     |                     |
| Leverage ratio                                                     | 4.00%               | 4.00%               |
| Tier 1 capital                                                     | 4.00%               | 4.00%               |
| Total risk-based capital                                           | 8.00%               | 8.00%               |

#### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

In the normal course of business, the Company enters into a number of financial commitments. Examples of these commitments include but are not limited to long-term debt financing, operating lease obligations, unfunded loan commitments and letters of credit.

The Company's long-term debt at December 31, 2005, includes notes payable, FHLB long-term advances and trust preferred securities, all of which the Company is contractually obligated to repay in future periods.

Operating lease obligations entered into by the Company are generally associated with the operation of a few of the Company's financial centers located throughout the state of Arkansas. The financial obligation by the Company on

these locations is considered immaterial due to the limited number of financial centers, which operate under an agreement of this type.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having fixed expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

The funding requirements of the Company's most significant financial commitments, at December 31, 2005 are shown in table 18.

**Table 18: Funding Requirements of Financial Commitments**

| (In thousands)               | Payments due by period |              |              |                         | Total     |
|------------------------------|------------------------|--------------|--------------|-------------------------|-----------|
|                              | Less than<br>1 Year    | 1-3<br>Years | 3-5<br>Years | Greater than<br>5 Years |           |
| Long-term debt               | \$ 13,020              | \$ 18,604    | \$ 10,792    | \$ 44,604               | \$ 87,020 |
| Credit card loan commitments | 194,614                | –            | –            | –                       | 194,614   |
| Other loan commitments       | 429,442                | –            | –            | –                       | 429,442   |
| Letters of credit            | 4,573                  | –            | –            | –                       | 4,573     |

The Company has \$65.6 million and \$66.2 million total goodwill and core deposit premiums for the periods ended December 31, 2005 and December 31, 2004, respectively. Because of the Company's high level of these two intangible assets, management believes a useful calculation is tangible return on equity. This calculation for the twelve months ended December 31, 2005, 2004, 2003, 2002 and 2001, which is similar to the GAAP calculation of return on average stockholders' equity, is presented in table 19.

**Table 19: Return on Tangible Equity**

| (In thousands)                                  | 2005      | 2004      | 2003      | 2002      | 2001         |
|-------------------------------------------------|-----------|-----------|-----------|-----------|--------------|
| <b><u>Twelve months ended</u></b>               |           |           |           |           |              |
| Return on average stockholders equity:<br>(A/C) | 11.24%    | 10.64%    | 11.57%    | 11.56%    | 9.23%        |
| Return on tangible equity: (A+B)/(C-D)          | 15.79%    | 14.94%    | 14.03%    | 13.99%    | 12.73%       |
| Net income                                      | \$ 26,962 | \$ 24,446 | \$ 23,790 | \$ 22,078 | \$ 16,528(A) |
| Amortization of intangibles, net of taxes       | 522       | 494       | 108       | 49        | 1,990(B)     |
| Average stockholders' equity                    | 239,976   | 229,719   | 205,683   | 190,947   | 179,109(C)   |
| Average goodwill and core deposits, net         | 65,913    | 62,836    | 35,335    | 32,808    | 33,691(D)    |

On December 31, 2004, the Company recorded a nonrecurring \$470,000 after tax charge, or a \$0.03 reduction in diluted earnings per share, related to the write off of deferred debt issuance cost associated with the redemption of its 9.12% trust preferred securities. During the second quarter 2003, the Company recorded a nonrecurring \$0.03 addition to earnings per share, resulting from the sale of its mortgage servicing portfolio. In light of these events, Management believes operating earnings (earnings excluding nonrecurring items) is a useful calculation in reflection the Company's performance. This calculation for the twelve months ended December 31, 2005, 2004, 2003, 2002 and 2001 is presented in table 20.

**Table 20: Operating Earnings**

| <u>(In thousands, except share data)</u> | 2005      | 2004      | 2003      | 2002      | 2001      |
|------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b><u>Twelve months ended</u></b>        |           |           |           |           |           |
| Net Income                               | \$ 26,962 | \$ 24,446 | \$ 23,790 | \$ 22,078 | \$ 16,528 |
| Nonrecurring items                       |           |           |           |           |           |
| Gain on sale of mortgage servicing       | –         | –         | (771)     | –         | –         |
| Write off of deferred debt issuance cost | –         | 771       | –         | –         | –         |
| Tax effect                               | –         | (301)     | 301       | –         | –         |
| Net nonrecurring items                   | –         | 470       | (470)     | --        | –         |
| Operating Income                         | \$ 26,962 | \$ 24,916 | \$ 23,320 | \$ 22,078 | \$ 16,528 |
| Diluted earnings per share               | \$ 1.84   | \$ 1.65   | \$ 1.65   | \$ 1.54   | \$ 1.15   |
| Nonrecurring items                       |           |           |           |           |           |
| Gain on sale of mortgage servicing       | –         | –         | (0.05)    | –         | –         |
| Write off of deferred debt issuance cost | –         | 0.05      | –         | –         | –         |
| Tax effect                               | –         | (0.02)    | 0.02      | –         | –         |
| Net nonrecurring items                   | –         | 0.03      | (0.03)    | –         | –         |
| Diluted operating earnings per share     | \$ 1.84   | \$ 1.68   | \$ 1.62   | \$ 1.54   | \$ 1.15   |



## Quarterly Results

Selected unaudited quarterly financial information for the last eight quarters is shown in table 21.

**Table 21: Quarterly Results**

| (In thousands, except per share data)               | Quarter   |           |           |           |    | Total  |
|-----------------------------------------------------|-----------|-----------|-----------|-----------|----|--------|
|                                                     | First     | Second    | Third     | Fourth    |    |        |
| <b>2005</b>                                         |           |           |           |           |    |        |
| Net interest income                                 | \$ 22,093 | \$ 22,477 | \$ 22,872 | \$ 22,815 | \$ | 90,257 |
| Provision for loan losses                           | 2,221     | 1,939     | 1,736     | 1,630     |    | 7,526  |
| Non-interest income                                 | 10,071    | 10,997    | 10,740    | 10,678    |    | 42,486 |
| Non-interest expense                                | 21,415    | 20,964    | 21,226    | 21,979    |    | 85,584 |
| Loss on sale of securities, net                     | --        | (168)     | --        | --        |    | (168)  |
| Net income                                          | 5,860     | 6,943     | 7,334     | 6,825     |    | 26,962 |
| Basic earnings per share                            | 0.41      | 0.48      | 0.51      | 0.48      |    | 1.88   |
| Diluted earnings per share                          | 0.40      | 0.47      | 0.50      | 0.47      |    | 1.84   |
| Diluted operating earnings per share <sup>(1)</sup> | 0.40      | 0.47      | 0.50      | 0.47      |    | 1.84   |
| <b>2004</b>                                         |           |           |           |           |    |        |
| Net interest income                                 | \$ 20,115 | \$ 21,150 | \$ 22,117 | \$ 22,254 | \$ | 85,636 |
| Provision for loan losses                           | 2,144     | 2,019     | 1,932     | 1,932     |    | 8,027  |
| Non-interest income                                 | 9,641     | 10,726    | 10,384    | 9,954     |    | 40,705 |
| Non-interest expense                                | 19,686    | 20,503    | 20,560    | 21,636    |    | 82,385 |
| Loss on sale of securities, net                     | --        | --        | --        | --        |    | --     |
| Net income                                          | 5,411     | 6,288     | 6,907     | 5,840     |    | 24,446 |
| Basic earnings per share                            | 0.38      | 0.43      | 0.47      | 0.40      |    | 1.68   |
| Diluted earnings per share                          | 0.37      | 0.42      | 0.47      | 0.39      |    | 1.65   |
| Diluted operating earnings per share <sup>(1)</sup> | 0.37      | 0.42      | 0.47      | 0.42      |    | 1.68   |

(1) Diluted operating earnings exclude nonrecurring items

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Liquidity and Market Risk Management**

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**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 repurchases and debt service requirements. At December 31, 2005, undivided profits of the Company's subsidiaries were approximately \$133 million, of which approximately \$15 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 December 31, 2005, each subsidiary bank was within established guidelines and total corporate liquidity remains strong. At December 31, 2005, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 19.2% of total assets, as compared to 23.1% at December 31, 2004.

**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 \$86 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 a 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 a somewhat 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 \$392 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 71% 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 designed to minimize structural interest rate risk are in place. 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 model incorporates 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. These assumptions are inherently uncertain and, as a result, the model 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.

The table below presents the Company's interest rate sensitivity position at December 31, 2005. 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 22: 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                                                | \$ 26,112                        | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -            | \$ 26,112        |
| <b>Assets held in trading accounts</b>                                |                                  |                |                |                 |                |                |                 |                  |
| Investment securities                                                 | 4,631                            | -              | -              | -               | -              | -              | -               | 4,631            |
| Mortgage loans held for sale                                          | 5,825                            | 4,282          | 12,303         | 74,196          | 102,446        | 173,556        | 149,181         | 521,789          |
| Loans                                                                 | 7,857                            | -              | -              | -               | -              | -              | -               | 7,857            |
| <b>Total earning assets</b>                                           | <b>591,874</b>                   | <b>134,750</b> | <b>165,939</b> | <b>307,946</b>  | <b>268,747</b> | <b>235,197</b> | <b>13,654</b>   | <b>1,718,107</b> |
| <b>Interest bearing liabilities</b>                                   |                                  |                |                |                 |                |                |                 |                  |
| <b>Interest bearing transaction and savings deposits</b>              |                                  |                |                |                 |                |                |                 |                  |
| Time deposits                                                         | 319,556                          | -              | -              | -               | 86,074         | 258,221        | 86,074          | 749,925          |
| Short-term debt                                                       | 97,278                           | 136,106        | 179,745        | 343,212         | 109,887        | 112,692        | -               | 978,920          |
| Long-term debt                                                        | 115,254                          | -              | -              | -               | -              | -              | -               | 115,254          |
| <b>Total interest bearing liabilities</b>                             | <b>11,013</b>                    | <b>1,384</b>   | <b>2,698</b>   | <b>8,422</b>    | <b>11,482</b>  | <b>19,233</b>  | <b>32,788</b>   | <b>87,020</b>    |
| <b>Interest rate sensitivity Gap</b>                                  |                                  |                |                |                 |                |                |                 |                  |
| Cumulative interest rate sensitivity Gap                              | \$ 93,198                        | \$ 1,542       | \$ (4,201)     | \$ 30,508       | \$ 163,750     | \$ 18,607      | \$ 43,973       | \$ 347,377       |
| <b>Cumulative rate sensitive assets to rate sensitive liabilities</b> |                                  |                |                |                 |                |                |                 |                  |
|                                                                       | 117.2%                           | 113.9%         | 110.5%         | 110.0%          | 120.0%         | 116.7%         | 118.0%          |                  |

Cumulative Gap  
as a % of  
earning assets

|      |      |      |      |       |       |       |
|------|------|------|------|-------|-------|-------|
| 4.1% | 4.2% | 4.0% | 5.3% | 12.5% | 13.3% | 15.2% |
|------|------|------|------|-------|-------|-------|

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA**

**INDEX**

|                                                                                                  |    |
|--------------------------------------------------------------------------------------------------|----|
| Management's Report on Internal Control Over Financial Reporting                                 | 41 |
| Report of Independent Registered Public Accounting Firm                                          |    |
| Report on Internal Control Over Financial Reporting                                              | 42 |
| Report on Consolidated Financial Statements                                                      | 43 |
| Consolidated Balance Sheets, December 31, 2005 and 2004                                          | 44 |
| Consolidated Statements of Income, Years Ended<br>December 31, 2005, 2004 and 2003               | 45 |
| Consolidated Statements of Cash Flows, Years Ended<br>December 31, 2005, 2004 and 2003           | 46 |
| Consolidated Statements of Stockholders' Equity, Years Ended<br>December 31, 2005, 2004 and 2003 | 47 |
| Notes to Consolidated Financial Statements,<br>December 31, 2005, 2004 and 2003                  | 48 |

Note: Supplementary Data may be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quarterly Results" on page 36 hereof.

## **Management's Report on Internal Control Over Financial Reporting**

The management of Simmons First National Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2005, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on those criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, immediately follows.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that SIMMONS FIRST NATIONAL CORPORATION maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that SIMMONS FIRST NATIONAL CORPORATION maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, SIMMONS FIRST NATIONAL CORPORATION maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of SIMMONS FIRST NATIONAL CORPORATION and our report dated February 15, 2006 expressed an unqualified opinion thereon.

/s/ BKD, LLP

BKD, LLP

Pine Bluff, Arkansas  
February 15, 2006

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of SIMMONS FIRST NATIONAL CORPORATION as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SIMMONS FIRST NATIONAL CORPORATION as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Simmons First National Corporation's internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 15, 2006 expressed unqualified opinions on management's assessment and the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP

BKD, LLP

Pine Bluff, Arkansas  
February 15, 2006

**CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 2005 and 2004**

(In thousands, except share data)

|                                                                                                                                                 | 2005                | 2004                |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                                                                   |                     |                     |
| Cash and non-interest bearing balances due from banks                                                                                           | \$ 75,461           | \$ 72,032           |
| Interest bearing balances due from banks                                                                                                        | 14,397              | 36,249              |
| Federal funds sold                                                                                                                              | 11,715              | 45,450              |
| Cash and cash equivalents                                                                                                                       | 101,573             | 153,731             |
| Investment securities                                                                                                                           | 521,789             | 542,058             |
| Mortgage loans held for sale                                                                                                                    | 7,857               | 9,246               |
| Assets held in trading accounts                                                                                                                 | 4,631               | 4,916               |
| Loans                                                                                                                                           | 1,718,107           | 1,571,376           |
| Allowance for loan losses                                                                                                                       | (26,923)            | (26,508)            |
| Net loans                                                                                                                                       | 1,691,184           | 1,544,868           |
| Premises and equipment                                                                                                                          | 63,360              | 57,211              |
| Foreclosed assets held for sale, net                                                                                                            | 1,540               | 1,839               |
| Interest receivable                                                                                                                             | 18,754              | 14,248              |
| Bank owned life insurance                                                                                                                       | 33,269              | 7,316               |
| Goodwill                                                                                                                                        | 60,605              | 60,454              |
| Core deposit premiums                                                                                                                           | 5,029               | 5,829               |
| Other assets                                                                                                                                    | 14,177              | 12,228              |
| <b>TOTAL ASSETS</b>                                                                                                                             | <b>\$ 2,523,768</b> | <b>\$ 2,413,944</b> |
| <b>LIABILITIES</b>                                                                                                                              |                     |                     |
| Non-interest bearing transaction accounts                                                                                                       | \$ 331,113          | \$ 293,137          |
| Interest bearing transaction accounts and savings deposits                                                                                      | 749,925             | 769,296             |
| Time deposits                                                                                                                                   | 978,920             | 896,762             |
| Total deposits                                                                                                                                  | 2,059,958           | 1,959,195           |
| Federal funds purchased and securities sold<br>under agreements to repurchase                                                                   | 107,223             | 104,785             |
| Short-term debt                                                                                                                                 | 8,031               | 2,373               |
| Long-term debt                                                                                                                                  | 87,020              | 94,663              |
| Accrued interest and other liabilities                                                                                                          | 17,451              | 14,706              |
| Total liabilities                                                                                                                               | 2,279,683           | 2,175,722           |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                     |                     |                     |
| Capital stock                                                                                                                                   |                     |                     |
| Class A, common, par value \$0.01 a share,<br>authorized 30,000,000 shares, 14,326,923<br>issued and outstanding at 2005 and 14,621,707 at 2004 | 143                 | 146                 |
| Surplus                                                                                                                                         | 53,723              | 62,826              |
| Undivided profits                                                                                                                               | 194,579             | 176,374             |

|                                                                                                                                         |    |           |    |           |
|-----------------------------------------------------------------------------------------------------------------------------------------|----|-----------|----|-----------|
| Accumulated other comprehensive income (loss)                                                                                           |    |           |    |           |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of income tax credits of \$2,615 at 2005 and \$673 at 2004 |    | (4,360)   |    | (1,124)   |
| Total stockholders' equity                                                                                                              |    | 244,085   |    | 238,222   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                              | \$ | 2,523,768 | \$ | 2,413,944 |

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF INCOME**

**YEARS ENDED DECEMBER 31, 2005, 2004 and 2003**

| (In thousands, except per share data)                                         | 2005           | 2004           | 2003           |
|-------------------------------------------------------------------------------|----------------|----------------|----------------|
| <b>INTEREST INCOME</b>                                                        |                |                |                |
| Loans                                                                         | \$ 112,238     | \$ 96,853      | \$ 89,315      |
| Federal funds sold                                                            | 925            | 748            | 652            |
| Investment securities                                                         | 18,677         | 17,447         | 15,889         |
| Mortgage loans held for sale                                                  | 552            | 575            | 1,220          |
| Assets held in trading accounts                                               | 99             | 41             | 37             |
| Interest bearing balances due from banks                                      | 580            | 400            | 494            |
| <b>TOTAL INTEREST INCOME</b>                                                  | <b>133,071</b> | <b>116,064</b> | <b>107,607</b> |
| <b>INTEREST EXPENSE</b>                                                       |                |                |                |
| Deposits                                                                      | 34,208         | 23,163         | 24,515         |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 3,104          | 1,227          | 941            |
| Short-term debt                                                               | 1,101          | 175            | 89             |
| Long-term debt                                                                | 4,401          | 5,863          | 4,192          |
| <b>TOTAL INTEREST EXPENSE</b>                                                 | <b>42,814</b>  | <b>30,428</b>  | <b>29,737</b>  |
| <b>NET INTEREST INCOME</b>                                                    | <b>90,257</b>  | <b>85,636</b>  | <b>77,870</b>  |
| Provision for loan losses                                                     | 7,526          | 8,027          | 8,786          |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR LOAN LOSSES</b>                | <b>82,731</b>  | <b>77,609</b>  | <b>69,084</b>  |
| <b>NON-INTEREST INCOME</b>                                                    |                |                |                |
| Trust income                                                                  | 5,589          | 5,421          | 5,487          |
| Service charges on deposit accounts                                           | 15,818         | 14,564         | 10,589         |
| Other service charges and fees                                                | 2,017          | 2,016          | 1,508          |
| Income on sale of mortgage loans, net of commissions                          | 2,919          | 3,391          | 4,931          |
| Income on investment banking, net of commissions                              | 416            | 645            | 1,887          |
| Credit card fees                                                              | 10,252         | 10,001         | 9,782          |
| Premiums on sale of student loans                                             | 1,822          | 2,114          | 1,479          |
| Bank owned life insurance income                                              | 953            | 261            | 157            |
| Other income                                                                  | 2,700          | 2,292          | 2,140          |
| Gain (loss) on sale of mortgage servicing                                     | -              | -              | 771            |
| Gain (loss) on sale of securities, net of taxes                               | (168)          | -              | (14)           |
| <b>TOTAL NON-INTEREST INCOME</b>                                              | <b>42,318</b>  | <b>40,705</b>  | <b>38,717</b>  |
| <b>NON-INTEREST EXPENSE</b>                                                   |                |                |                |
| Salaries and employee benefits                                                | 51,270         | 48,533         | 42,979         |
| Occupancy expense, net                                                        | 5,840          | 5,500          | 5,080          |
| Furniture and equipment expense                                               | 5,758          | 5,646          | 5,195          |
| Loss on foreclosed assets                                                     | 191            | 346            | 269            |
| Deposit insurance                                                             | 279            | 284            | 273            |
| Other operating expenses                                                      | 22,246         | 22,076         | 19,321         |

|                                   |           |           |           |
|-----------------------------------|-----------|-----------|-----------|
| <b>TOTAL NON-INTEREST EXPENSE</b> | 85,584    | 82,385    | 73,117    |
| <b>INCOME BEFORE INCOME TAXES</b> | 39,465    | 35,929    | 34,684    |
| Provision for income taxes        | 12,503    | 11,483    | 10,894    |
| <b>NET INCOME</b>                 | \$ 26,962 | \$ 24,446 | \$ 23,790 |
| <b>BASIC EARNINGS PER SHARE</b>   | \$ 1.88   | \$ 1.68   | \$ 1.69   |
| <b>DILUTED EARNINGS PER SHARE</b> | \$ 1.84   | \$ 1.65   | \$ 1.65   |

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2005, 2004 and 2003**

| (In thousands)                                                                                        | 2005      | 2004      | 2003      |
|-------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                           |           |           |           |
| Net income                                                                                            | \$ 26,962 | \$ 24,446 | \$ 23,790 |
| Items not requiring (providing) cash                                                                  |           |           |           |
| Depreciation and amortization                                                                         | 4,861     | 5,385     | 5,110     |
| Provision for loan losses                                                                             | 7,526     | 8,027     | 8,786     |
| Net amortization (accretion) of investment securities                                                 | 370       | 686       | 150       |
| Deferred income taxes                                                                                 | (1,342)   | (2,946)   | 122       |
| Provision for losses on foreclosed assets                                                             | –         | 89        | 128       |
| Loss (gain) on sale of securities, net of taxes                                                       | 168       | –         | 14        |
| Bank owned life insurance income                                                                      | (953)     | (261)     | (157)     |
| Changes in                                                                                            |           |           |           |
| Interest receivable                                                                                   | (4,506)   | (775)     | 1,095     |
| Mortgage loans held for sale                                                                          | 1,389     | 2,965     | 21,121    |
| Assets held in trading accounts                                                                       | 285       | (4,826)   | 102       |
| Other assets                                                                                          | (1,949)   | 4,733     | (4,608)   |
| Accrued interest and other liabilities                                                                | 4,050     | 2,865     | (2,660)   |
| Income taxes payable                                                                                  | 142       | (1,317)   | 383       |
| Net cash provided by (used in) operating activities                                                   | 37,003    | 39,071    | 53,376    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                           |           |           |           |
| Net originations of loans                                                                             | (156,243) | (93,105)  | (72,616)  |
| Purchase of bank and branch locations, net funds received (disbursed)                                 | 1,945     | (2,943)   | 12,546    |
| Purchases of premises and equipment, net                                                              | (10,150)  | (10,212)  | (3,740)   |
| Proceeds from sale of foreclosed assets                                                               | 2,700     | 3,229     | 1,884     |
| Proceeds from sale of securities                                                                      | 1,225     | 17,958    | 670       |
| Proceeds from maturities of available-for-sale securities                                             | 88,382    | 134,106   | 280,638   |
| Purchases of available-for-sale securities                                                            | (73,921)  | (161,857) | (402,747) |
| Proceeds from maturities of held-to-maturity securities                                               | 32,921    | 46,496    | 170,048   |
| Purchases of held-to-maturity securities                                                              | (32,220)  | (22,165)  | (139,192) |
| Purchase of bank owned life insurance                                                                 | (25,000)  | –         | –         |
| Net cash provided by (used in) investing activities                                                   | (170,361) | (88,493)  | (152,509) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                           |           |           |           |
| Net increase (decrease) in deposits                                                                   | 98,609    | 38,813    | 54,734    |
| Net proceeds (repayments) of short-term debt                                                          | 5,658     | (4,460)   | 3,214     |
| Dividends paid                                                                                        | (8,757)   | (8,263)   | (7,407)   |
| Proceeds from issuance of long-term debt                                                              | 1,821     | 9,900     | 55,297    |
| Repayment of long-term debt                                                                           | (9,464)   | (28,934)  | (8,663)   |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | 2,438     | (4,123)   | 13,504    |
| Repurchase of common stock, net                                                                       | (9,105)   | (1,395)   | (1,476)   |



|                                                         |                   |                   |                   |
|---------------------------------------------------------|-------------------|-------------------|-------------------|
| Net cash provided by (used in) financing activities     | 81,200            | 1,538             | 109,203           |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(52,158)</b>   | <b>(47,884)</b>   | <b>10,070</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <b>153,731</b>    | <b>201,615</b>    | <b>191,545</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           | <b>\$ 101,573</b> | <b>\$ 153,731</b> | <b>\$ 201,615</b> |

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2005, 2004 and 2003

| (In thousands, except share data <sup>(1)</sup> )                                                            | Common<br>Stock | Surplus   | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Undivided<br>Profits | Total      |
|--------------------------------------------------------------------------------------------------------------|-----------------|-----------|-----------------------------------------------------------|----------------------|------------|
| Balance, December 31, 2002                                                                                   | \$ 7,071        | \$ 44,495 | \$ 2,231                                                  | \$ 143,808           | \$ 197,605 |
| Comprehensive income                                                                                         |                 |           |                                                           |                      |            |
| Net income                                                                                                   | -               | -         | -                                                         | 23,790               | 23,790     |
| Change in unrealized appreciation on<br>available-for-sale securities, net of<br>income taxes of \$1,616     | -               | -         | (2,517)                                                   | -                    | (2,517)    |
| Comprehensive income                                                                                         |                 |           |                                                           |                      | 21,273     |
| Exercise of stock options - 58,200<br>shares                                                                 | 53              | 608       | -                                                         | -                    | 661        |
| Securities exchanged under<br>employee option plan                                                           | (16)            | (400)     | -                                                         | -                    | (416)      |
| Repurchase of common stock<br>- 82,000 shares                                                                | (72)            | (1,649)   | -                                                         | -                    | (1,721)    |
| Two for one stock split                                                                                      | 7,066           | (7,066)   | -                                                         | -                    | -          |
| Cash dividends declared (\$0.525 per<br>share)                                                               | -               | -         | -                                                         | (7,407)              | (7,407)    |
| Balance, December 31, 2003                                                                                   | 14,102          | 35,988    | (286)                                                     | 160,191              | 209,995    |
| Comprehensive income                                                                                         |                 |           |                                                           |                      |            |
| Net income                                                                                                   | -               | -         | -                                                         | 24,446               | 24,446     |
| Change in unrealized depreciation on<br>available-for-sale securities, net of<br>income tax credits of \$503 | -               | -         | (838)                                                     | -                    | (838)      |
| Comprehensive income                                                                                         |                 |           |                                                           |                      | 23,608     |
| Stock issued as bonus shares - 2,000<br>shares                                                               | 2               | 50        | -                                                         | -                    | 52         |
| Change in the par value of common<br>stock                                                                   | (14,523)        | 14,523    | -                                                         | -                    | -          |
| Stock issued in connection with the<br>merger<br>of Alliance Bancorporation, Inc.                            | 545             | 13,732    | -                                                         | -                    | 14,277     |
| Exercise of stock options - 68,997<br>shares                                                                 | 43              | 922       | -                                                         | -                    | 965        |
| Securities exchanged under<br>employee option plan                                                           | (22)            | (606)     | -                                                         | -                    | (628)      |
| Repurchase of common stock<br>- 73,465 shares                                                                | (1)             | (1,783)   | -                                                         | -                    | (1,784)    |
| Cash dividends declared (\$0.570 per<br>share)                                                               | -               | -         | -                                                         | (8,263)              | (8,263)    |
| Balance, December 31, 2004                                                                                   | 146             | 62,826    | (1,124)                                                   | 176,374              | 238,222    |

|                                                                                                          |     |         |         |         |         |         |    |         |    |         |
|----------------------------------------------------------------------------------------------------------|-----|---------|---------|---------|---------|---------|----|---------|----|---------|
| Comprehensive income                                                                                     |     |         |         |         |         |         |    |         |    |         |
| Net income                                                                                               | –   | –       | –       | 26,962  | 26,962  |         |    |         |    |         |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credits of \$1,942 |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | –   | –       | (3,236) | –       | (3,236) |         |    |         |    |         |
| Comprehensive income                                                                                     |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          |     |         |         |         | 23,726  |         |    |         |    |         |
| Stock issued as bonus shares - 5,620 shares                                                              |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | –   | 138     | –       | –       | 138     |         |    |         |    |         |
| Exercise of stock options - 106,420 shares                                                               |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | 1   | 1,432   | –       | –       | 1,433   |         |    |         |    |         |
| Securities exchanged under employee option plan                                                          |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | –   | (988)   | –       | –       | (988)   |         |    |         |    |         |
| Repurchase of common stock - 371,453 shares                                                              |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | (4) | (9,685) | –       | –       | (9,689) |         |    |         |    |         |
| Cash dividends declared (\$0.610 per share)                                                              |     |         |         |         |         |         |    |         |    |         |
|                                                                                                          | –   | –       | –       | (8,757) | (8,757) |         |    |         |    |         |
| Balance, December 31, 2005                                                                               | \$  | 143     | \$      | 53,723  | \$      | (4,360) | \$ | 194,579 | \$ | 244,085 |

(1) All share and per share amounts have been restated to reflect the retroactive effect of the May 1, 2003, two for one stock split.

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### **Nature of Operations**

Simmons First National Corporation is primarily engaged in providing a full range of banking services to individual and corporate customers through its subsidiaries and their branch banks in Arkansas. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

#### **Operating Segments**

The Company is organized on a subsidiary bank-by-bank basis upon which management makes decisions regarding how to allocate resources and assess performance. Each of the subsidiary banks provides a group of similar community banking services, including such products and services as loans; time deposits, checking and savings accounts; personal and corporate trust services; credit cards; investment management; and securities and investment services. The individual bank segments have similar operating and economic characteristics and have been reported as one aggregated operating segment.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of foreclosed assets and the allowance for foreclosure expenses. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

#### **Principles of Consolidation**

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.

#### **Reclassifications**

Various items within the accompanying financial statements for previous years have been reclassified to provide more comparative information. These reclassifications had no effect on net earnings.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the Company considers due from banks, federal funds sold and securities purchased under agreements to resell as cash equivalents.

## **Investment Securities**

Held-to-maturity securities (HTM), which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity.

Available-for-sale securities (AFS), which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Realized gains and losses, based on specifically identified amortized cost of the individual security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity.

Trading securities, which include any security held primarily for near-term sale, are carried at fair value. Gains and losses on trading securities are included in other income.

Interest and dividends on investments in debt and equity securities are included in income when earned.

## **Mortgage Loans Held For Sale**

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Forward commitments to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buyback the commitment if the original loan does not fund. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. Fees received from borrowers to guarantee the funding of mortgage loans held for sale are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

## **Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal adjusted for any loans charged off and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest 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.

## **Derivative Financial Instruments**

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk to meet the financing needs of its customers. The Company records all derivatives on the balance sheet at fair value.

Historically, the Company's policy has been not to invest in derivative type investments but in an effort to meet the financing needs of its customers, the Company entered into its first fair value hedge during the second quarter of 2003. Fair value hedges include interest rate swap agreements on fixed rate loans. For derivatives designated as hedging, the exposure to changes in the fair value of the hedged item, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain of the hedging instrument. The fair value hedge is considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amount of the loan being hedged was \$2.0 million at December 31, 2005 and 2004.

### **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 uncollectability 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.

### **Premises and Equipment**

Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense, using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized by the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter.

### **Foreclosed Assets Held For Sale**

Assets acquired by foreclosure or in settlement of debt and held for sale are valued at estimated fair value, as of the date of foreclosure and a related valuation allowance is provided for estimated costs to sell the assets. Management evaluates the value of foreclosed assets held for sale periodically and increases the valuation allowance for any subsequent declines in fair value. Changes in the valuation allowance are charged or credited to other expense.



## Goodwill and Core Deposit Premiums

Goodwill represents the excess of cost over the fair value of net assets of acquired subsidiaries and branches. Financial Accounting Standards Board Statement No. 142 and No. 147 eliminated the amortization for these assets as of January 1, 2002. Although goodwill is not being amortized, it is being tested annually for impairment.

Core deposit premiums represent the amount allocated to the future earnings potential of acquired deposits. The unamortized core deposit premiums are being amortized using both straight-line and accelerated methods over periods ranging from 10 to 15 years.

## Fee Income

Periodic bankcard 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

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

## Earnings Per Share

Basic earnings per share are computed based on the weighted average number of 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.

The computation of per share earnings is as follows:

| (In thousands, except per share data)          | 2005      | 2004      | 2003      |
|------------------------------------------------|-----------|-----------|-----------|
| Net Income                                     | \$ 26,962 | \$ 24,446 | \$ 23,790 |
| Average common shares outstanding              | 14,375    | 14,515    | 14,114    |
| Average common share stock options outstanding | 312       | 333       | 301       |
| Average diluted common shares                  | 14,687    | 14,848    | 14,415    |
| Basic earnings per share                       | \$ 1.88   | \$ 1.68   | \$ 1.69   |
| Diluted earnings per share                     | \$ 1.84   | \$ 1.65   | \$ 1.65   |

## Stock-Based Compensation

The Company accounts for stock-based employee compensation under recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the grant date.

SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, requires pro forma disclosures of net income and earnings per share for companies not adopting its fair value accounting method for stock-based employee compensation.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value provisions for FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation. The pro forma amounts include only the current year vesting during 2005, 2004 and 2003 on outstanding options and therefore may not be representative of the pro forma impact in future years.

| (In thousands except per share data)                                                                                 | 2005      | 2004      | 2003      |
|----------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Net income - as reported                                                                                             | \$ 26,962 | \$ 24,446 | \$ 23,790 |
| Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes | 471       | 183       | 155       |
| Net income - pro forma                                                                                               | \$ 26,491 | \$ 24,263 | \$ 23,635 |
| Basic earnings per share - as reported                                                                               | 1.88      | 1.68      | 1.69      |
| Basic earnings per share - pro forma                                                                                 | 1.84      | 1.67      | 1.67      |
| Diluted earnings per share - as reported                                                                             | 1.84      | 1.65      | 1.65      |
| Diluted earnings per share - pro forma                                                                               | 1.80      | 1.63      | 1.64      |

The weighted average fair values of options granted during 2005 and 2004 were, \$5.11 and \$4.78 per share (split adjusted), respectively, with none being issued for 2003. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                 | 2005    | 2004     | 2003        |
|---------------------------------|---------|----------|-------------|
| Expected dividend yield         | 2.61%   | 2.54%    | None Issued |
| Expected stock price volatility | 16.00%  | 16.00%   | None Issued |
| Risk-free interest rate         | 5.17%   | 4.04%    | None Issued |
| Expected life of options        | 7 Years | 10 Years | None Issued |

The Company adopted the provisions of SFAS No. 123, Share-Based Payment (Revised 2004), on January 1, 2006. Among other things, SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the date of the grant. See Note 17, New Accounting Standards, for additional information.



**NOTE**  
**2: ACQUISITIONS**

On November 1, 2005, the Company completed a branch purchase in which Bank of Little Rock sold its Southwest Little Rock, Arkansas location at 8500 Geyer Springs Road to Simmons First National Bank, a subsidiary of the Company. The acquisition included approximately \$3.5 million in total deposits in addition to the fixed assets used in the branch operation. No loans were involved in the transaction. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$151,000 and \$31,000, respectively.

On June 25, 2004, the Company completed a branch purchase in which Cross County Bank sold its Weiner, Arkansas location to Simmons First Bank of Jonesboro, a subsidiary of the Company. The acquisition included approximately \$6 million in total deposits and the fixed assets used in the branch operation. No loans were involved in the transaction. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$344,000 and \$117,000, respectively.

On March 19, 2004, the Company merged with Alliance Bancorporation, Inc. (ABI). ABI owned Alliance Bank of Hot Springs, Hot Springs, Arkansas with consolidated assets (including goodwill and core deposits), loans and deposits of approximately \$155 million, \$70 million and \$110 million, respectively. During the second quarter of 2004, Alliance Bank changed its name to Simmons First Bank of Hot Springs and continues to operate as a separate community bank with virtually the same board of directors, management and staff. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$14,690,000 and \$1,245,000, respectively.

On November 21, 2003, the Company completed the purchase of nine financial centers from Union Planters Bank, N.A. Six locations in North Central Arkansas include Clinton, Marshall, Mountain View, Fairfield Bay, Leslie and Bee Branch. Three locations in Northeast Arkansas communities include Hardy, Cherokee Village and Mammoth Spring. At acquisition, the nine locations had combined deposits of \$130 million with acquired assets of \$119 million including selected loans, premises, cash and other assets. As a result of this transaction, the Company recorded additional goodwill and core deposit premiums of \$12,282,000 and \$4,817,000, respectively.

The system integration for the 2005 acquisition was completed on the acquisition date. The system integration for the 2004 mergers and acquisitions were completed during the second quarter of 2004. The systems integration for the 2003 acquisition was completed on the acquisition date.

**NOTE 3: 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)                   | Years Ended December 31 |                        |                         |                      |                   |                        |                         |                      |
|----------------------------------|-------------------------|------------------------|-------------------------|----------------------|-------------------|------------------------|-------------------------|----------------------|
|                                  | 2005                    |                        |                         | 2004                 |                   |                        |                         |                      |
|                                  | Amortized Cost          | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| <b>Held-to-Maturity</b>          |                         |                        |                         |                      |                   |                        |                         |                      |
| U.S. Treasury                    | \$ 1,004                | \$ -                   | \$ (20)                 | \$ 984               | \$ 4,020          | \$ 12                  | \$ (19)                 | \$ 4,013             |
| U.S. Government agencies         | 28,000                  | -                      | (473)                   | 27,527               | 21,500            | 18                     | (76)                    | 21,442               |
| Mortgage-backed securities       | 187                     | 3                      | -                       | 190                  | 307               | 7                      | (1)                     | 313                  |
| State and political subdivisions | 117,148                 | 662                    | (1,298)                 | 116,512              | 122,457           | 1,617                  | (390)                   | 123,684              |
| Other securities                 | 3,960                   | -                      | -                       | 3,960                | 2,980             | -                      | -                       | 2,980                |
| <b>Total HTM</b>                 | <b>\$ 150,299</b>       | <b>\$ 665</b>          | <b>\$ (1,791)</b>       | <b>\$ 149,173</b>    | <b>\$ 151,264</b> | <b>\$ 1,654</b>        | <b>\$ (486)</b>         | <b>\$ 152,432</b>    |
| <b>Available-for-Sale</b>        |                         |                        |                         |                      |                   |                        |                         |                      |
| U.S. Treasury                    | \$ 10,989               | \$ -                   | \$ (102)                | \$ 10,887            | \$ 24,218         | \$ 3                   | \$ (125)                | \$ 24,096            |
| U.S. Government agencies         | 348,570                 | 35                     | (7,615)                 | 340,990              | 343,716           | 226                    | (2,856)                 | 341,086              |
| Mortgage-backed securities       | 3,392                   | 9                      | (92)                    | 3,309                | 3,919             | 13                     | (55)                    | 3,877                |
| State and political subdivisions | 3,014                   | 39                     | -                       | 3,053                | 4,616             | 130                    | -                       | 4,746                |
| Other securities                 | 12,561                  | 690                    | -                       | 13,251               | 16,154            | 1,111                  | (276)                   | 16,989               |
| <b>Total AFS</b>                 | <b>\$ 378,526</b>       | <b>\$ 773</b>          | <b>\$ (7,809)</b>       | <b>\$ 371,490</b>    | <b>\$ 392,623</b> | <b>\$ 1,483</b>        | <b>\$ (3,312)</b>       | <b>\$ 390,794</b>    |

Certain investment securities are valued less than their historical cost. Total fair value of these investments at December 31, 2005, was \$462.7 million, which is approximately 88.9% of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold these securities to maturity.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.



The following table shows the Company's investments' estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005:

| (In thousands)                   | Less Than 12 Months  |                         | 12 Months or More    |                         | Total                |                         |
|----------------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                                  | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| <b>Held-to-Maturity</b>          |                      |                         |                      |                         |                      |                         |
| U.S. Treasury                    | \$ -                 | \$ -                    | \$ 984               | \$ 20                   | \$ 984               | \$ 20                   |
| U.S. Government Agencies         | 10,901               | 99                      | 16,627               | 374                     | 27,528               | 473                     |
| Mortgage-backed securities       | 49                   | -                       | 45                   | -                       | 94                   | -                       |
| State and political subdivisions | 45,410               | 515                     | 33,308               | 783                     | 78,718               | 1,298                   |
| <b>Total HTM</b>                 | <b>\$ 56,360</b>     | <b>\$ 614</b>           | <b>\$ 50,964</b>     | <b>\$ 1,177</b>         | <b>\$ 107,324</b>    | <b>\$ 1,791</b>         |
| <b>Available-for-Sale</b>        |                      |                         |                      |                         |                      |                         |
| U.S. Treasury                    | \$ 2,980             | \$ 16                   | \$ 7,907             | \$ 86                   | \$ 10,887            | \$ 102                  |
| U.S. Government Agencies         | 57,869               | 678                     | 284,175              | 6,937                   | 342,044              | 7,615                   |
| Mortgage-backed securities       | 774                  | 9                       | 1,706                | 83                      | 2,480                | 92                      |
| State and political subdivisions | -                    | -                       | -                    | -                       | -                    | -                       |
| <b>Total AFS</b>                 | <b>\$ 61,623</b>     | <b>\$ 703</b>           | <b>\$ 293,788</b>    | <b>\$ 7,106</b>         | <b>\$ 355,411</b>    | <b>\$ 7,809</b>         |

The following table shows the Company's investments' estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2004:

| (In thousands)                   | Less Than 12 Months  |                         | 12 Months or More    |                         | Total                |                         |
|----------------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                                  | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| <b>Held-to-Maturity</b>          |                      |                         |                      |                         |                      |                         |
| U.S. Treasury                    | \$ 2,987             | \$ 19                   | \$ -                 | \$ -                    | \$ 2,987             | \$ 19                   |
| U.S. Government Agencies         | 14,925               | 75                      | 3,999                | 1                       | 18,924               | 76                      |
| Mortgage-backed securities       | 69                   | 1                       | -                    | -                       | 69                   | 1                       |
| State and political subdivisions | 22,797               | 220                     | 11,875               | 170                     | 34,672               | 390                     |
| <b>Total HTM</b>                 | <b>\$ 40,778</b>     | <b>\$ 315</b>           | <b>\$ 15,874</b>     | <b>\$ 171</b>           | <b>\$ 56,652</b>     | <b>\$ 486</b>           |
| <b>Available-for-Sale</b>        |                      |                         |                      |                         |                      |                         |

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|                            |           |                |           |              |           |                |           |              |           |                |           |              |
|----------------------------|-----------|----------------|-----------|--------------|-----------|----------------|-----------|--------------|-----------|----------------|-----------|--------------|
| U.S. Treasury              | \$        | 21,596         | \$        | 125          | \$        | –              | \$        | –            | \$        | 21,596         | \$        | 125          |
| U.S. Government Agencies   |           | 182,961        |           | 1,794        |           | 123,832        |           | 1,062        |           | 306,793        |           | 2,856        |
| Mortgage-backed securities |           | 1,443          |           | 43           |           | 809            |           | 12           |           | 2,252          |           | 55           |
| Other securities           |           | 2,224          |           | 276          |           | –              |           | –            |           | 2,224          |           | 276          |
| <b>Total AFS</b>           | <b>\$</b> | <b>208,224</b> | <b>\$</b> | <b>2,238</b> | <b>\$</b> | <b>124,641</b> | <b>\$</b> | <b>1,074</b> | <b>\$</b> | <b>332,865</b> | <b>\$</b> | <b>3,312</b> |



Income earned on the above securities for the years ended December 31, 2005, 2004 and 2003 is as follows:

| (In thousands)     | 2005             | 2004             | 2003             |
|--------------------|------------------|------------------|------------------|
| <b>Taxable</b>     |                  |                  |                  |
| Held-to-maturity   | \$ 1,056         | \$ 1,436         | \$ 2,615         |
| Available-for-sale | 12,842           | 10,980           | 8,343            |
| <b>Non-taxable</b> |                  |                  |                  |
| Held-to-maturity   | 4,588            | 4,794            | 4,676            |
| Available-for-sale | 191              | 237              | 255              |
| <b>Total</b>       | <b>\$ 18,677</b> | <b>\$ 17,447</b> | <b>\$ 15,889</b> |

The Statement of Stockholders' Equity includes other comprehensive income (loss). Other comprehensive income (loss) for the Company includes the change in the unrealized appreciation (depreciation) on available-for-sale securities. The changes in the unrealized appreciation (depreciation) on available-for-sale securities for the years ended December 31, 2005, 2004 and 2003, are as follows:

| (In thousands)                                              | 2005       | 2004     | 2003       |
|-------------------------------------------------------------|------------|----------|------------|
| <b>Unrealized holding gains (losses)</b>                    |            |          |            |
| arising during the period                                   | \$ (3,511) | \$ (838) | \$ (2,531) |
| Losses realized in net income                               | 275        | --       | 14         |
| <b>Net change in unrealized appreciation (depreciation)</b> |            |          |            |
| on available-for-sale securities                            | \$ (3,236) | \$ (838) | \$ (2,517) |

The amortized cost and estimated fair value by maturity of securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

| (In thousands)               | Held-to-Maturity  |                   | Available-for-Sale |                   |
|------------------------------|-------------------|-------------------|--------------------|-------------------|
|                              | Amortized Cost    | Fair Value        | Amortized Cost     | Fair Value        |
| One year or less             | \$ 24,311         | \$ 24,195         | \$ 80,544          | \$ 79,500         |
| After one through five years | 54,464            | 54,276            | 222,194            | 217,599           |
| After five through ten years | 64,423            | 63,592            | 60,977             | 58,976            |
| After ten years              | 4,071             | 4,080             | 2,250              | 2,164             |
| Other securities             | 3,030             | 3,030             | 12,561             | 13,251            |
| <b>Total</b>                 | <b>\$ 150,299</b> | <b>\$ 149,173</b> | <b>\$ 378,526</b>  | <b>\$ 371,490</b> |

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$411,580,000 at December 31, 2005 and \$397,311,000 at December 31, 2004.

The book value of securities sold under agreements to repurchase amounted to \$67,778,000 and \$68,515,000 for December 31, 2005 and 2004, respectively.



The Company had no gross realized gains during the years ended December 31, 2005 and 2004, resulting from the sales and/or calls of securities. Gross realized gains of \$2,000 resulting from sales and/or calls of securities were realized for the year ended December 31, 2003. Gross realized losses of \$275,000, \$0 and \$16,000 resulting from sales and/or calls of securities were realized for the years ended December 31, 2005, 2004 and 2003, respectively.

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 4: LOANS AND ALLOWANCE FOR LOAN LOSSES**

The various categories of loans are summarized as follows:

| (In thousands)                                      | 2005                | 2004                |
|-----------------------------------------------------|---------------------|---------------------|
| <b>Consumer</b>                                     |                     |                     |
| Credit cards                                        | \$ 143,058          | \$ 155,326          |
| Student loans                                       | 89,818              | 83,283              |
| Other consumer                                      | 138,051             | 128,552             |
| <b>Real estate</b>                                  |                     |                     |
| Construction                                        | 238,898             | 169,001             |
| Single family residential                           | 340,839             | 318,488             |
| Other commercial                                    | 479,684             | 481,728             |
| <b>Commercial</b>                                   |                     |                     |
| Commercial                                          | 184,920             | 158,613             |
| Agricultural                                        | 68,761              | 62,340              |
| Financial institutions                              | 20,499              | 1,079               |
| Other                                               | 13,579              | 12,966              |
| <b>Total loans before allowance for loan losses</b> | <b>\$ 1,718,107</b> | <b>\$ 1,571,376</b> |

At December 31, 2005 and 2004, impaired loans totaled \$14,804,000 and \$16,606,000, 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 at December 31, 2005 and 2004 were \$3,868,000 and \$4,125,000, respectively. Approximately, \$452,000 and \$477,000 of interest income were recognized on average impaired loans of \$15,748,000 and \$18,937,000 for 2005 and 2004, respectively. Interest recognized on impaired loans on a cash basis during 2005 or 2004 was immaterial.

At December 31, 2005 and 2004, accruing loans delinquent 90 days or more totaled \$1,131,000 and \$1,085,000, respectively. Non-accruing loans at December 31, 2005 and 2004 were \$7,296,000 and \$10,918,000, respectively.

As of December 31, 2005, credit card loans, which are unsecured, were \$143,058,000 or 8.3%, of total loans versus \$155,326,000 or 9.9% of total loans at December 31, 2004. 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.

Transactions in the allowance for loan losses are as follows:

| (In thousands)                                                                                            | 2005      | 2004      | 2003      |
|-----------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Balance, beginning of year                                                                                | \$ 26,508 | \$ 25,347 | \$ 21,948 |
| Additions                                                                                                 |           |           |           |
| Provision for loan losses                                                                                 | 7,526     | 8,027     | 8,786     |
| Allowance for loan losses of acquired banks and branches                                                  | –         | 1,108     | 2,964     |
|                                                                                                           | 34,034    | 34,482    | 33,698    |
| Deductions                                                                                                |           |           |           |
| Losses charged to allowance, net of recoveries of \$3,815 for 2005, \$2,431 for 2004 and \$2,519 for 2003 | 7,111     | 7,974     | 8,351     |
| Balance, end of year                                                                                      | \$ 26,923 | \$ 26,508 | \$ 25,347 |

**NOTE 5: 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. During the year ended December 31, 2005 goodwill for the Company increased \$151,000 to \$60.6 million from the \$60.5 million reported at December 31, 2004. This increase is the result of the acquisition from Bank of Little Rock as discussed in Note 2.

The carrying basis and accumulated amortization of core deposit premiums (net of core deposit premiums that were fully amortized) at December 31, 2005 and 2004 were:

| (In thousands)        | December 31, 2005     |                          |          | December 31, 2004     |                          |          |
|-----------------------|-----------------------|--------------------------|----------|-----------------------|--------------------------|----------|
|                       | Gross Carrying Amount | Accumulated Amortization | Net      | Gross Carrying Amount | Accumulated Amortization | Net      |
| Core deposit premiums | \$ 7,246              | \$ 2,217                 | \$ 5,029 | \$ 7,216              | \$ 1,387                 | \$ 5,829 |

Core deposit premium amortization expense recorded for the years ended December 31, 2005, 2004 and 2003, was \$830,000, \$791,000 and \$172,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2006 - \$830,000; 2007 - \$818,000; 2008 - \$807,000; 2009 - \$802,000; and 2010 - \$698,000.

**NOTE 6: TIME DEPOSITS**

Time deposits included approximately \$364,177,000 and \$356,926,000 of certificates of deposit of \$100,000 or more, at December 31, 2005 and 2004, respectively. Brokered deposits were \$50,725,000 at December 31, 2005. There were no brokered deposits at December 31, 2004. At December 31, 2005, time deposits with a remaining maturity of one year or more amounted to \$222,579,000. Maturities of all time deposits are as follows: 2006 - \$756,341,000; 2007 - \$109,887,000; 2008 - \$111,543,000; 2009 - \$710,000; 2010 - \$439,000; and none thereafter.

Deposits are the Company's primary funding source for loans and investment securities. The mix and repricing alternatives can significantly affect the cost of this source of funds and, therefore, impact the margin.



**NOTE**  
**7: INCOME TAXES**

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

| (In thousands)                 | 2005      | 2004      | 2003      |
|--------------------------------|-----------|-----------|-----------|
| Income taxes currently payable | \$ 11,161 | \$ 8,537  | \$ 10,772 |
| Deferred income taxes          | 1,342     | 2,946     | 122       |
| Provision for income taxes     | \$ 12,503 | \$ 11,483 | \$ 10,894 |

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

| (In thousands)                                                     | 2005     | 2004     |
|--------------------------------------------------------------------|----------|----------|
| Deferred tax assets                                                |          |          |
| Allowance for loan losses                                          | \$ 8,329 | \$ 8,028 |
| Valuation of foreclosed assets                                     | 74       | 189      |
| Deferred compensation payable                                      | 1,109    | 989      |
| FHLB advances                                                      | 97       | 168      |
| Vacation compensation                                              | 727      | 689      |
| Loan interest                                                      | 241      | 242      |
| Available-for-sale securities                                      | 2,615    | 673      |
| Other                                                              | 363      | 202      |
|                                                                    | 13,555   | 11,180   |
| Deferred tax liabilities                                           |          |          |
| Accumulated depreciation                                           | (1,128)  | (866)    |
| Deferred loan fee income and expenses, net                         | (657)    | (503)    |
| FHLB stock dividends                                               | (740)    | (758)    |
| Goodwill and core deposit premium amortization                     | (3,852)  | (2,655)  |
| Other                                                              | (807)    | (627)    |
|                                                                    | (7,184)  | (5,409)  |
| Net deferred tax assets included in other assets on balance sheets | \$ 6,371 | \$ 5,771 |

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

| (In thousands)                       | 2005      | 2004      | 2003      |
|--------------------------------------|-----------|-----------|-----------|
| Computed at the statutory rate (35%) | \$ 13,813 | \$ 12,575 | \$ 12,139 |
| Increase (decrease) resulting from   |           |           |           |
| Tax exempt income                    | (1,882)   | (1,988)   | (1,973)   |
| Non-deductible interest              | 187       | 137       | 158       |
| State income taxes                   | 862       | 822       | 801       |
| Other non-deductible expenses        | 86        | 112       | 57        |
| Other differences, net               | (563)     | (175)     | (288)     |
| Actual tax provision                 | \$ 12,503 | \$ 11,483 | \$ 10,894 |



**NOTE 8: SHORT-TERM AND LONG-TERM DEBT**

Long-term debt at December 31, 2005, and 2004 consisted of the following components.

| (In thousands)                                                                                                                                                                                      | 2005             | 2004             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Note Payable, due 2007, at a floating rate of 0.90% above the 30 day LIBOR rate, reset monthly, unsecured                                                                                           | \$ 4,000         | \$ 6,000         |
| FHLB advances, due 2005 to 2023, 1.02% to 8.41%, secured by residential real estate loans                                                                                                           | 52,090           | 57,733           |
| 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, at a floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable in 2010 without penalty | 10,310           | 10,310           |
| <b>Total long-term debt</b>                                                                                                                                                                         | <b>\$ 87,020</b> | <b>\$ 94,663</b> |

At December 31, 2005 the Company had Federal Home Loan Bank (“FHLB”) advances with original maturities of one year or less of \$5.70 million with a weighted average rate of 4.62% 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 Corporation, the sole asset of each trust. The preferred trust 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 Corporation. Each trust’s ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation’s obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust’s obligations under the trust securities issued by each respective trust.

Aggregate annual maturities of long-term debt at December 31, 2005 are:

| (In thousands) | Year         | Annual Maturities |
|----------------|--------------|-------------------|
|                | 2006         | \$ 13,020         |
|                | 2007         | 11,440            |
|                | 2008         | 7,164             |
|                | 2009         | 5,396             |
|                | 2010         | 5,396             |
|                | Thereafter   | 44,604            |
|                | <b>Total</b> | <b>\$ 87,020</b>  |





**NOTE  
9: CAPITAL STOCK**

On May 25, 2004, the Company announced the adoption by the Board of Directors of a repurchase program. The program authorizes the repurchase of up to 5% of the 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 exercise, payment of future stock dividends and general corporate purposes.

During the year ended December 31, 2005, the Company repurchased a total of 371,453 shares of stock with a weighted average repurchase price of \$26.10 per share. There were 121,453 shares with a weighted average repurchase price of \$26.31 per share repurchased under the plan, while there were 250,000 shares with a weighted average repurchase price of \$26.00 per share repurchased in a separately negotiated private transaction outside the plan.

**NOTE  
10: TRANSACTIONS WITH RELATED PARTIES**

At December 31, 2005 and 2004, the subsidiary banks had extensions of credit to executive officers, directors and to companies in which the banks' executive officers or directors were principal owners, in the amount of \$61.5 million in 2005 and \$55.3 million in 2004.

| (In thousands)             | 2005      | 2004      |
|----------------------------|-----------|-----------|
| Balance, beginning of year | \$ 55,293 | \$ 42,359 |
| New extensions of credit   | 26,328    | 39,013    |
| Repayments                 | (20,077)  | (26,079)  |
| Balance, end of year       | \$ 61,544 | \$ 55,293 |

In management's opinion, such loans and other extensions of credit and deposits (which were not material) were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these extensions of credit did not involve more than the normal risk of collectability or present other unfavorable features.

**NOTE  
11: EMPLOYEE BENEFIT PLANS**

The Company's 401(k) retirement plan covers substantially all employees. Contribution expense totaled \$505,000, \$408,000 and \$372,000, in 2005, 2004 and 2003, respectively.

The Company has a discretionary profit sharing and employee stock ownership plan covering substantially all employees. Contribution expense totaled \$2,258,000 for 2005, \$2,153,000 for 2004 and \$1,826,000 for 2003.

The Company also has deferred compensation agreements with certain active and retired officers. The agreements provide monthly payments which, together with payments from the deferred annuities issued pursuant to the terminated pension plan, equal 50 percent of average compensation prior to retirement or death. The charges to

income for the plans were \$306,000 for 2005, \$130,000 for 2004 and \$164,000 for 2003. Such charges reflect the straight-line accrual over the employment period of the present value of benefits due each participant, as of their full eligibility date, using an 8 percent discount factor.

The Board of Directors has adopted incentive and nonqualified stock option plans. Pursuant to the plans, shares are reserved for future issuance by the Company, upon exercise of stock options granted to officers and other key employees. Additionally, 5,620 shares and 2,000 shares of the Company's Common Stock were granted and issued as bonus shares of restricted stock, during the years ended December 31, 2005 and 2004, respectively. No additional shares of Common Stock of the Company were granted and issued to executive officers of the Company as bonus shares of restricted stock, during the year ended December 31, 2003.

On December 12, 2005, the Company's Board of Directors approved the accelerated vesting of certain unvested stock options previously awarded under the Company's stock option plans. As a result of the acceleration, 52,460 stock options with a range of exercise prices between \$15.65 and \$24.50 per share became exercisable on December 31, 2005. Aside from the acceleration of the vesting date, the terms and conditions of the stock agreements governing the underlying stock options remain unchanged.

The accelerated options represent approximately 8.6% of the total of all outstanding options to purchase the Company's common stock. Under SFAS No. 123, Share-Based Payment (Revised 2004), the Company will be required to recognize the expense associated with outstanding unvested stock options beginning in the first quarter of 2006. As a result of the acceleration, the Company expects to reduce the stock option expense that it would otherwise be required to record in connection with the accelerated options.

The table below summarizes the transactions under the Company's stock option plans (split adjusted) at December 31, 2005, 2004 and 2003 and changes during the years then ended:

|                                | 2005            |                                             | 2004            |                                             | 2003            |                                             |
|--------------------------------|-----------------|---------------------------------------------|-----------------|---------------------------------------------|-----------------|---------------------------------------------|
|                                | Shares<br>(000) | Weighted<br>Average<br>Exercisable<br>Price | Shares<br>(000) | Weighted<br>Average<br>Exercisable<br>Price | Shares<br>(000) | Weighted<br>Average<br>Exercisable<br>Price |
| Outstanding, beginning of year | 676             | \$ 14.00                                    | 698             | \$ 13.00                                    | 766             | \$ 13.00                                    |
| Granted                        | 40              | 24.53                                       | 68              | 23.85                                       | —               | —                                           |
| Forfeited/Expired              | (1)             | 22.63                                       | (21)            | 12.89                                       | (10)            | 22.63                                       |
| Exercised                      | (106)           | 13.46                                       | (69)            | 14.05                                       | (58)            | 11.47                                       |
| Outstanding, end of year       | 609             | 14.77                                       | 676             | 14.00                                       | 698             | 13.00                                       |
| Exercisable, end of year       | 595             | \$ 14.55                                    | 535             | \$ 13.25                                    | 513             | \$ 13.27                                    |

The following table summarizes information about stock options (split adjusted) under the plans outstanding at December 31, 2005:

| Range of Exercise Prices | Options Outstanding            |                                                         |                                          | Options Exercisable            |                                          |
|--------------------------|--------------------------------|---------------------------------------------------------|------------------------------------------|--------------------------------|------------------------------------------|
|                          | Number<br>Outstanding<br>(000) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>(000) | Weighted<br>Average<br>Exercise<br>Price |
| \$10.56 to \$10.56       | 22                             | 2 Years                                                 | \$ 10.56                                 | 22                             | \$ 10.56                                 |
| \$12.13 to \$12.22       | 352                            | 2 Years                                                 | \$ 12.13                                 | 352                            | \$ 12.13                                 |
| \$13.50 to \$13.50       | 90                             | 2 Years                                                 | \$ 13.50                                 | 90                             | \$ 13.50                                 |
| \$15.35 to \$16.88       | 23                             | 2 Years                                                 | \$ 15.90                                 | 23                             | \$ 15.90                                 |
| \$22.63 to \$27.67       | 122                            | 5 Years                                                 | \$ 23.92                                 | 108                            | \$ 23.89                                 |

The Company adopted the provisions of SFAS No. 123, Share-Based Payment (Revised 2004), on January 1, 2006. Among other things, SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the date of the grant. See Note 17, New Accounting Standards, for additional information.



**NOTE 12: ADDITIONAL CASH FLOW INFORMATION**

In connection with cash acquisitions accounted for using the purchase method, the Company acquired assets and assumed liabilities as follows:

| (In thousands)                      | 2005      | 2004       | 2003       |
|-------------------------------------|-----------|------------|------------|
| Liabilities assumed                 | \$ 2,156  | \$ 152,955 | \$ 129,878 |
| Fair value of assets acquired       | 311       | 159,637    | 118,482    |
| Cash received (disbursed)           | 1,845     | (6,682)    | 11,396     |
| Funds acquired                      | 100       | 3,739      | 1,150      |
| Net funds received (disbursed)      | \$ 1,945  | \$ (2,943) | \$ 12,546  |
| Additional cash payment information |           |            |            |
| Interest paid                       | \$ 41,007 | \$ 30,245  | \$ 30,272  |
| Income taxes paid                   | 11,232    | 10,090     | 10,389     |

**NOTE 13: OTHER OPERATING EXPENSES**

Other operating expenses consist of the following:

| (In thousands)                           | 2005      | 2004      | 2003      |
|------------------------------------------|-----------|-----------|-----------|
| Professional services                    | \$ 2,201  | \$ 2,029  | \$ 1,999  |
| Postage                                  | 2,281     | 2,256     | 2,024     |
| Telephone                                | 1,847     | 1,784     | 1,498     |
| Credit card expense                      | 2,693     | 2,374     | 2,679     |
| Operating supplies                       | 1,555     | 1,528     | 1,488     |
| Amortization of core deposit premiums    | 830       | 791       | 172       |
| Write off of deferred debt issuance cost | –         | 771       | –         |
| Other expense                            | 10,839    | 10,543    | 9,461     |
| Total                                    | \$ 22,246 | \$ 22,076 | \$ 19,321 |

The Company had aggregate annual equipment rental expense of approximately \$481,000 in 2005, \$406,000 in 2004 and \$302,000 in 2003. The Company had aggregate annual occupancy rental expense of approximately \$1,111,000 in 2005, \$1,079,000 in 2004 and \$942,000 in 2003.

**NOTE 14: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

**Cash and Cash Equivalents**

The carrying amount for cash and cash equivalents approximates fair value.

**Investment Securities**

Fair values for investment securities equal quoted market prices, if available. If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities.



### **Mortgage Loans Held for Sale**

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

### **Loans**

The fair value of loans is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

### **Deposits**

The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

### **Federal Funds Purchased, Securities Sold Under Agreement to Repurchase and Short-Term Debt**

The carrying amount for federal funds purchased, securities sold under agreement to repurchase and short-term debt are a reasonable estimate of fair value.

### **Long-Term Debt**

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

### **Commitments to Extend Credit, Letters of Credit and Lines of Credit**

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.



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

| (In thousands)                                                             | December 31, 2005 |            | December 31, 2004 |            |
|----------------------------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                                            | Carrying Amount   | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial assets</b>                                                    |                   |            |                   |            |
| Cash and cash equivalents                                                  | \$ 101,573        | \$ 101,573 | \$ 153,731        | \$ 153,731 |
| Held-to-maturity securities                                                | 150,299           | 149,173    | 151,264           | 152,432    |
| Available-for-sale securities                                              | 371,490           | 371,490    | 390,794           | 390,794    |
| Assets held in trading accounts                                            | 4,631             | 4,631      | 4,916             | 4,916      |
| Mortgage loans held for sale                                               | 7,857             | 7,857      | 9,246             | 9,246      |
| Interest receivable                                                        | 18,754            | 18,754     | 14,248            | 14,248     |
| Loans, net                                                                 | 1,691,184         | 1,702,119  | 1,544,868         | 1,549,486  |
| <b>Financial liabilities</b>                                               |                   |            |                   |            |
| Non-interest bearing transaction accounts                                  |                   |            |                   |            |
|                                                                            | 331,113           | 331,113    | 293,137           | 293,137    |
| Interest bearing transaction accounts and                                  |                   |            |                   |            |
| savings deposits                                                           | 749,925           | 749,925    | 769,296           | 769,296    |
| Time deposits                                                              | 978,920           | 992,789    | 896,762           | 897,326    |
| Federal funds purchased and securities sold under agreements to repurchase |                   |            |                   |            |
|                                                                            | 107,223           | 107,223    | 104,785           | 104,785    |
| Short-term debt                                                            | 8,031             | 8,023      | 2,373             | 2,369      |
| Long-term debt                                                             | 87,020            | 87,930     | 94,663            | 95,254     |
| Interest payable                                                           | 4,846             | 4,846      | 3,039             | 3,039      |

The fair value of commitments to extend credit and letters of credit is not presented since management believes the fair value to be insignificant.

**NOTE 15: SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 4.

**NOTE 16: COMMITMENTS AND CREDIT RISK**

The Company grants agri-business, credit card, commercial and residential loans to customers throughout Arkansas. 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 December 31, 2005, the Company had outstanding commitments to extend credit aggregating approximately \$194,614,000 and \$429,442,000 for credit card commitments and other loan commitments, respectively. At December 31, 2004, the Company had outstanding commitments to extend credit aggregating approximately \$188,399,000 and \$339,866,000 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 \$4,573,000 and \$16,684,000 at December 31, 2005 and 2004, respectively, with terms ranging from 90 days to three years. The Company's deferred revenue under standby letter of credit agreements was approximately \$43,000 and \$85,000 at December 31, 2005 and 2004, respectively.

At December 31, 2005, the Company did not have concentrations of 5% or more of the investment portfolio in bonds issued by a single municipality.

**NOTE**  
**17: NEW ACCOUNTING STANDARDS**

SFAS No. 123, Share-Based Payment (Revised 2004), establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods or services, or (ii) incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant. SFAS 123R was to be effective for the Company on July 1, 2005; however, the required implementation date was delayed until January 1, 2006. The Company will transition to fair-value based accounting for stock-based compensation using a modified version of prospective application ("modified prospective application"). Under modified prospective application, as it is applicable to the Company, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (generally referring to non-vested awards) that are outstanding as of January 1, 2006 must be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS 123R. The attribution of compensation cost for those earlier awards will be based on the same method and on the same grant-date fair values previously determined for the pro forma disclosures required for companies that did not adopt the fair value accounting method for stock-based employee compensation.

Based on the stock-based compensation awards outstanding as of December 31, 2005 for which the requisite service is not expected to be fully rendered prior to January 1, 2006, the Company expects to recognize total compensation cost of approximately \$20,000 during 2006, in accordance with the accounting requirements of SFAS 123R. Future levels of compensation cost recognized related to stock-based compensation awards (including the aforementioned expected costs during the period of adoption) may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards after the adoption of SFAS 123R.

SFAS No. 154, Accounting Changes and Error Corrections, A Replacement of APB Opinion No. 20 and FASB Statement No. 3, establishes unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. Previously, most changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. Under FAS 154, retrospective application requires (i) the cumulative effect of the change to the new accounting principle on periods prior to those presented to be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented, (ii) an offsetting adjustment, if any, to be made to the opening balance of retained earnings (or other appropriate components of equity) for that period, and (iii) financial statements for each individual prior period presented to be adjusted to reflect the direct period-specific effects of applying the new accounting principle. Special retroactive application rules apply in situations where it is impracticable to determine either the period-specific effects

or the cumulative effect of the change. Indirect effects of a change in accounting principle are required to be reported in the period in which the accounting change is made. SFAS 154 carries forward the guidance in APB Opinion 20 "Accounting Changes," requiring justification of a change in accounting principle on the basis of preferability. SFAS 154 also carries forward without change the guidance contained in APB Opinion 20, for reporting the correction of an error in previously issued financial statements and for a change in an accounting estimate. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect SFAS 154 will significantly impact its financial statements upon its adoption on January 1, 2006.

FASB Staff Position (FSP) No, 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. FSP 115-1 nullifies certain provisions of Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," while retaining the disclosure requirements of EITF 03-1 which were adopted in 2003. FSP 115-1 is effective for reporting periods beginning after December 15, 2005. The Company does not expect ESP 115-1 will significantly impact its financial statements upon its adoption on January 1, 2006.

Presently, the Company is not aware of any other changes from the Financial Accounting Standards Board that will have a material impact on the Company's present or future financial statements.

**NOTE**  
**18: CONTINGENT LIABILITIES**

The Company and/or its subsidiary banks 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. However, 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 has filed a Motion to Dismiss. At this time, it appears remote that this matter will constitute a material loss to the Company or the Banks. The Banks continue to vigorously defend the claims asserted in the suit.

**NOTE**  
**19: STOCKHOLDERS' EQUITY**

The Company's subsidiaries 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 Office of the Comptroller of the Currency is required, if the total of all the 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 the current year earnings plus 75% of the retained net earnings of the preceding year. At December 31, 2005, the Company subsidiaries had approximately \$15.0 million in undivided profits available for payment of dividends to the Company, without prior approval of the regulatory agencies.

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). Management believes that, as of December 31, 2005, 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.

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The Company's actual capital amounts and ratios along with the Company's most significant subsidiaries are presented in the following table.

| (In thousands)                           | Actual     |         | For Capital Adequacy Purposes |         | To Be Well Capitalized Under Prompt Corrective Action Provision |         |
|------------------------------------------|------------|---------|-------------------------------|---------|-----------------------------------------------------------------|---------|
|                                          | Amount     | Ratio-% | Amount                        | Ratio-% | Amount                                                          | Ratio-% |
| As of December 31, 2005                  |            |         |                               |         |                                                                 |         |
| Total Risk-Based Capital Ratio           |            |         |                               |         |                                                                 |         |
| Simmons First National Corporation       | \$ 235,316 | 13.5    | \$ 139,447                    | 8.0     | \$ N/A                                                          |         |
| Simmons First National Bank              | 95,633     | 11.5    | 66,527                        | 8.0     | 83,159                                                          | 10.0    |
| Simmons First Bank of Jonesboro          | 21,806     | 10.9    | 16,004                        | 8.0     | 20,006                                                          | 10.0    |
| Simmons First Bank of Russellville       | 22,096     | 16.7    | 10,585                        | 8.0     | 13,231                                                          | 10.0    |
| Simmons First Bank of Northwest Arkansas | 21,393     | 10.8    | 15,847                        | 8.0     | 19,808                                                          | 10.0    |
| Simmons First Bank of El Dorado          | 18,158     | 14.6    | 9,950                         | 8.0     | 12,437                                                          | 10.0    |
| Tier 1 Capital Ratio                     |            |         |                               |         |                                                                 |         |
| Simmons First National Corporation       | 213,167    | 12.3    | 69,323                        | 4.0     | N/A                                                             |         |
| Simmons First National Bank              | 87,353     | 10.5    | 33,277                        | 4.0     | 49,916                                                          | 6.0     |
| Simmons First Bank of Jonesboro          | 19,294     | 9.6     | 8,039                         | 4.0     | 12,059                                                          | 6.0     |
| Simmons First Bank of Russellville       | 20,444     | 15.5    | 5,276                         | 4.0     | 7,914                                                           | 6.0     |
| Simmons First Bank of Northwest Arkansas | 18,917     | 9.6     | 7,882                         | 4.0     | 11,823                                                          | 6.0     |
| Simmons First Bank of El Dorado          | 16,628     | 13.4    | 4,964                         | 4.0     | 7,445                                                           | 6.0     |
| Leverage Ratio                           |            |         |                               |         |                                                                 |         |
| Simmons First National Corporation       | 213,167    | 8.6     | 99,147                        | 4.0     | N/A                                                             |         |
| Simmons First National Bank              | 87,353     | 7.4     | 47,218                        | 4.0     | 59,022                                                          | 5.0     |
| Simmons First Bank of Jonesboro          | 19,294     | 7.4     | 10,429                        | 4.0     | 13,036                                                          | 5.0     |
| Simmons First Bank of Russellville       | 20,444     | 11.2    | 7,301                         | 4.0     | 9,127                                                           | 5.0     |
| Simmons First Bank of Northwest Arkansas | 18,917     | 7.3     | 10,365                        | 4.0     | 12,957                                                          | 5.0     |
| Simmons First Bank of El Dorado          | 16,628     | 7.9     | 8,419                         | 4.0     | 10,524                                                          | 5.0     |

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As of December 31, 2004

Total Risk-Based Capital Ratio

|                                          |            |      |            |     |        |      |
|------------------------------------------|------------|------|------------|-----|--------|------|
| Simmons First National Corporation       | \$ 222,678 | 14.0 | \$ 127,245 | 8.0 | \$ N/A |      |
| Simmons First National Bank              | 90,587     | 11.5 | 63,017     | 8.0 | 78,771 | 10.0 |
| Simmons First Bank of Jonesboro          | 19,769     | 11.2 | 14,121     | 8.0 | 17,651 | 10.0 |
| Simmons First Bank of Russellville       | 21,393     | 17.8 | 9,615      | 8.0 | 12,019 | 10.0 |
| Simmons First Bank of Northwest Arkansas | 19,868     | 11.5 | 13,821     | 8.0 | 17,277 | 10.0 |
| Simmons First Bank of El Dorado          | 17,364     | 15.2 | 9,139      | 8.0 | 11,424 | 10.0 |

Tier 1 Capital Ratio

|                                          |         |      |        |     |        |     |
|------------------------------------------|---------|------|--------|-----|--------|-----|
| Simmons First National Corporation       | 202,325 | 12.7 | 63,724 | 4.0 | N/A    |     |
| Simmons First National Bank              | 82,844  | 10.6 | 31,262 | 4.0 | 46,893 | 6.0 |
| Simmons First Bank of Jonesboro          | 17,556  | 9.9  | 7,093  | 4.0 | 10,640 | 6.0 |
| Simmons First Bank of Russellville       | 19,929  | 16.6 | 4,802  | 4.0 | 7,203  | 6.0 |
| Simmons First Bank of Northwest Arkansas | 17,699  | 10.2 | 6,941  | 4.0 | 10,411 | 6.0 |
| Simmons First Bank of El Dorado          | 15,930  | 13.9 | 4,584  | 4.0 | 6,876  | 6.0 |

Leverage Ratio

|                                          |         |      |        |     |        |     |
|------------------------------------------|---------|------|--------|-----|--------|-----|
| Simmons First National Corporation       | 202,325 | 8.5  | 95,212 | 4.0 | N/A    |     |
| Simmons First National Bank              | 82,844  | 7.0  | 47,339 | 4.0 | 59,174 | 5.0 |
| Simmons First Bank of Jonesboro          | 17,556  | 7.6  | 9,240  | 4.0 | 11,550 | 5.0 |
| Simmons First Bank of Russellville       | 19,929  | 11.4 | 6,993  | 4.0 | 8,741  | 5.0 |
| Simmons First Bank of Northwest Arkansas | 17,699  | 7.5  | 9,439  | 4.0 | 11,799 | 5.0 |
| Simmons First Bank of El Dorado          | 15,930  | 7.8  | 8,169  | 4.0 | 10,212 | 5.0 |



**NOTE 20: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)**

**CONDENSED BALANCE SHEETS  
DECEMBER 31, 2005 and 2004**

| (In thousands)                                                                                                                          | 2005              | 2004              |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                                                                                           |                   |                   |
| Cash and cash equivalents                                                                                                               | \$ 4,853          | \$ 8,018          |
| Investment securities                                                                                                                   | 3,030             | 2,050             |
| Investments in wholly-owned subsidiaries                                                                                                | 265,714           | 257,851           |
| Intangible assets, net                                                                                                                  | 134               | 134               |
| Premises and equipment                                                                                                                  | 2,248             | 2,194             |
| Other assets                                                                                                                            | 6,173             | 7,105             |
| <b>TOTAL ASSETS</b>                                                                                                                     | <b>\$ 282,152</b> | <b>\$ 277,352</b> |
| <b>LIABILITIES</b>                                                                                                                      |                   |                   |
| Long-term debt                                                                                                                          | \$ 34,930         | \$ 36,930         |
| Other liabilities                                                                                                                       | 3,137             | 2,200             |
| <b>Total liabilities</b>                                                                                                                | <b>38,067</b>     | <b>39,130</b>     |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                             |                   |                   |
| Common stock                                                                                                                            | 143               | 146               |
| Surplus                                                                                                                                 | 53,723            | 62,826            |
| Undivided profits                                                                                                                       | 194,579           | 176,374           |
| Accumulated other comprehensive income (loss)                                                                                           |                   |                   |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of income tax credits of \$2,615 at 2005 and \$673 at 2004 | (4,360)           | (1,124)           |
| <b>Total stockholders' equity</b>                                                                                                       | <b>244,085</b>    | <b>238,222</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                       | <b>\$ 282,152</b> | <b>\$ 277,352</b> |

**CONDENSED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2005, 2004 and 2003**

| (In thousands)                                                                    | 2005      | 2004      | 2003      |
|-----------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>INCOME</b>                                                                     |           |           |           |
| Dividends from subsidiaries                                                       | \$ 18,394 | \$ 15,650 | \$ 21,935 |
| Other income                                                                      | 5,473     | 4,486     | 4,091     |
|                                                                                   | 23,867    | 20,136    | 26,026    |
|                                                                                   | 9,346     | 10,349    | 7,193     |
| <b>EXPENSE</b>                                                                    |           |           |           |
| Income before income taxes and equity in undistributed net income of subsidiaries | 14,521    | 9,787     | 18,833    |
| Provision for income taxes                                                        | (1,342)   | (2,098)   | (1,075)   |
| Income before equity in undistributed net income of subsidiaries                  | 15,863    | 11,885    | 19,908    |
| Equity in undistributed net income of subsidiaries                                | 11,099    | 12,561    | 3,882     |

|            |    |        |    |        |    |        |
|------------|----|--------|----|--------|----|--------|
| NET INCOME | \$ | 26,962 | \$ | 24,446 | \$ | 23,790 |
|------------|----|--------|----|--------|----|--------|

70

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**CONDENSED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2005, 2004 and 2003**

| (In thousands)                                          | 2005      | 2004      | 2003      |
|---------------------------------------------------------|-----------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |           |           |           |
| Net income                                              | \$ 26,962 | \$ 24,446 | \$ 23,790 |
| Items not requiring (providing) cash                    |           |           |           |
| Depreciation and amortization                           | 178       | 164       | 169       |
| Deferred income taxes                                   | (134)     | 149       | (111)     |
| Equity in undistributed income of bank subsidiaries     | (11,099)  | (12,561)  | (3,882)   |
| Changes in                                              |           |           |           |
| Other assets                                            | 1,066     | (646)     | (67)      |
| Other liabilities                                       | 936       | (848)     | 963       |
| Net cash provided by (used in) operating activities     | 17,909    | 10,704    | 20,862    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |           |           |           |
| Purchases of premises and equipment                     | (232)     | (113)     | (134)     |
| Purchase of subsidiary                                  | -         | (10,225)  | -         |
| Capital contribution to subsidiaries                    | -         | -         | (17,930)  |
| Return of capital from subsidiary                       | -         | -         | 6,032     |
| Purchase of held-to-maturity securities                 | (1,530)   | -         | (20,008)  |
| Proceeds from sale of investment securities             | 550       | 17,958    | -         |
| Net cash provided by (used in) investing activities     | (1,212)   | 7,620     | (32,040)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |           |           |           |
| Principal reduction on long-term debt                   | (2,000)   | (19,783)  | (2,000)   |
| Issuance of long-term debt                              | -         | -         | 30,930    |
| Dividends paid                                          | (8,757)   | (8,263)   | (7,407)   |
| Repurchase of common stock, net                         | (9,105)   | (1,395)   | (1,476)   |
| Net cash provided by (used in) financing activities     | (19,862)  | (29,441)  | 20,047    |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> |           |           |           |
|                                                         | (3,165)   | (11,117)  | 8,869     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     |           |           |           |
|                                                         | 8,018     | 19,135    | 10,266    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           |           |           |           |
|                                                         | \$ 4,853  | \$ 8,018  | \$ 19,135 |

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

No items are reportable.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) 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-14(c) and 15 C. F. R. 240.15-14(c)) 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.

(b) Changes in Internal Controls. 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.

**ITEM 9B. OTHER INFORMATION**

No items are reportable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICER OF THE COMPANY**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 11, 2006, to be filed pursuant to Regulation 14A on or about March 10, 2006.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 11, 2006, to be filed pursuant to Regulation 14A on or about March 10, 2006.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 11, 2006, to be filed pursuant to Regulation 14A on or about March 10, 2006.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 11, 2006, to be filed pursuant to Regulation 14A on or about March 10, 2006.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 11, 2006, to be filed pursuant to Regulation 14A on or about March 10, 2006.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

(b) Listing of Exhibits

Exhibit

No. Description

- 3.1 Restated Articles of Incorporation of Simmons First National Corporation II (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. 6253)).
- 3.2 Amended By-Laws of Simmons First National Corporation (incorporated by reference to Exhibit 3 (ii) to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1994 (File No. 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 Bob 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. 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. 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. 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 Bob 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. 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. 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. 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 Bob 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. 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. 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. 6253)).
- 10.10 Long-Term Executive Incentive Agreement, dated as of January 1, 2005, by and between the Company and J. Thomas May.\*
- 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. 6253)).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification - J. Thomas May, Chairman, President and Chief Executive Officer.\*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification - Robert A. Fehlman, Senior Vice President and 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, President 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, Senior Vice President and Chief Financial Officer.\*



\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2006

By: /s/ John L. Rush

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John L. Rush  
Secretary

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on or about February 27, 2006.

Signature

Title

/s/ J. Thomas May  
J. Thomas May

Chairman, President, Chief Executive Officer  
and Director

/s/ Robert A. Fehlman  
Robert A. Fehlman

Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

/s/ William E. Clark  
William E. Clark

Director

/s/ Steven A. Cosseø  
Steven A. Cosseø

Director

/s/ Lara F. Hutt, III  
Lara F. Hutt, III

Director

/s/ George A. Makris, Jr.  
George A. Makris, Jr.

Director

/s/ W. Scott McGeorge  
W. Scott McGeorge

Director

/s/ Harry L. Ryburn

Director

Harry L. Ryburn

/s/ Henry F. Trotter, Jr.  
Henry F. Trotter, Jr.

Director

75

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