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# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2007

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

For the transition period from __________ to __________.

Commission File Number 0-22759

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

| | |
|---|---|
| **ARKANSAS**<br>**(State or other jurisdiction of incorporation or organization)** | **71-0556208**<br>**(I.R.S. Employer Identification Number)** |
| **12615 CHENAL PARKWAY, P. O. BOX 8811, LITTLE ROCK, ARKANSAS**<br>**(Address of principal executive offices)** | **72231-8811**<br>**(Zip Code)** |

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| None | N/A |

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

**Common Stock, par value $0.01 per share**
**(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 x

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 x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $344,650,648.

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

| Class | Outstanding at February 22, 2008 |
|---|---|
| Common Stock, par value $0.01 per share | 16,822,240 |

**Documents incorporated by reference:** Parts I, II, III and IV of this Form 10-K incorporate certain information by reference from the Registrant's Annual Report to Stockholders for the year ended December 31, 2007 and the Registrant's Proxy Statement for the 2008 annual meeting.

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**BANK OF THE OZARKS, INC.**
**FORM 10-K**
**December 31, 2007**

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# PART I

## Item 1. BUSINESS

### General

Bank of the Ozarks, Inc. (the "Company") is an Arkansas business corporation registered under the Bank Holding Company Act of 1956. The Company owns an Arkansas state chartered subsidiary bank, Bank of the Ozarks (the "Bank"), which conducts banking operations through 65 banking offices in 34 communities throughout northern, western and central Arkansas, five Texas banking offices in Frisco, Dallas and Texarkana and loan production offices located in Charlotte, North Carolina and Little Rock, Arkansas. The Company also owns Ozark Capital Statutory Trust II, Ozark Capital Statutory Trust III, Ozark Capital Statutory Trust IV and Ozark Capital Statutory Trust V, all 100%-owned finance subsidiary business trusts formed in connection with the issuance of certain subordinated debentures and related trust preferred securities, and, indirectly through the Bank, a subsidiary engaged in the development of real estate. At December 31, 2007 the Company had total assets of $2.71 billion, total loans and leases of $1.87 billion and total deposits of $2.06 billion. Net interest income for 2007 was $77.6 million, net income was $31.7 million and diluted earnings per share were $1.89.

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

In 1994 the Company commenced an expansion strategy, via *de novo* branching, into selected Arkansas markets. Since embarking on this strategy, the Company has added one or more new banking offices each year, resulting in the addition of a total 65 new banking offices through year-end 2007.

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

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

The Company's 2006 and 2007 expansion efforts have been focused primarily in four markets: (1) Benton and Washington counties in northwest Arkansas, (2) the Texarkana market (both Bowie County, Texas and Miller County, Arkansas), (3) Hot Springs, the largest city in Garland County which is the sixth largest Arkansas county in terms of bank deposits, and (4) Frisco, Texas, a rapidly growing city in Collin County and part of the Dallas, Texas market area. During 2006, the Company added 11 new banking offices, replaced a temporary office with a new permanent facility and replaced one of its oldest offices with a new facility. The Company also closed one office in 2006. During 2007 the Company added three new Arkansas banking offices, including offices in Hot Springs, Fayetteville and Rogers, and replaced a temporary office in Frisco, Texas with a new permanent facility.

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The Company expects to continue its growth and *de novo* branching strategy. During 2008 the Company expects to open approximately three new banking offices, including its new corporate headquarters. Opening new offices is subject to availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty.

As of December 31, 2007, the Company had 65 Arkansas banking offices, five Texas banking offices and loan production offices in Charlotte, North Carolina and Little Rock, Arkansas. The Company anticipates the expansion of its Arkansas branch network will be substantially completed in the next four years and will result in a total of up to 72 Arkansas banking offices. As the Company completes its expansion in Arkansas, it expects to accelerate its expansion in other states, primarily Texas. As of December 31, 2007 the Company's five Texas banking offices accounted for 16.9% of its loans and leases and 6.5% of its deposits, and its North Carolina loan production office accounted for 5.0% of its loans and leases.

**Lending and Leasing Activities**

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

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

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

In underwriting loans and leases, primary emphasis is placed on the borrower's or lessee's financial condition, including its ability to generate cash flow to support its debt or lease obligations and other cash expenses. Additionally substantial consideration is given to collateral value and marketability as well as the borrower's or lessee's character, reputation and other relevant factors. The Company's loan portfolio includes most types of real estate loans, consumer loans, commercial and industrial loans, agricultural loans and other types of loans. Most of the properties collateralizing the Company's loan portfolio are located within the trade areas of the Company's offices. The Company's lease portfolio consists primarily of small ticket direct financing commercial equipment leases. The equipment collateral securing the Company's lease portfolio is located throughout the United States.

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

The Company offers a variety of real estate loan products that are generally amortized over five to thirty years, payable in monthly or other periodic installments of principal and interest, and due and payable in full (unless renewed) at a balloon maturity generally within one to five years. Certain loans may be structured as term loans with adjustable interest rates (adjustable daily, monthly, semi-annually, annually, or at other regular adjustment intervals usually not to exceed five years) and without balloon maturities.

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

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

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

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

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

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

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

**Deposits**

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

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The Company's deposits come primarily from within the Company's trade area. As of December 31, 2007 the Company had $381.3 million in "brokered deposits," defined as deposits which, to the knowledge of the Company, have been placed with the Bank by a person who acts as a broker in placing these deposits on behalf of others or are otherwise deemed to be "brokered" by bank regulatory authority rules and regulations. Brokered deposits are typically from outside the Company's primary trade area, and such deposit levels may vary from time to time depending on competitive interest rate conditions and other factors.

**Other Banking Services**

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

*Trust Services.* The Company offers a broad array of trust services from its headquarters in Little Rock, Arkansas, with additional staff in Conway and Bella Vista. These trust services include personal trusts, custodial accounts, investment management accounts, retirement accounts, corporate trust services including trustee, paying agent and registered transfer agent services, and other incidental trust services. As of December 31, 2007 total trust assets were $606 million compared to $550 million as of December 31, 2006 and $459 million as of December 31, 2005.

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

*Internet Banking.* The Company offers an on-line banking service over the Internet for both business customers and consumers. Through this service customers can access their account information, pay bills, transfer funds, reorder checks, buy U.S. Savings Bonds, change addresses, issue stop payment requests and handle other banking business electronically. Businesses are offered more advanced features which allow them to handle most cash management functions electronically and access their account information on a more timely basis. The Company also provides images of cancelled checks for customers to view on-line and provides businesses with the ability to obtain cancelled check images on compact discs for storage and retrieval.

**Market Area and Competition**

The Company's market areas include primarily the northern, western and central portions of Arkansas, the metropolitan Dallas, Texas area, the Texarkana area (including areas in Texas and Arkansas) and the metropolitan Charlotte, North Carolina area. At December 31, 2007, 78.1%, 16.9% and 5.0%, respectively, of the Company's loans and leases were originated by its offices in Arkansas, Texas and North Carolina, and 93.5% and 6.5%, respectively, of the Company's deposits were originated by its offices in Arkansas and Texas.

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

As of June 30, 2007, the latest date for which Federal Insurance Deposit Corporation ("FDIC") branch data is available, the Bank's deposits represented 4.3% of deposits for all FDIC-insured institutions in the state of Arkansas compared to 3.9% at June 30, 2006 and 3.5% at June 30, 2005. In the 20 Arkansas counties in which the Company operates,

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the Bank's deposits were 7.2% of the total deposits of all banks in those counties as of June 30, 2007, compared to 6.5% of such total deposits at June 30, 2006 and 6.0% at June 30, 2005.

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

**Employees**

At December 31, 2007 the Company employed 689 full-time equivalent employees, compared to 699 at December 31, 2006 and 629 at December 31, 2005. None of the employees were represented by any union or similar group. The Company has not experienced any labor disputes or strikes arising from any organized labor groups. The Company believes its employee relations are good.

**Executive Officers of Registrant**

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

*George Gleason*, age 54, Chairman and Chief Executive Officer. Mr. Gleason has served the Company or the Bank as Chairman, Chief Executive Officer and/or President since 1979. He holds a B.A. in Business and Economics from Hendrix College and a J.D. from the University of Arkansas.

*Mark Ross*, age 52, Vice Chairman, President and Chief Operating Officer. Mr. Ross joined the Company in 1980 and has served in several key positions, becoming President in 1986, joining the Board of Directors in 1992, and adding the responsibilities of Vice Chairman and Chief Operating Officer to his duties as President in 2002. Mr. Ross holds a B.A. in Business Administration from Hendrix College.

*Paul Moore*, age 61, Chief Financial Officer and Chief Accounting Officer since 1995. Mr. Moore is a C.P.A. and received a B.S.B.A. in Banking, Finance and Accounting from the University of Arkansas.

*Danny Criner*, age 53, President of the Bank's Northern Division since 1991. Mr. Criner has been with the Company or its predecessor since 1976. Mr. Criner received a B.S.B.A. in Banking and Finance from the University of Arkansas.

*C. E. Dougan*, age 61, President of the Bank's Western Division since 2000. Prior to that Mr. Dougan served as a director of the Company from 1997 to 2000. Mr. Dougan was co-owner from 1996 to 2000 of Mooney-Dougan, Inc., specializing in residential real estate development, construction and investments. Prior to 1997 Mr. Dougan, who has over 36 years of banking experience, served 12 years as president and chief executive officer of a competitor.

*Scott Hastings*, age 50, President of the Bank's Leasing Division since 2003. From 2001 to 2002 he served as division president of the $800 million leasing division of a large diversified national financial services firm. From 1995 to 2001 he served in several key positions including President, Chief Operating Officer and Director of a large regional bank's leasing subsidiary with over $500 million in assets. Mr. Hastings holds a B.A. degree from the University of Arkansas-Little Rock.

*Gene Holman,* age 60, President of the Bank's Mortgage Division since 2004. Prior to 2004 Mr. Holman served as President and Chief Operating Officer of a competitor mortgage company and held various senior management positions with that company during his 21 year tenure. Mr. Holman has 34 years of real estate and mortgage banking experience in Central Arkansas. Mr. Holman is a C.P.A. and received a B.S.B.A. in Accounting from the University of Mississippi.

*Rex Kyle,* age 51, President of the Bank's Trust Division since 2004. Prior to 2004 Mr. Kyle was Senior Vice President and Chief Administrative Officer in the trust division of a competitor bank. Mr. Kyle has 29 years experience as a

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banking trust professional providing a wide array of asset management and trust services for individuals, businesses and government entities. He holds a B.S. and M.S. in Agricultural Economics and a J.D. from Texas A&M University.

*Greg McKinney,* age 39, Executive Vice President and Controller since 2003. From 2001 to 2003 Mr. McKinney served as a member of the financial leadership team of a publicly-traded software development and data management company. For most of the year 2000, Mr. McKinney served as a senior audit manager of a local C.P.A. firm. From 1991 to 2000 he held various positions with a big-four public accounting firm, leaving as senior audit manager when the firm closed its Little Rock office. Mr. McKinney is a C.P.A. and holds a B.S. in Accounting from Louisiana Tech University.

*Dan Rolett,* age 45, Executive Vice President of the Bank since 2002. He joined the Bank as Vice President in 1996 and was named Senior Vice President in 1999 to manage the Bank's investment portfolio among other duties. He holds a B.A. in Marketing and Finance from the University of Arkansas-Little Rock.

*Darrel Russell,* age 54, President of the Bank's Central Division since 2001 and since March 2007 co-chairman of the loan committee. He joined the Bank in 1983 and served as Executive Vice President of the Bank from 1997 to 2001 and Senior Vice President of the Bank from 1992 to 1997. Prior to 1992 Mr. Russell served in various positions with the Bank. He received a B.S.B.A. in Banking and Finance from the University of Arkansas.

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

**SUPERVISION AND REGULATION**

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

**Federal Regulations**

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

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

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

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

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

In considering any application for approval of an acquisition or merger, the FRB is required to consider various competitive factors, the financial and managerial resources of the companies and banks concerned, the convenience and needs of the communities to be served, the effectiveness of the applicant in combating money laundering activities, and the applicant's record of compliance with the Community Reinvestment Act (the "CRA"). The CRA generally requires financial institutions to take affirmative action to ascertain and meet the credit needs of its entire community, including low and moderate income neighborhoods. The Attorney General of the United States may, within 30 days after approval of an acquisition by the FRB, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts.

A bank holding company is also required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB regulations, or both.

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

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

A bank holding company may become a financial holding company only if all depository institution subsidiaries of the holding company are well-capitalized, well-managed and have at least a satisfactory rating under the CRA. A financial holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities.

National banks are also authorized by the GLBA to engage, through "financial subsidiaries," in any activity that is permissible for a financial holding company, except (i) insurance underwriting, (ii) real estate development or real estate investment activities (unless otherwise permitted by law), (iii) insurance company portfolio investments and (iv) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank be well-managed and well-capitalized (after deducting from capital the bank's outstanding investments in financial subsidiaries). The GLBA provides that state banks, such as the Bank, may invest in financial subsidiaries that engage as principal in activities that would only be permissible for a national bank to conduct in a financial subsidiary. This authority is generally subject to the same conditions that apply to national bank investments in financial subsidiaries.

The GLBA also includes a number of consumer protections, including provisions intended to protect privacy of bank customers' financial information and provisions requiring disclosure of ATM fees imposed by banks on customers of other banks. Under the consumer privacy provisions mandated by the GLBA, when establishing a customer relationship, a financial institution must give the consumer information such as when it will disclose nonpublic, personal information to unaffiliated third parties, what type of information it may share and what types of affiliates may receive the information. The institution

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must also provide customers with annual privacy notices, a reasonable means for preventing the disclosure of information to third parties, and the opportunity to opt out of the disclosure at any time.

The Company has no current plans to elect to become a financial holding company. As long as the Company has not elected to become a financial holding company, it will remain subject to the current restrictions of the BHCA.

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

On December 4, 2003, the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") was signed into law. The FACT Act permanently extends the national credit reporting standards of the Fair Credit Reporting Act, which would otherwise have expired on January 1, 2004, and permits consumers, including customers of the Bank, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires financial institutions, including banks, to notify a customer if the institution provides negative information about the customer to a national credit reporting agency or if the credit that is granted to the customer is on less favorable terms than those generally available. Banks must comply with guidelines established by their federal banking regulators to help detect identity theft.

The FRB and the Federal Trade Commission (the "FTC") have implemented rules for those sections of the FACT Act having a specified implementation date of December 31, 2003. Such sections primarily dealt with the relationship of state laws to the Fair Credit Reporting Act of 1978 (the "FCRA"). For those sections of the FACT Act not having a specified implementation date, the FRB and the FTC jointly issued rules making many of such provisions effective as of December 1, 2004. In addition, joint agency rules were adopted in 2005 by the FRB and the FTC pursuant to the FACT Act which require the Bank to properly dispose of consumer information derived from a consumer report in a manner consistent with the previous guidelines. As of January 1, 2008, joint agency rules have been adopted which require financial institutions to develop and implement a written identity theft program to detect, prevent and mitigate identify theft concerning certain types of accounts.

*Interstate Banking*. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") amended the BHCA to permit bank holding companies to acquire existing banks in any state effective September 29, 1995. The Interstate Act preempted barriers that restricted entry into states and created opportunities for expansion into markets that were previously closed. Interstate banking and branching authority (discussed below) is subject to certain conditions and restrictions, such as capital adequacy, management and CRA compliance.

The Interstate Act also contained interstate branching provisions that allow multistate banking operations to merge into a single bank with interstate branches. The interstate branching provisions became effective on June 1, 1997, although states were allowed to pass laws to opt in early or to opt out completely as long as they acted prior to that date. Effective May 31, 1997, the Arkansas Interstate Banking and Branching Act of 1997 (the "Arkansas Interstate Act") authorized banks to engage in interstate branching activities within the borders of the state of Arkansas.

Banks acquired pursuant to this branching authority may be converted to branches. Interstate branching allows banks to merge across state lines to form a single institution. Interstate merger transactions can be used to consolidate existing multistate operations or to acquire new branches. A bank can also establish a new branch as its initial entry into a state if the state has authorized *de novo* branching. The Arkansas Interstate Act prohibits entry into the state through *de novo* branching.

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

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Beginning in 2007, rates ranged between 5 and 43 cents per $100 in assessable deposits depending on the risk category to which an insured depository institution is assigned. Institutions in Risk Category I were charged a rate between 5 and 7 cents per $100 in assessable deposits.

Insured depository institutions are further assessed premiums for Financing Corporation ("FICO") bond debt service. The FICO assessment rate for DIF was 1.14 basis points, resulting in a premium of $0.0114 per $100 of DIF-eligible deposits for the third and fourth quarters of 2007 as well as for the first quarter of 2008.

On February 8, 2006, the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") was signed into law as part of the Deficit Reduction Act of 2005. Among other provisions, the Reform Act provided for the merger of the two insurance funds, BIF and SAIF, into a new single deposit insurance fund, DIF. Prior to the merger of BIF and SAIF, the Bank's primary insurance fund for deposits was BIF. The Reform Act also establishes an inflation adjustment mechanism which may increase the $100,000 coverage limit on deposits beginning in April 2010. The Reform Act also provides for the (i) modification of assessments under the risk-based assessment system, (ii) replacement of a fixed designated reserve ratio with a reserve range between 1.15% of estimated insured deposits and 1.5% of estimated insured deposits, and (iii) payment by the FDIC of dividends when certain reserve ratios exceed certain thresholds.

The Financial Services Regulatory Relief Act (the "FSRRA") was signed into law on October 13, 2006. Among other provisions, the FSRRA provides that the SEC and the FRB are required, in consultation with other federal banking regulators, to adopt final rules to implement the exceptions to the definition of "broker" pursuant to the GLBA. Accordingly, in September 2007, the SEC and the FRB adopted rules implementing exceptions for a bank from the definition of "broker" in Section 3(a)(4) of the Securities Exchange Act of 1934. The FSRRA also amended the Federal Deposit Insurance Act (the "FDI Act") to provide that the submission by any regulated entity of any information to a federal banking agency or state bank supervisor for any purpose in the course of any supervisory or regulatory process of the agency will not be construed as waiving or otherwise affecting any privilege the entity may claim with respect to the information submitted as to any person or entity other than the agency. The FSRRA repealed certain reporting requirements regarding loans to bank executive officers and principal shareholders previously required by Regulation O.

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

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

The leverage ratio is a company's Tier 1 capital divided by its adjusted average total consolidated assets. The minimum required leverage ratio is 3.0% of Tier 1 capital to adjusted average assets for institutions with the highest regulatory rating of 1. All other institutions must maintain a minimum leverage ratio of 4.0% to 5.0%. For a tabular summary of the Company's and the Bank's risk-weighted capital and leverage ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operation-Capital Compliance" and footnote 14 to the Company's consolidated financial statements.

Bank regulators from time to time consider raising or otherwise modifying the capital requirements of banking organizations beyond current levels. As an example, in December of 2007 federal banking regulators, including the FRB and the FDIC, jointly adopted a final rule implementing a new risk-based regulatory capital framework. The rule is effective as of April 1, 2008. By requiring the assigning of risk-based parameters and the use of specific risk-based capital formulas, the rule is intended to produce risk-based capital requirements that are more risk sensitive than the requirements existing under the current risk-based rules. Although the final rule is applicable to "core banks" having consolidated total assets of $250 billion or more, adoption of the rule's requirements is currently optional for other banks. However, as the structure of the capital adequacy framework continues to be the subject of federal regulatory consideration, the Company is unable to predict whether higher or

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otherwise modified capital requirements will be imposed, the amount or timing of any such increases or modifications and the potential effect of any future mandated use of increased risk-sensitive capital requirements. Therefore, the Company cannot predict what effect such changes to the existing capital requirements may have on it or on the Bank.

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

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

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

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

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

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

The Bank's loan operations are subject to certain federal laws applicable to credit transactions, including, among others, the federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers, the Home Mortgage Disclosure Act of 1975 requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves, the Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit, the FCRA governing the use and provision of information to credit reporting agencies, the Fair Debt Collection Practices Act governing the manner in which consumer debts may be collected by collection agencies, the Fair Housing Act prohibiting discriminatory practices relative to real estate related transactions, including the financing of housing, and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of the Bank also are subject to, among other laws and regulations, the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, the Electronic Funds Transfer Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic

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banking services, the Truth in Savings Act requiring depository institutions to disclose the terms of deposit accounts to consumers, the Expedited Funds Availability Act requiring financial institutions to make deposited funds available according to specified time schedules and to disclose funds availability policies to consumers, and the Check Clearing for the 21st Century Act ("Check 21"), designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. Check 21 created a new negotiable instrument called a substitute check and permits but does not require banks to truncate original checks, process check information electronically, and deliver substitute checks to banks that wish to continue receiving paper checks.

**State Regulation**

The Company and the Bank are subject to examination and regulation by the Arkansas State Bank Department. Examinations of the Bank are typically conducted annually but may be extended to 24 months if an interim examination is performed by the FDIC. The Arkansas State Bank Department may also make at any time an examination of the Company as may be necessary to disclose fully the relations between the Company and the Bank and the effect of those relations. Additionally, because the Company owns an Arkansas state-chartered bank, the Company is also required to submit certain reports filed with the FRB to the Arkansas State Bank Department.

Regarding usury, the Arkansas Constitution provides, in summary, that "consumer loans and credit sales" have a maximum percentage limitation of 17% per annum and that all "general loans" have a maximum interest rate limitation of 5% over the Federal Reserve Discount Rate in effect at the time the loan was made. The Arkansas Supreme Court has determined that "consumer loans and credit sales" are also "general loans" subject to the interest rate limitation discussed above. Despite such limitations, Arkansas usury laws have historically been preempted by federal law with respect to first lien residential real estate loans and certain loans guaranteed by the Small Business Administration. Furthermore, the GLBA preempted the application of the Arkansas Constitution's usury limits to the Bank effective November 12, 1999. In a non-adversarial test case involving undisputed facts, the Eighth Circuit Court of Appeals affirmed the District Court's ruling that the preemptive provisions of the GLBA are constitutional. Although the constitutionality of the preemption provision could be raised again in the future, the Bank currently may charge interest at rates over and above the limitations set forth in the Arkansas Constitution.

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

Since January 1, 1999 Arkansas law allows the Company to engage in branching activities for its bank subsidiary on a statewide basis. Immediately prior to that date, the state's branching laws prevented state and national banks from opening branches in any county of the state other than their home county and the counties contiguous to their home county. Because the state branching laws did not limit the branching activities of federal savings banks, the Company was able to branch outside of the traditional areas of its state bank subsidiaries through the federal thrift that it acquired in February 1998. In response to the change in state branching laws, the Company merged its thrift charter into its lead state bank subsidiary in early 1999.

**Bank Subsidiary**

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

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

Federal law substantially restricts transactions between financial institutions and their affiliates, particularly their non-financial institution affiliates. As a result, the Bank is sharply limited in making extensions of credit to the Company or any non-bank subsidiary, in investing in the stock or other securities of the Company or any non-bank subsidiary, in buying the assets of, or selling assets to, the Company and/or in taking such stock or securities as collateral for loans to any borrower. Moreover, transactions between the Bank and the Company (or any non-bank subsidiary) must generally be on terms and under circumstances at least as favorable to the Bank as those prevailing in comparable transactions with independent third parties or, in the absence of comparable transactions, on terms and under circumstances that in good faith would be available to nonaffiliated companies.

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

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

**Proposed Legislation For Bank Holding Companies And Banks**

In addition to ongoing evaluation of capital adequacy guidelines, certain proposals affecting the banking industry have been discussed from time to time. Such proposals include, but are not limited to, the following: regulation of all insured depository institutions by a single regulator; limitations on the number of accounts protected by the federal deposit insurance funds and further modification of the $100,000 coverage limit on deposits. During 2007, federal and state legislatures and regulators generated a number of bills, proposed rules, and policy statements to address both the future extension of credit to borrowers with lower credit scores and existing "subprime" mortgages. Proposals are currently being considered to provide increased homeownership protection, greater disclosure concerning adjustable rate mortgages, the freezing of interest rates or other modifications of certain types of loans. Proposals are also being considered to enhance personal data and identity theft protections. It is uncertain which, if any, of the proposals discussed above may become law and what effect they would have on the Company and the Bank.

**Available Information**

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

**Forward-Looking Information**

This Annual Report on Form 10-K, the Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein, other filings made by the Company with the Securities and Exchange Commission and other oral and written statements or reports by the Company and its management, include certain forward-looking statements including, without limitation, statements about economic, competitive and interest rate conditions, plans, goals, beliefs, expectations and outlook for revenue growth, growth in income and earnings per share, net interest margin, including the effects of the relatively flat-to-inverted yield curve and intense competition and the goal of maintaining or

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improving net interest margin, net interest income, non-interest income, including service charges on deposit accounts, mortgage lending and trust income, gains (losses) on sales of investment securities and other assets, non-interest expense, including the cost of opening new offices, achieving positive operating leverage by growing revenue at a faster rate than non-interest expense, efficiency ratio, anticipated future operating results and financial performance, asset quality, nonperforming loans and leases, nonperforming assets, net charge-offs, past due loans and leases, interest rate sensitivity, including the effects of possible interest rate changes, future growth and expansion opportunities, opportunities and goals for future market share growth, plans for opening new offices including a new corporate headquarters, expected capital expenditures, loan, lease and deposit growth, changes in the Company's investment securities portfolio and other similar forecasts and statements of expectation. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs, plans and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management due to certain risks, uncertainties and assumptions. Certain factors that may affect operating results of the Company include, but are not limited to, potential delays or other problems in implementing the Company's growth and expansion strategy including delays in identifying satisfactory sites, hiring qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to attract new deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including continued interest rate changes and/or changes in the yield curve between short-term and long-term interest rates; competitive factors and pricing pressures, including their effect on the Company's net interest margin; general economic conditions, including their effect on investment securities values, the credit worthiness of borrowers and lessees, collateral values and the value of investment securities; changes in legal and regulatory requirements; adoption of new accounting standards or changes in existing standards; and adverse results in future litigation as well as other factors described in this and other Company reports and statements. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in the forward-looking statements.

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## Item 1A. RISK FA CTORS

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

### RISKS RELATED TO OUR BUSINESS

**Our Profitability is Dependent on Our Banking Activities.**

Because the Company is a bank holding company, its profitability is directly attributable to the success of the Bank. The Company's banking activities compete with other banking institutions on the basis of service, convenience and price. Due in part to both regulatory changes and consumer demands, banks have experienced increased competition from other financial entities offering similar products and services. Competition from both bank and non-bank organizations is expected to continue to increase. The Company relies on the profitability of the Bank and dividends received from the Bank for payment of its operating expenses and satisfaction of its obligations. As is the case with other similarly situated financial institutions, the profitability of the Bank, and therefore the Company, will be subject to the fluctuating cost and availability of funds, changes in the prime lending rate and other interest rates, changes in economic conditions in general and, because of the location of its banking offices, changes in economic conditions in Arkansas, Texas and North Carolina in particular.

**We Depend on Key Personnel for Our Success.**

The Company's operating results and ability to adequately manage its growth and minimize loan and lease losses are highly dependent on the services, managerial abilities and performance of its current executive officers and other key personnel. The Company has an experienced management team that the Board of Directors believes is capable of managing and growing the Bank. However, losses of or changes in its current executive officers or other key personnel and their responsibilities may disrupt the Company's business and could adversely affect the Company's financial condition, results of operations and liquidity. There can be no assurance that the Company will be successful in retaining its current executive officers or other key personnel.

**Our Operations are Significantly Affected by Interest Rate Levels.**

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

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

A majority of the Company's business is located in Arkansas. As a result the Company's financial condition and results of operations may be significantly impacted by changes in the Arkansas economy. An economic recession or other adverse economic conditions in Arkansas may have a significant impact on the demand for the Company's products and services, result in an increase in non-payment of loans and leases and a decrease in collateral value, and significantly impact the Company's deposit funding sources. Any of these events could have an adverse impact on the Company's financial position, results of operations and liquidity. To a lesser extent, an economic recession or other adverse economic conditions in Texas or North Carolina could significantly impact the Company.

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

The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for the Company's loan and lease portfolio were to decline materially, a significant part of its loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, the Company may not be able to realize the amount of security anticipated at the time of originating the loan, which in turn could have an adverse effect on the Company's provision for loan and lease losses and its financial condition, results of operations and liquidity.

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

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

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

There are substantial risks inherent in making any loan or lease, including –

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

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

**We Make and Hold in Our Loan and Lease Portfolio a Significant Number of Construction and Development and Other Real Estate Loans.**

The Company's loan and lease portfolio is comprised of a significant amount of real estate loans, including a large number of construction and development loans. The Company's real estate loans comprised 81.9% of its total loans and leases at December 31, 2007. In addition the Company's construction and development loans, which are a subset of its real estate loans, comprised 36.6% of the Company's total loan and lease portfolio at December 31, 2007. Real estate loans, including construction and development loans, pose different risks than do other types of loan and lease categories. The Company believes it has established appropriate underwriting procedures for its real estate loans, including construction and development loans, and has established appropriate allowances to cover the credit risk associated with such loans. However, there can be no assurance that such underwriting procedures are, or will continue to be, appropriate or that losses on real estate loans, including construction and development loans, will require additions to its allowance for loan and lease losses, and will have an adverse impact on the Company's financial position, results of operations or liquidity.

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

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

**The Performance of Our Investment Securities Portfolio is Subject to Fluctuation Due to Changes in Interest Rates and Market Conditions.**

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

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

The Company may not be able to sustain its historical rate of growth or even grow its business at all. Additionally, in the future the Company may not have the benefit of several factors that have been favorable to the Company's business in past years, such as a relatively stable interest rate environment or an interest rate environment where changes in rates occur at a relatively orderly and modest pace, strong residential and commercial construction in many of its markets, the ability to find suitable expansion opportunities, or generally favorable economic conditions. Various factors, such as weaking or deteriorating economic conditions, regulatory and legislative considerations, and competition may impede or restrict the Company's ability to expand its market presence or adversely impact its future results.

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

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

- identify and expand into suitable markets;
- obtain regulatory and other approvals;
- build a substantial customer base;
- maintain credit quality;
- attract sufficient deposits to fund anticipated loan and lease growth;
- attract and retain qualified bank management and staff;
- identify and acquire suitable sites for new banking offices; and
- maintain adequate regulatory capital.

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

**We Face Strong Competition in Our Markets**.

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

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

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

**Our Internal Operations are Subject to a Number of Risks.**

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

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

The computer systems and network infrastructure in use by the Company could be vulnerable to unforeseen problems. The Company's operations are dependent upon the ability to protect its computer equipment against damage from fire, severe storm, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure of the Company's computer systems or network infrastructure that causes an interruption in operations could have an adverse effect on the Company's financial condition, results of operations and liquidity. In addition, the Company's operations are dependent upon its ability to protect the computer systems and network infrastructure against damage from physical break-ins, security breaches and other disruptive problems caused by Internet users or other users. Computer break-ins and other

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disruptions could jeopardize the security of information stored in and transmitted through the Company's computer systems and network, which may result in significant liability to the Company, as well as deter potential customers. Although the Company, with the help of third-party service providers, intends to continue to actively monitor and, where necessary, implement security technology and develop additional operational procedures to prevent damage or unauthorized access to its computer systems and network, there can be no assurance that these security measures or operational procedures will be successful. In addition, new developments or advances in computer capabilities or new discoveries in the field of cryptography could enable hackers to compromise or breach the security measures used by the Company to protect customer data. The Company's failure to maintain adequate security over its customers' personal and transactional information could have an adverse effect on the Company's financial condition, results of operations and liquidity.

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

Federal and state bank regulators require the Company and the Bank to maintain adequate levels of capital to support operations. On December 31, 2007, the Company's and the Bank's regulatory capital ratios were at "well-capitalized" levels under bank regulatory guidelines. However, the Company's business strategy calls for the Company to continue to grow in its existing banking markets (internally and through opening additional offices) and to expand into new markets as appropriate opportunities arise. Growth in assets resulting from internal expansion and new banking offices at rates in excess of the rate at which the Company's capital is increased through retained earnings will reduce both the Company's and the Bank's capital ratios unless the Company and the Bank continue to increase capital. If the Company's or the Bank's capital ratios fell below "well-capitalized" levels, the FDIC deposit insurance assessment rate would increase until capital is restored and maintained at a "well-capitalized" level. Additionally, should the Company's or Bank's capital ratios fall below "well capitalized", certain funding sources could become more costly or could cease to be available to the Company until such time as capital is restored and maintained at a "well-capitalized" level. A higher assessment rate resulting in an increase in FDIC deposit insurance assessments, increased cost of funding or loss of funding sources could have an adverse affect on the Company's financial condition, results of operations and liquidity.

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

**RISKS ASSOCIATED WITH OUR INDUSTRY**

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

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

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

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

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**New Legislative and Regulatory Proposals May Affect Our Operations and Growth.**

Proposals to change the laws and regulations governing the operations and taxation of, and federal deposit insurance premiums paid by, banks and other financial institutions and companies that control financial institutions are frequently raised in the U.S. Congress, state legislatures and before bank regulatory authorities. The likelihood of any major changes in these laws and regulations in the future and the impact such changes might have on the Company or the Bank are impossible to determine. Similarly, proposals to change the accounting and financial reporting requirements applicable to banks and other depository institutions are frequently raised by the SEC, the federal banking agencies, the IRS and other authorities. The likelihood and impact of any future changes in these accounting and financial reporting requirements and the impact these changes might have on the Company or the Bank are impossible to determine at this time.

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

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

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

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

**RISKS ASSOCIATED WITH OUR STOCK**

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

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

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving the Company or its competitors; and
- changes in governmental regulations.

General market fluctuations, industry factors and general economic and political conditions and events could adversely impact the price of the Company's common stock.

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**We Cannot Guarantee That We Will Pay Dividends to Stockholders in the Future.**

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

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

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

**The Holders of Our Subordinated Debentures Have Rights That are Senior to Those of Our Stockholders.**

At December 31, 2007 the Company had an aggregate of $64.9 million of floating rate subordinated debentures and related trust preferred securities outstanding. The Company guarantees payment of the principal and interest on the trust preferred securities, and the subordinated debentures are senior to shares of the Company's common stock. As a result, the Company must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on its common stock and, in the event of bankruptcy, dissolution or liquidation, the holders of the subordinated debentures must be satisfied before any distributions can be made to the holders of common stock. The Company has the right to defer distributions on its subordinated debentures and the related trust preferred securities for up to five years, during which time no dividends may be paid to holders of its common stock.

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

The Company's directors and exective officers, as a group, beneficially owned 27.2% of its common stock as of February 1, 2008. As a result of their beneficial ownership, directors and executive officers have the ability, by voting their shares in concert, to significantly influence the outcome of matters submitted to the Company's stockholders for approval, including the election of its directors.

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

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

**Our Common Stock is Not an Insured Deposit**.

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

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## Item 1B. UNRES OLVED STAFF COMMENTS

None.

## Item 2. PROPER TIES

The Company serves its customers by offering a broad range of banking services throughout northern, western and central Arkansas and in selected Texas markets from the following banking locations:

| Banking Facility [1] | Year Opened | Square Footage |
|---|---|---|
| Rogers (New Hope Road) | 2007 | 9,312 |
| Frisco, Texas (Preston & Lebanon) [2] | 2007 | 12,023 |
| Fayetteville (Wedington Drive) | 2007 | 2,784 |
| Hot Springs (Malvern Avenue) | 2007 | 3,575 |
| Ozark (Porter Hillard Banking Center) [3] | 2006 | 9,600 |
| Rogers (Pleasant Grove) | 2006 | 2,784 |
| Frisco, Texas (Lebanon & Tollway) | 2006 | 3,575 |
| Bella Vista (Sugar Creek Center) | 2006 | 3,575 |
| Bella Vista (Highlands Lancashire) | 2006 | 3,575 |
| Fayetteville (Crossover) [4] | 2006 | 5,176 |
| Hot Springs (Albert Pike) | 2006 | 2,784 |
| Springdale (Jones Road) | 2006 | 2,784 |
| Texarkana (Arkansas Blvd.) | 2006 | 4,352 |
| Texarkana, Texas (Richmond Road) | 2006 | 3,016 |
| Bentonville (Walton & Dodson) | 2006 | 9,312 |
| Hot Springs (Central) | 2006 | 5,176 |
| Rogers (47th & Olive) | 2006 | 2,784 |
| Texarkana, Texas (Summerhill) | 2005 | 9,312 |
| Bentonville (Highway 102) | 2005 | 2,784 |
| Russellville (West) | 2005 | 2,784 |
| Benton (Highway 35) | 2005 | 2,400 |
| Mountain Home (East) | 2005 | 2,784 |
| North Little Rock (Levy) | 2005 | 2,400 |
| Mountain Home (Main) | 2005 | 5,176 |
| Sherwood [5] | 2004 | 2,400 |
| Little Rock (Rodney Parham & West Markham) [6] | 2004 | 4,576 |
| Dallas, Texas (Sterling Plaza) [7] | 2004 | 2,810 |
| North Little Rock (East McCain) | 2004 | 2,784 |
| Little Rock (Highway 10 Supercenter) [8] | 2004 | 693 |
| Conway (East) | 2004 | 2,400 |
| Russellville (East) | 2004 | 2,800 |
| Van Buren (Main) | 2004 | 2,260 |
| Cabot (South) | 2004 | 2,800 |
| Conway (Downtown) | 2004 | 2,400 |
| Benton (Military Road) | 2003 | 2,784 |
| Fort Smith (Phoenix) | 2003 | 2,250 |
| Russellville (Main) | 2003 | 7,644 |
| Little Rock (Taylor Loop & Cantrell) | 2003 | 2,400 |
| Bryant (Highway 5) | 2003 | 2,784 |
| Cabot (Main) | 2003 | 4,400 |
| Conway (Prince & Salem) | 2003 | 2,464 |
| Hot Springs Village (Cranford's) [9] | 2002 | 449 |
| Conway (North) | 2002 | 4,350 |
| Maumelle | 2002 | 3,576 |
| Lonoke | 2001 | 5,731 |
| Little Rock (Otter Creek) | 2001 | 2,400 |

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| | | |
|---|---|---|
| Fort Smith (Zero) | 2001 | 2,784 |
| Yellville | 2000 | 2,716 |
| Clinton | 1999 | 2,784 |
| North Little Rock (North Hills) (10) | 1999 | 4,350 |
| Harrison (Downtown) | 1999 | 14,000 |
| North Little Rock (Indian Hills) (11) | 1999 | 1,500 |
| Fort Smith (Rogers) | 1998 | 22,500 |
| Little Rock (Cantrell) | 1998 | 2,700 |
| Little Rock (Chenal) | 1998 | 40,000 |
| Little Rock (Rodney Parham) | 1998 | 2,500 |
| Little Rock (Chester) | 1998 | 1,716 |
| Bellefonte | 1997 | 1,444 |
| Alma | 1997 | 4,200 |
| Paris | 1997 | 3,100 |
| Mulberry | 1997 | 1,875 |
| Harrison (North) (12) | 1996 | 3,300 |
| Clarksville (Rogers) | 1995 | 3,300 |
| Van Buren (Pointer Trail) | 1995 | 2,520 |
| Marshall (13) | 1995 (expanded 2005) | 4,120 |
| Clarksville (Main) | 1994 | 2,520 |
| Ozark (Westside) | 1993 | 2,520 |
| Western Grove | 1976 (expanded 1991) | 2,610 |
| Altus | 1972 (rebuilt 1998) | 1,500 |
| Ozark Operation Center (14) | 1985 | 17,652 |
| Jasper | 1967 (expanded 1984) | 4,408 |

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

(2) This facility opened in September 2007 and replaced a leased temporary facility initially established in October 2002.

(3) The Company relocated its main retail banking facility in Ozark to this new office in December 2006.

(4) This facility opened in September 2006 and replaced a leased temporary facility initially established in March 2005. The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring May 13, 2024 with six renewal options of five years each.

(5) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring January 10, 2024 with four renewal options of five years each.

(6) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring November 1, 2023 with six renewal options of five years each.

(7) The Company leases this facility under an initial term of three years beginning July 1, 2004. This lease has been extended through October 31, 2010.

(8) The Company leases this facility with an initial term of five years expiring August 31, 2009, subject to two renewal options of five years each.

(9) The Company leases this facility, with an initial term of five years expiring July 31, 2007, subject to five renewal options of three years each. The Company is currently in the first, three-year renewal option expiring July 31, 2010.

(10) The Company owns the building and leases the land at this location. The initial lease term is twenty years expiring May 31, 2019, subject to four renewal options of five years each.

(11) The Company leases the building and land at this location with an initial term which expired in November 1999. The Company is currently in the fifth, two-year renewal option expiring November 19, 2009.

(12) The Company owns the building and leased the land at this location through May 15, 2007, at which time the Company exercised its option to purchase the site.

(13) The Company owns the building and leases the land at this location. The initial lease term is thirty years expiring February 28, 2024. The Company has three renewal options of ten years each for the site.

(14) This operations center does not include a retail banking office. In addition to the operations center, the Company owns two ancillary facilities located in Ozark, Arkansas. These facilities include a 4,200 square foot operations annex building which was acquired in 2005 and a 5,000 square foot warehouse building which was constructed in 1992.

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In addition to the above banking locations, the Company had two loan production offices at December 31, 2007. These offices are located in Charlotte, North Carolina and Little Rock, Arkansas. These loan production offices are maintained in leased quarters with original lease terms of 36 months or less. Also, because the Company does not have adequate space at its current headquarters, the Company has certain support staff at another location in Little Rock in leased quarters with an original lease term of 36 months or less.

While management believes its existing banking locations are adequate for its present operations, the Company intends to establish additional offices in accordance with its growth strategy and is constructing a new corporate headquarters expected to be completed in the fourth quarter of 2008. At that time the Company's Little Rock loan production office and support staff at its leased location in Little Rock will be consolidated in the Company's new corporate headquarters. In addition to the banking locations listed above, the Company has a number of future banking offices under construction and owns a number of sites for future construction. Construction and development of these sites are expected to be completed in 2008 through 2011.

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**PART II**

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

The Company's Common Stock is listed on the NASDAQ Global Select Market under the symbol "OZRK" and as of February 22, 2008 the Company had 201 holders of record representing approximately 6,405 beneficial owners. The other information required by Item 201 of Regulation S-K is contained in the Company's 2007 Annual Report under the heading "Summary of Quarterly Results of Operations, Common Stock Market Prices and Dividends" on page 34, in the Company's Proxy Statement for the 2008 annual meeting under the heading "Equity Compensation Plan Information" on page 10, and in the Company's 2007 Annual Report under the heading "Company Performance" on page 35, which information is incorporated herein by this reference.

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

There were no purchases of the registrant's equity securities by, or on behalf of, the Company or any "affiliated purchaser," as defined in §240.10b-18(a)(3) of the Securities Exchange Act of 1934.

**Item 6. SELECTED FINANCIAL DATA**

The information required by Item 301 of Regulation S-K is contained in the Company's 2007 Annual Report under the heading "Selected Consolidated Financial Data" on page 11, which information is incorporated herein by this reference.

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

The information required by Item 303 of Regulation S-K is contained in the Company's 2007 Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 12 through 33, which information is incorporated herein by this reference.

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

The information required by Item 305 of Regulation S-K is contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2007 Annual Report under the heading "Interest Rate Risk" on page 28, which information is incorporated herein by this reference.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by Part 210 of Regulation S-X and by Item 302 of Regulation S-K is contained in the Company's 2007 Annual Report on pages 40 through 60 and under the heading "Summary of Quarterly Results of Operations, Common Stock Market Prices and Dividends" on page 34, which information is incorporated herein by this reference.

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

Not applicable.

**Item 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective.

(b) Internal Control over Financial Reporting.

The information required by Item 308(a) and 308(b) of Regulation S-K regarding management's annual report on internal control over financial reporting and the attestation report of the registered public accounting firm are contained in the Company's 2007 Annual Report on pages 36 and 37, which information is incorporated herein by this reference.

The Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, have evaluated any changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of its 2007 fiscal year and have concluded that there was no change during the Company's fourth quarter of its 2007 fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 401 of Regulation S-K regarding directors is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Nominees for Election as Directors" on pages 3 through 6, which information is incorporated herein by this reference. In accordance with Item 401(b) of Regulation S-K, Instruction 3, information concerning the Company's executive officers is furnished in a separate item captioned "Executive Officers of Registrant" in Part I above.

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The information required by Item 405 of Regulation S-K regarding the Company's disclosure of any failure of its executive officers and directors to file on a timely basis reports of ownership and subsequent changes of ownership with the Securities and Exchange Commission is contained in its Proxy Statement for the 2008 annual meeting under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" on page 27, which information is incorporated herein by this reference.

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

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

The information required by Item 407(d)(4) and Item 407(d)(5) of Regulation S-K is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Committees" on pages 7 and 8, which information is incorporated herein by this reference.

### Item 11. EXECUTIV E COMPENSATION

The information required by Item 402 of Regulation S-K is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Compensation Discussion and Analysis" on pages 13 through 23 and under the heading "Director Compensation" on page 24, which information is incorporated herein by this reference.

The information required by Item 407(e)(4) of Regulation S-K is included in the Company's Proxy Statement for the 2008 annual meeting under the heading "Compensation Committee Interlocks and Insider Participation" on page 24, which information is incorporated herein by this reference.

The information required by Item 407(e)(5) of Regulation S-K is included in the Company's Proxy Statement for the 2008 annual meeting under the heading "Compensation Committee Report" on page 23, which information is incorporated herein by this reference.

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

The information required by Item 201(d) of Regulation S-K is contained in the Company's Proxy Statement for the 2007 annual meeting under the heading "Equity Compensation Plan Information" on page 10, which information is incorporated herein by this reference. The information required by Item 403 of Regulation S-K is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Principal Stockholders" on page 11 and under the heading "Security Ownership of Management" on page 12, which information is incorporated herein by this reference.

### Item 13. CERTAIN RELATIONSHIPS AND REL ATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 404 of Regulation S-K is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Certain Transactions" on page 26, which information is incorporated herein by this reference. The information required by Item 407(a) of Regulation S-K is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Nominees for Election as Directors" on pages 3 through 6, which information is incorporated herein by this reference.

### Item 14. PRIN CIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A regarding audit fees, audit committee pre-approval policies, and related information is contained in the Company's Proxy Statement for the 2008 annual meeting under the heading "Audit Fees; Auditors to be Present" on page 27, which information is incorporated herein by this reference.

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## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) The consolidated financial statements of the Registrant.

Consolidated Balance Sheets as of December 31, 2007 and 2006.

Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005.

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules.

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

(3) Exhibits.

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

(b) Exhibits.

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

(c) Financial Statement Schedules.

Not applicable.

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EXHI BIT INDEX

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

| Exhibit No. | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the Registrant, dated May 22, 1997 (previously filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Commission on May 22, 1997, as amended, Commission File No. 333-27641, and incorporated herein by this reference). |
| 3.2 | Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant dated December 9, 2003 (previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Commission for the year ended December 31, 2003, and incorporated herein by this reference). |
| 3.3 | Amended and Restated By-Laws of the Registrant, dated December 11, 2007 (previously filed as Exhibit 3(ii) to the Company's Current Report on Form 8-K filed with the Commission on December 11, 2007, and incorporated herein by this reference). |
| 4.1 | Amended and Restated Declaration of Trust, by and among U.S. Bank National Association, as Institutional Trustee, Bank of the Ozarks, Inc. as Sponsor, and George G. Gleason, Mark D. Ross and Paul E. Moore, as Administrators, dated as of September 29, 2003 (previously filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.2 | Form of Capital Security Certificate (previously filed as Exhibit 4.2 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.3 | Form of Common Security Certificate (previously filed as Exhibit 4.3 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.4 | Indenture, by and between Bank of the Ozarks, Inc. and U.S. Bank National Association, as debenture trustee, dated as of September 29, 2003 (previously filed as Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.5 | Guarantee Agreement, by and among Bank of the Ozarks, Inc. and U.S. Bank National Association, dated as of September 29, 2003 (previously filed as Exhibit 4.5 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.6 | Amended and Restated Declaration of Trust, by and among Wilmington Trust Company, as Delaware Trustee and as Institutional Trustee, Bank of the Ozarks, Inc., as Sponsor, George G. Gleason, as Administrator, Mark D. Ross, as Administrator, and Paul E. Moore, as Administrator, dated as of September 25, 2003 (previously filed as Exhibit 4.6 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.7 | Form of Capital Security Certificate (previously filed as Exhibit 4.7 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.8 | Form of Common Security Certificate (previously filed as Exhibit 4.8 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.9 | Indenture, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as trustee, dated as of September 25, 2003 (previously filed as Exhibit 4.9 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |
| 4.10 | Guarantee Agreement, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as trustee, dated as of September 25, 2003 (previously filed as Exhibit 4.10 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2003, and incorporated herein by this reference). |

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|---|---|
| 4.11 | Second Amended and Restated Bank of the Ozarks, Inc. Non-Employee Director Stock Option Plan (As Amended and Restated as of April 20, 2004) (previously filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended June 30, 2004, and incorporated herein by this reference). |
| 4.12 | Amended and Restated Declaration of Trust, by and among Wilmington Trust Company, as Institutional Trustee, Bank of the Ozarks, Inc. as Sponsor, and George G. Gleason, Mark D. Ross and Paul E. Moore, as Administrators, dated as of September 28, 2004 (previously filed as Exhibit 4.2 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.13 | Form of Capital Security Certificate (previously filed as Exhibit 4.3 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.14 | Form of Common Security Certificate (previously filed as Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.15 | Indenture by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, as debenture trustee, dated as of September 28, 2004 (previously filed as Exhibit 4.5 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.16 | Form of Debt Security Certificate (previously filed as Exhibit 4.6 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.17 | Guarantee Agreement, by and between Bank of the Ozarks, Inc. and Wilmington Trust Company, dated as of September 28, 2004 (previously filed as Exhibit 4.7 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2004, and incorporated herein by this reference). |
| 4.18 (a) | Amended and Restated Declarations of Trust of Ozark Capital Statutory Trust V, dated as of September 29, 2006 (previously filed as Exhibit 4.1 (a) to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.18 (b) | Terms of Capital Securities and Common Securities (previously filed as Exhibit 4.1 (b) and included as Annex I to Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.19 | Form of Capital Security Certificate (previously filed as Exhibit 4.2 and included as Exhibit A-1 to Exhibit 4.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.20 | Form of Common Security Certificate (previously filed as Exhibit 4.3 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.21 | Indenture dated as of September 29, 2006, by and between Bank of the Ozarks, Inc. and LaSalle Bank National Association, as Trustee (previously filed as Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.22 | Form of Junior Subordinated Debt Security Certificate due 2036 (previously filed as Exhibit 4.5 and included as Exhibit A to Exhibit 4.4 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |
| 4.23 | Guarantee Agreement dated as of September 29, 2006, by and between Bank of the Ozarks, Inc. and LaSalle Bank National Association, as Trustee (previously filed as Exhibit 4.6 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended September 30, 2006, and incorporated herein by this reference). |

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|---|---|
| 10.1 | Bank of the Ozarks, Inc. Stock Option Plan, as amended April 17, 2007 (previously filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed with the Commission for the period ended March 31, 2007, and incorporated herein by this reference). |
| 10.2 | Form of Indemnification Agreement between the Registrant and its directors and certain of its executive officers (previously filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed with the Commission on May 22, 1997, as amended, Commission File No. 333-27641, and incorporated herein by this reference). |
| 10.3 | Bank of the Ozarks, Inc. Deferred Compensation Plan, dated January 1, 2005 (previously filed as Exhibit 10 (iii)(A) to the Company's current report on Form 8-K filed with the Commission on December 14, 2004, and incorporated herein by this reference). |
| 13 | Portions of the Registrant's Annual Report to Stockholders for the year ended December 31, 2007 which are incorporated herein by this reference: pages 11 through 60 of such Annual Report (attached). |
| 21 | List of Subsidiaries of the Registrant (attached). |
| 23.1 | Consent of Crowe Chizek and Company LLC (attached). |
| 23.2 | Consent of Ernst & Young LLP (attached). |
| 31.1 | Certification of Chairman and Chief Executive Officer. |
| 31.2 | Certification of Chief Financial Officer and Chief Accounting Officer. |
| 32.1 | Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNAT URES

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

BANK OF THE OZARKS, INC.

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

Date: March 12, 2008

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

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ George Gleason<br>George Gleason | Chairman of the Board, Chief Executive Officer and Director | March 12, 2008 |
| /s/ Mark Ross<br>Mark Ross | Vice Chairman, President, Chief Operating Officer and Director | March 12, 2008 |
| /s/ Paul Moore<br>Paul Moore | Chief Financial Officer and Chief Accounting Officer | March 12, 2008 |
| /s/ Jean Arehart<br>Jean Arehart | Director | March 12, 2008 |
| /s/ Ian Arnof<br>Ian Arnof | Director | March 12, 2008 |
| /s/ Steven Arnold<br>Steven Arnold | Director | March 12, 2008 |
| /s/ Richard Cisne<br>Richard Cisne | Director | March 12, 2008 |

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| | | |
|---|---|---|
| /s/ Robert East<br>Robert East | Director | March 12, 2008 |
| /s/ Linda Gleason<br>Linda Gleason | Director | March 12, 2008 |
| /s/ Henry Mariani<br>Henry Mariani | Director | March 12, 2008 |
| /s/ James Matthews<br>James Matthews | Director | March 12, 2008 |
| /s/ John Mills<br>John Mills | Director | March 12, 2008 |
| /s/ Dr. R. L. Qualls<br>Dr. R. L. Qualls | Director | March 12, 2008 |
| /s/ Kennith Smith<br>Kennith Smith | Director | March 12, 2008 |
| /s/ Robert Trevino<br>Robert Trevino | Director | March 12, 2008 |

EX-13 2 dex13.htm PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO STOCKHOLDERS

**Exhibit 13**

**Financial Information**

**Selected Consolidated Financial Data**

| | Year Ended December 31, 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share amounts) | | | | |
| **Income statement data:** | | | | | |
| Interest income | $ 176,970 | $ 155,198 | $ 112,881 | $ 85,231 | $ 68,883 |
| Interest expense | 99,352 | 84,478 | 44,305 | 24,608 | 20,115 |
| Net interest income | 77,618 | 70,720 | 68,576 | 60,623 | 48,768 |
| Provision for loan and lease losses | 6,150 | 2,450 | 2,300 | 3,330 | 3,865 |
| Non-interest income | 22,975 | 23,231 | 19,252 | 18,225 | 17,391 |
| Non-interest expense | 48,252 | 46,390 | 40,080 | 37,605 | 31,992 |
| Net income | 31,746 | 31,693 | 31,489 | 25,883 | 20,201 |
| **Share and per share data:** | | | | | |
| Earnings—diluted | $ 1.89 | $ 1.89 | $ 1.88 | $ 1.56 | $ 1.24 |
| Book value | 11.35 | 10.43 | 8.97 | 7.36 | 6.07 |
| Dividends | 0.43 | 0.40 | 0.37 | 0.30 | 0.23 |
| Weighted-average diluted shares outstanding (thousands) | 16,834 | 16,803 | 16,766 | 16,635 | 16,287 |
| End of period shares outstanding (thousands) | 16,818 | 16,747 | 16,665 | 16,494 | 16,233 |
| **Balance sheet data at period end:** | | | | | |
| Total assets | $2,710,875 | $2,529,400 | $2,134,882 | $1,726,840 | $1,386,529 |
| Total loans and leases | 1,871,135 | 1,677,389 | 1,370,723 | 1,134,591 | 909,147 |
| Allowance for loan and lease losses | 19,557 | 17,699 | 17,007 | 16,133 | 13,820 |
| Total investment securities | 578,348 | 620,132 | 574,120 | 434,512 | 364,320 |
| Total deposits | 2,057,061 | 2,045,092 | 1,591,643 | 1,379,930 | 1,062,064 |
| Repurchase agreements with customers | 46,086 | 41,001 | 35,671 | 33,223 | 29,898 |
| Other borrowings | 336,533 | 194,661 | 304,865 | 144,065 | 145,541 |
| Subordinated debentures | 64,950 | 64,950 | 44,331 | 44,331 | 46,651 |
| Total stockholders' equity | 190,829 | 174,633 | 149,403 | 121,406 | 98,486 |
| Loan and lease to deposit ratio | 90.96% | 82.02% | 86.12% | 82.22% | 85.60% |
| **Average balance sheet data:** | | | | | |
| Total average assets | $2,601,299 | $2,365,316 | $1,912,961 | $1,547,184 | $1,197,346 |
| Total average stockholders' equity | 184,819 | 158,194 | 137,185 | 108,419 | 85,471 |
| Average equity to average assets | 7.10% | 6.69% | 7.17% | 7.01% | 7.14% |
| **Performance ratios:** | | | | | |
| Return on average assets | 1.22% | 1.34% | 1.65% | 1.67% | 1.69% |
| Return on average stockholders' equity | 17.18 | 20.03 | 22.95 | 23.87 | 23.63 |
| Net interest margin—FTE | 3.44 | 3.49 | 4.18 | 4.43 | 4.52 |
| Efficiency | 46.33 | 47.07 | 43.43 | 46.23 | 47.51 |
| Dividend payout | 22.75 | 21.16 | 19.68 | 19.23 | 18.55 |
| **Asset quality ratios:** | | | | | |
| Net charge-offs to average loans and leases | 0.24% | 0.12% | 0.11% | 0.10% | 0.20% |
| Nonperforming loans and leases to total loans and leases | 0.35 | 0.34 | 0.25 | 0.57 | 0.47 |
| Nonperforming assets to total assets | 0.36 | 0.24 | 0.18 | 0.39 | 0.36 |
| **Allowance for loan and lease losses as a percentage of:** | | | | | |
| Total loans and leases | 1.05% | 1.06% | 1.24% | 1.42% | 1.52% |
| Nonperforming loans and leases | 295% | 310% | 502% | 248% | 326% |
| **Capital ratios at period end:** | | | | | |
| Leverage | 9.80% | 9.39% | 9.11% | 9.41% | 9.33% |

| | | | | | |
|---|---|---|---|---|---|
| Tier 1 risk-based capital | 11.79 | 11.71 | 11.94 | 12.34 | 12.41 |
| Total risk-based capital | 12.67 | 12.76 | 13.02 | 13.74 | 14.89 |

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

### General

Net income for Bank of the Ozarks, Inc. (the "Company") was $31.75 million for the year ended December 31, 2007, a 0.2% increase from net income of $31.69 million in 2006. Net income in 2005 was $31.49 million. Diluted earnings per share were $1.89 for both 2007 and 2006. Diluted earnings per share in 2005 were $1.88.

The table below shows total assets, loans and leases, deposits, stockholders' equity, net income, diluted earnings per share and book value per share at December 31, 2007, 2006 and 2005 and the percentage changes year over year.

| | December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 from 2006 | 2006 from 2005 |
| | (Dollars in thousands, except per share amounts) | | | | |
| Total assets | $ 2,710,875 | $ 2,529,400 | $ 2,134,882 | 7.2% | 18.5% |
| Loans and leases | 1,871,135 | 1,677,389 | 1,370,723 | 11.6 | 22.4 |
| Deposits | 2,057,061 | 2,045,092 | 1,591,643 | 0.6 | 28.5 |
| Stockholders' equity | 190,829 | 174,633 | 149,403 | 9.3 | 16.9 |
| Net income | 31,746 | 31,693 | 31,489 | 0.2 | 0.6 |
| Diluted earnings per share | 1.89 | 1.89 | 1.88 | — | 0.5 |
| Book value per share | 11.35 | 10.43 | 8.97 | 8.8 | 16.3 |

Two measures used to assess performance by banking institutions are return on average assets ("ROA") and return on average equity ("ROE"). ROA measures net income in relation to average total assets. It is calculated by dividing annual net income by average total assets and indicates a company's ability to employ its resources profitably. For the year ended December 31, 2007, the Company's ROA was 1.22% compared with 1.34% and 1.65%, respectively, for the years ended December 31, 2006 and 2005. ROE measures net income in relation to average stockholders' equity. It is calculated by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. For the year ended December 31, 2007, the Company's ROE was 17.18% compared with 20.03% and 22.95%, respectively, for the years ended December 31, 2006 and 2005.

### Analysis of Results of Operations

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

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

### Net Interest Income

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt income by one minus the statutory federal income tax rate of 35%. The FTE adjustments to net interest income were $3.6 million in 2007, $4.6 million in 2006 and $4.5 million in 2005.

*2007 compared to 2006*

Net interest income (FTE) for 2007 increased 7.8% to $81.2 million compared to $75.3 million for 2006. Net interest margin (FTE) was 3.44% in 2007 compared to 3.49% in 2006, a decrease of 5 basis points ("bps"). The growth in net interest income (FTE) was primarily a result of the 9.6% growth in earning assets from 2006 to 2007. The relatively flat to inverted yield curve between short-term and long-term interest rates and the competitive environment for pricing loans and deposits during 2007 contributed to the decline in net interest margin (FTE) for the full year of 2007 compared to 2006. However, the Company's net interest margin (FTE) improved over the course of 2007, increasing from a recent quarterly low of 3.22% in the fourth quarter of 2006, to 3.35%, 3.46%, 3.45% and 3.47%, respectively, in each succeeding quarter of 2007.

Yields on earning assets increased 23 bps in 2007 compared to 2006. This increase was due primarily to an increase in loan and lease yields of 22 bps and an increase in loans and leases as a percentage of earning assets from 70.4% in 2006 to 74.9% in 2007. The increased loan and lease yields were due in part to the repricing of a portion of the Company's fixed rate loans and leases at higher interest rates during 2007. From June 2004 through June 2006, the Federal Open Market Committee ("FOMC") increased its federal funds target rate a total of 425 basis points, and during 2007 the Company benefited as fixed rate loans and leases originated prior to June 2006 either renewed at current rates or paid off and were replaced with new loans and leases at current rates. This increased repricing of fixed rate loans and leases was partially offset by declines in yields on variable rate loans due to the FOMC lowering its federal funds target rate starting in September 2007.

The Company's aggregate yield on its investment securities portfolio decreased 13 bps in 2007 compared to 2006. This was the result of a 13 basis point decrease in yield on taxable investment securities, an 18 basis point increase in yield on tax-exempt investment securities and a shift in the composition of the portfolio to include a higher proportion of taxable investment securities that generally have a lower FTE yield than do the Company's tax-exempt investment securities. Additionally, the Company's average balance of investment securities declined by $45 million for 2007 compared to 2006, resulting in a smaller percentage of its average earning assets being comprised of investment securities in 2007 compared to 2006.

A 32 bps increase in the rate on interest bearing liabilities more than offset the 23 bps increase in earning asset yields in 2007 compared to 2006 resulting in the overall 5 bps decline in net interest margin (FTE). The increase in the rates on interest bearing liabilities was primarily attributable to a 46 bps increase in the rates of interest bearing deposits. This increase in the rates on interest bearing deposits, the largest component of the Company's interest bearing liabilities, was attributable to both the increase in the Company's time deposits, which generally pay higher rates than its other interest bearing deposits, to 72.7% of average interest bearing deposits in 2007 compared to 68.7% in 2006 and the increase in rates paid on time deposits as such deposits were renewed at higher rates as a result of FOMC federal funds rate increases through June of 2006.

The increase in the rates on interest bearing deposits was partially offset by a decline in rates on the Company's other borrowings, comprised primarily of Federal Home Loan Bank of Dallas ("FHLB") advances and federal funds purchased, which decreased 41 bps in 2007 compared to 2006. This decline in rates on other borrowings was primarily due to the decline in the federal funds target rate, to which a portion of the Company's other borrowings are tied, starting in September 2007, the increased utilization of lower cost FHLB advances in 2007 compared to 2006, and the increase in capitalized interest on construction projects in 2007 compared to 2006.

### *2006 compared to 2005*

Net interest income (FTE) for 2006 increased 3.1% to $75.3 million compared to $73.0 million for 2005. Net interest margin (FTE) was 3.49% in 2006 compared to 4.18% in 2005, a decrease of 69 bps. The relatively flat to inverted yield curve between short-term and long-term interest rates and the competitive environment for pricing loans and deposits during 2006 were significant contributors to the decline in the Company's net interest margin (FTE) in 2006 compared to 2005. The Company's net interest margin (FTE) declined throughout 2006, reaching a recent quarterly low of 3.22% in the fourth quarter of 2006.

Yields on earning assets increased 69 bps in 2006 compared to 2005. This increase was due primarily to an increase in loan and lease yields of 96 bps. The increased loan and lease yields were attributable to overall increases in general interest rate levels during 2006 as a result of the FOMC raising its federal funds target rate a total of 425 basis points from June 2004 through June 2006. The Company's variable rate loans and leases benefited the Company in 2006 as the yields on such loans and leases adjusted more quickly than the yields on fixed rate loans and leases to increases in the prime rate and other interest rates which followed the FOMC's increases in the federal funds target rate.

The Company's aggregate yield on its investment securities portfolio increased 11 bps in 2006 compared to 2005. This was the result of a 28 basis point increase in yield on taxable investment securities, an 11 basis point increase in yield on tax-exempt investment securities and a shift in the composition of the portfolio to include a higher proportion of taxable investment securities that generally have a lower FTE yield than do the Company's tax-exempt investment securities. The increases in the yields on the Company's taxable and tax-exempt investment securities were primarily a result of new purchases during 2006 with weighted-average yields above the weighted-average yields of the taxable and tax-exempt investment securities portfolios at the beginning of the year.

The 69 bps increase in earning asset yields in 2006 compared to 2005 was more than offset by a 141 bps increase in the rates on interest bearing liabilities, resulting in the overall net interest margin (FTE) compression. The increase in the rates on interest bearing liabilities was primarily attributable to a 151 bps increase in the rates of interest bearing deposits. This increase in the rates on interest bearing deposits, the largest component of the Company's interest bearing liabilities, was attributable to overall increases in general interest rate levels and more aggressive deposit pricing by the Company in 2006. Additionally, the Company's time deposits, which generally pay higher rates than its other interest bearing deposits, increased to 68.7% of the Company's average interest bearing deposits in 2006 compared to 64.3% in 2005.

The rates on the Company's other borrowings increased 102 bps in 2006 compared to 2005. The rates on the Company's subordinated debentures adjust quarterly at various margins above the 90-day London Interbank Offered Rate ("LIBOR") and increased 171 bps in 2006 compared to 2005.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Interest income | $176,970 | $155,198 | $112,881 |
| FTE adjustment | 3,559 | 4,596 | 4,465 |
| Interest income—FTE | 180,529 | 159,794 | 117,346 |
| Interest expense | 99,352 | 84,478 | 44,305 |
| Net interest income—FTE | $ 81,177 | $ 75,316 | $ 73,041 |
| Yield on interest earning assets—FTE | 7.64% | 7.41% | 6.72% |
| Rate on interest bearing liabilities | 4.45 | 4.13 | 2.72 |
| Net interest margin—FTE | 3.44 | 3.49 | 4.18 |

The following table sets forth certain information relating to the Company's net interest income (FTE) for the years ended December 31, 2007, 2006 and 2005. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where otherwise noted. Average balances are derived from daily average balances for such assets and liabilities. The average balance of loans and leases includes loans and leases on which the Company has discontinued accruing interest. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities available for sale ("AFS"). The yields on loans and leases include late fees and amortization of certain deferred fees and origination costs, which are considered adjustments to yields. Interest expense and rates on other borrowings are presented net of interest capitalized on construction projects.

**Average Consolidated Balance Sheets and Net Interest Analysis**

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | | 2005 | | |
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| | (Dollars in thousands) | | | | | | | | |
| **ASSETS** | | | | | | | | | |
| Earning assets: | | | | | | | | | |
| Interest earning deposits and federal funds sold | $ 311 | $ 19 | 6.08% | $ 287 | $ 10 | 3.44% | $ 332 | $ 11 | 3.44% |
| Investment securities: | | | | | | | | | |
| Taxable | 452,831 | 24,775 | 5.47 | 452,943 | 25,346 | 5.60 | 319,234 | 16,998 | 5.32 |
| Tax-exempt—FTE | 139,724 | 10,011 | 7.16 | 184,779 | 12,894 | 6.98 | 181,386 | 12,468 | 6.87 |
| Loans and leases—FTE | 1,770,283 | 145,724 | 8.23 | 1,517,818 | 121,544 | 8.01 | 1,245,779 | 87,869 | 7.05 |
| Total earning assets—FTE | 2,363,149 | 180,529 | 7.64 | 2,155,827 | 159,794 | 7.41 | 1,746,731 | 117,346 | 6.72 |
| Non-interest earning assets | 238,150 | | | 209,489 | | | 166,230 | | |
| Total assets | $2,601,299 | | | $2,365,316 | | | $1,912,961 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | |
| Interest bearing liabilities: | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Savings and interest bearing transaction | $ 521,875 | $ 13,715 | 2.63% | $ 523,324 | $ 13,694 | 2.62% | $ 466,609 | $ 7,041 | 1.51% |
| Time deposits of $100,000 or more | 899,666 | 45,858 | 5.10 | 752,765 | 35,120 | 4.67 | 542,378 | 16,265 | 3.00 |
| Other time deposits | 487,382 | 23,567 | 4.84 | 398,178 | 16,531 | 4.15 | 299,104 | 8,008 | 2.68 |
| Total interest bearing deposits | 1,908,923 | 83,140 | 4.36 | 1,674,267 | 65,345 | 3.90 | 1,308,091 | 31,314 | 2.39 |
| Repurchase agreements with customers | 44,071 | 1,603 | 3.64 | 39,213 | 1,312 | 3.35 | 26,620 | 450 | 1.69 |
| Other borrowings | 215,872 | 9,543 | 4.42(1) | 282,925 | 13,953 | 4.93(1) | 251,589 | 9,848 | 3.91(1) |
| Subordinated debentures | 64,950 | 5,066 | 7.80 | 49,641 | 3,868 | 7.79 | 44,331 | 2,693 | 6.08 |
| Total interest bearing liabilities | 2,233,816 | 99,352 | 4.45 | 2,046,046 | 84,478 | 4.13 | 1,630,631 | 44,305 | 2.72 |
| Non-interest bearing liabilities: | | | | | | | | | |
| Non-interest bearing deposits | 168,786 | | | 152,281 | | | 138,072 | | |
| Other non-interest bearing liabilities | 13,878 | | | 8,795 | | | 7,073 | | |
| Total liabilities | 2,416,480 | | | 2,207,122 | | | 1,775,776 | | |
| Stockholders' equity | 184,819 | | | 158,194 | | | 137,185 | | |
| Total liabilities and stockholders' equity | $2,601,299 | | | $2,365,316 | | | $1,912,961 | | |
| Net interest income—FTE | | $ 81,177 | | | $ 75,316 | | | $ 73,041 | |
| Net interest margin—FTE | | | 3.44% | | | 3.49% | | | 4.18% |

(1) The interest expense and rates for other borrowings are impacted by interest capitalized on construction projects in the amount of $1.3 million, $1.0 million and $0.4 million, respectively, for the years ended December 31, 2007, 2006 and 2005. In the absence of this capitalization, these rates would have been 5.03%, 5.28% and 4.09%, respectively, for the years ended December 31, 2007, 2006 and 2005.

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

**Analysis of Changes in Net Interest Income**

| | 2007 over 2006 | | | 2006 over 2005 | | |
|---|---|---|---|---|---|---|
| | Volume | Yield/ Rate | Net Change | Volume | Yield/ Rate | Net Change |
| | | | (Dollars in thousands) | | | |
| Increase (decrease) in: | | | | | | |
| Interest income – FTE: | | | | | | |
| Interest earning deposits and federal funds sold | $ 1 | $ 8 | $ 9 | $ (2) | $ 1 | $ (1) |
| Investment securities: | | | | | | |
| Taxable | (6) | (565) | (571) | 7,482 | 866 | 8,348 |
| Tax-exempt—FTE | (3,228) | 345 | (2,883) | 237 | 189 | 426 |
| Loans and leases—FTE | 20,782 | 3,398 | 24,180 | 21,784 | 11,891 | 33,675 |
| Total interest income—FTE | 17,549 | 3,186 | 20,735 | 29,501 | 12,947 | 42,448 |
| Interest expense: | | | | | | |
| Savings and interest bearing transaction | (37) | 58 | 21 | 1,484 | 5,169 | 6,653 |
| Time deposits of $100,000 or more | 7,488 | 3,250 | 10,738 | 9,816 | 9,039 | 18,855 |
| Other time deposits | 4,313 | 2,723 | 7,036 | 4,113 | 4,410 | 8,523 |
| Repurchase agreements with customers | 177 | 114 | 291 | 421 | 441 | 862 |
| Other borrowings | (2,965) | (1,445) | (4,410) | 1,545 | 2,560 | 4,105 |
| Subordinated debentures | 1,194 | 4 | 1,198 | 414 | 761 | 1,175 |
| Total interest expense | 10,170 | 4,704 | 14,874 | 17,793 | 22,380 | 40,173 |
| Increase (decrease) in net interest income—FTE | $ 7,379 | $(1,518) | $ 5,861 | $11,708 | $ (9,433) | $ 2,275 |

**Non-Interest Income**

The Company's non-interest income consists primarily of (1) service charges on deposit accounts, (2) mortgage lending income, (3) trust income, (4) BOLI income, (5) appraisal fees, credit life commissions and other credit related fees, (6) safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees and (7) gains and losses on sales of assets.

***2007 compared to 2006***

Non-interest income for the year ended December 31, 2007 decreased 1.1% to $23.0 million compared to $23.2 million in 2006.

Service charges on deposit accounts are the Company's largest source of non-interest income and increased 19.3% to $12.2 million in 2007 compared to $10.2 million in 2006. This increase was primarily attributable to enhancements made during late 2006 to the Company's processes for applying and collecting service charges, the large increase in the number of deposit accounts from the Company's 2006 deposit growth initiative and some small adjustments in early 2007 to the Company's service charge fee schedule.

Trust income increased 14.2% to $2.2 million in 2007 compared to $1.9 million in 2006. This increase was primarily the result of growth in both personal trust and investment management business.

Mortgage lending income declined 8.6% to $2.7 million in 2007 compared to $2.9 million in 2006. Originations of mortgage loans for sale decreased 7.2% to $161.2 million in 2007 compared to $173.7 million in 2006. Refinancing of existing mortgages accounted for 36% of the Company's 2007 originations of mortgage loans for sale compared to 32% in 2006. Mortgage originations for home purchases were 64% of 2007 originations compared to 68% in 2006.

Net gains on sales of investment securities AFS were $0.5 million in 2007 compared to $3.9 million in 2006. The Company sold approximately $56 million of its AFS investment securities in 2007 and approximately $154 million of its AFS investment securities in 2006. Net gains on sales of other assets were $0.5 million in 2007 compared to net losses of $0.1 million in 2006.

*2006 compared to 2005*

Non-interest income for the year ended December 31, 2006 increased 20.7% to $23.2 million compared to $19.3 million in 2005.

Service charges on deposit accounts increased 3.5% to $10.2 million in 2006 compared to $9.9 million in 2005. This increase was primarily attributable to growth in the number of deposit customers.

Trust income increased 16.4% to $1.9 million in 2006 compared to $1.7 million in 2005. This increase was primarily the result of growth in both corporate and personal trust business.

Mortgage lending income declined 3.8% to $2.9 million in 2006 compared to $3.0 million in 2005. Originations of mortgage loans for sale decreased 1.1% to $173.7 million in 2006 compared to $175.6 million in 2005. Refinancing of existing mortgages accounted for 32% of the Company's 2006 originations of mortgage loans for sale compared to 39% in 2005. Mortgage originations for home purchases were 68% of 2006 originations compared to 61% in 2005.

Net gains on sales of investment securities AFS were $3.9 million in 2006 compared to $0.2 million in 2005. The Company sold approximately $154 million of its AFS investment securities in 2006 and approximately $9 million of its AFS investment securities in 2005. Net losses on sales of other assets were $0.1 million in 2006 compared to net gains of $0.6 million in 2005.

The table below shows non-interest income for the years ended December 31, 2007, 2006 and 2005.

**Non-Interest Income**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Service charges on deposit accounts | $12,193 | $10,217 | $ 9,875 |
| Mortgage lending income | 2,668 | 2,918 | 3,034 |
| Trust income | 2,223 | 1,947 | 1,673 |
| Bank owned life insurance income | 1,919 | 1,832 | 1,816 |
| Appraisal, credit life commissions and other credit related fees | 498 | 521 | 505 |
| Safe deposit box rental, operating lease income, brokerage fees and other miscellaneous fees | 1,160 | 1,125 | 1,099 |
| Gains on sales of investment securities | 520 | 3,917 | 213 |
| Gains (losses) on sales of other assets | 487 | (90) | 567 |
| Other | 1,307 | 844 | 470 |
| Total non-interest income | $22,975 | $23,231 | $19,252 |

**Non-Interest Expense**

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

*2007 compared to 2006*

Non-interest expense for the year ended December 31, 2007 increased 4.0% to $48.3 million compared to $46.4 million in 2006 as a result of the Company's continued growth and expansion. Salaries and employee benefits, the Company's largest component of non-interest expense, increased 4.2% to $28.7 million in 2007 from $27.5 million in 2006. During 2007 the Company added three new banking offices and replaced one temporary banking office with a new permanent facility. At December 31, 2007, the Company had 70 full service banking offices compared to 67 full-service banking offices at December 31, 2006. The Company's full-time equivalent employees were 689 at December 31, 2007, a decrease of 1.4% from 699 full-time equivalent employees at December 31, 2006.

The Company's efficiency ratio for 2007 was 46.3% compared to 47.1% in 2006. This improvement in the effeciency ratio resulted from the Company's total revenue (the sum of net interest income—FTE and non-interest income) increasing at a faster rate than its non-interest expense in 2007.

***2006 compared to 2005***

Non-interest expense for the year ended December 31, 2006 increased 15.7% to $46.4 million compared to $40.1 million in 2005 as a result of the Company's continued growth and expansion. Salaries and employee benefits increased 17.2% from $23.5 million in 2005 to $27.5 million in 2006. During 2006 the Company added 11 new banking offices, closed one banking office, replaced one temporary banking office with a new permanent facility, and replaced one of its oldest banking offices with a new permanent banking facility. At December 31, 2006, the Company had 67 full service banking offices compared to 57 at December 31, 2005, and its full-time equivalent employees increased 11.1% from 629 at December 31, 2005 to 699 at December 31, 2006.

In 2006 the Company pursued a broad range of actions intended to build its staff and corporate infrastructure to support future growth. Staff additions included adding more production staff such as loan officers, mortgage loan counselors and private bankers at existing offices, adding corporate staff members and giving certain salary increases to help retain and develop the next generation of supervisors and managers. The corporate infrastructure improvements included development and implementation of a number of new policies, procedures and processes related to risk management and business operations.

The Company's efficiency ratio for 2006 was 47.1% compared to 43.4% for 2005. This increase was primarily attributable to expenses incurred in connection with the Company's significant growth and expansion efforts during 2006.

The following table shows non-interest expense for the years ended December 31, 2007, 2006 and 2005.

**Non-Interest Expense**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Salaries and employee benefits | $28,661 | $27,506 | $23,477 |
| Net occupancy and equipment expense | 8,098 | 7,030 | 6,254 |
| Other operating expenses: | | | |
| Postage and supplies | 1,620 | 1,910 | 1,620 |
| Telephone and data lines | 1,415 | 1,651 | 1,371 |
| Advertising and public relations | 1,057 | 1,545 | 1,325 |
| Professional and outside services | 1,077 | 1,129 | 886 |
| Software expense | 1,201 | 1,068 | 828 |
| FDIC and state assessments | 624 | 628 | 506 |
| FDIC insurance | 701 | — | — |
| ATM expense | 674 | 598 | 611 |
| Other real estate and foreclosure expense | 368 | 261 | 213 |
| Amortization of intangibles | 262 | 262 | 262 |
| Other | 2,494 | 2,802 | 2,727 |
| Total non-interest expense | $48,252 | $46,390 | $40,080 |

**Income Taxes**

The Company's provision for income taxes was $14.4 million for the year ended December 31, 2007 compared to $13.4 million in 2006 and $14.0 million in 2005. Its effective income tax rates were 31.3%, 29.7% and 30.7%, respectively, for 2007, 2006 and 2005. The increase in the effective tax rate of 160 bps in 2007 compared to 2006 was due primarily to a decline in investment securities which are exempt from state income taxes or both federal and state income taxes. During 2007 such tax-exempt investment securities declined, both in absolute dollar volume and as a percentage of earning assets. The decline in effective tax rate of 100 bps in 2006 compared to 2005 was due primarily to an increase in the amount of such tax-exempt investment securities during 2006 compared to 2005. The effective tax rates were also affected by various other factors including the levels of BOLI and other non-taxable income and non-deductible expenses. Additionally, the effective tax rates were affected by the impact of certain tax credit investments, which reduced combined federal and state income taxes by $0.4 million in 2007, $0.3 million in 2006 and $0.2 million in 2005.

## Analysis of Financial Condition

### Loan and Lease Portfolio

At December 31, 2007 the Company's loan and lease portfolio was $1.87 billion, an increase of 11.6% from $1.68 billion at December 31, 2006. As of December 31, 2007, the Company's loan and lease portfolio consisted of 81.9% real estate loans, 9.3% commercial and industrial loans, 4.7% consumer loans, 2.8% direct financing leases and 1.2% agricultural loans (non-real estate). Real estate loans, the Company's largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens. Total real estate loans increased 12.0% from $1.37 billion at December 31, 2006 to $1.53 billion at December 31, 2007. This increase is primarily attributable to the Company's continued expansion into markets with significant commercial and residential development, including Texas and North Carolina.

The amount and type of loans and leases outstanding are reflected in the following table.

**Loan and Lease Portfolio**

| | December 31, 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Real estate: | | | | | |
| Residential 1-4 family | $ 279,375 | $ 281,400 | $ 271,989 | $ 248,435 | $218,851 |
| Non-farm/non-residential | 445,303 | 433,998 | 375,628 | 330,442 | 285,451 |
| Construction/land development | 684,775 | 514,899 | 366,827 | 244,898 | 117,835 |
| Agricultural | 91,810 | 88,021 | 74,644 | 66,061 | 61,500 |
| Multifamily residential | 31,414 | 50,202 | 31,142 | 29,300 | 23,657 |
| Total real estate | 1,532,677 | 1,368,520 | 1,120,230 | 919,136 | 707,294 |
| Commercial and industrial | 173,128 | 148,853 | 109,459 | 100,642 | 111,978 |
| Consumer | 87,867 | 86,048 | 78,916 | 73,420 | 64,831 |
| Direct financing leases | 53,446 | 49,705 | 38,060 | 19,320 | 3,622 |
| Agricultural (non-real estate) | 22,439 | 22,298 | 20,605 | 18,520 | 15,266 |
| Other | 1,578 | 1,965 | 3,453 | 3,553 | 6,156 |
| Total loans and leases | $1,871,135 | $1,677,389 | $1,370,723 | $1,134,591 | $909,147 |

The amount and percentage of the Company's loan and lease portfolio by state are reflected in the following table.

**Loan and Lease Portfolio by State**

| | December 31, 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| Loans and Leases Attributable to Offices In | Amount | % | Amount | % | Amount | % |
| | (Dollars in thousands) | | | | | |
| Arkansas | $1,461,657 | 78.1% | $1,478,471 | 88.2% | $1,244,188 | 90.8% |
| Texas | 315,960 | 16.9 | 126,458 | 7.5 | 77,248 | 5.6 |
| North Carolina | 93,518 | 5.0 | 72,460 | 4.3 | 49,287 | 3.6 |
| Total | $1,871,135 | 100.0% | $1,677,389 | 100.0% | $1,370,723 | 100.0% |

**Loan and Lease Maturities**

The following table reflects loans and leases grouped by remaining maturities at December 31, 2007 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition many variable rate loans are subject to repricing in periods prior to the period in which they mature.

**Loan and Lease Maturities**

| | 1 Year or Less | Over 1 Through 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Real estate | $739,141 | $689,506 | $104,030 | $1,532,677 |
| Commercial, industrial and agricultural | 99,132 | 82,385 | 14,050 | 195,567 |
| Consumer | 22,028 | 59,496 | 6,343 | 87,867 |
| Direct financing leases | 1,717 | 50,512 | 1,217 | 53,446 |
| Other | 885 | 640 | 53 | 1,578 |
| Total | $862,903 | $882,539 | $125,693 | $1,871,135 |
| Fixed rate | $348,761 | $509,743 | $ 80,365 | $ 938,869 |
| Floating rate (not at a floor or ceiling rate) | 353,860 | 230,997 | 36,815 | 621,672 |
| Floating rate (at floor rate) | 153,922 | 119,279 | 3,702 | 276,903 |
| Floating rate (at ceiling rate) | 6,360 | 22,520 | 4,811 | 33,691 |
| Total | $862,903 | $882,539 | $125,693 | $1,871,135 |

The following table reflects loans and leases as of December 31, 2007 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates the Company's ability to reprice the outstanding principal of loans and leases either by adjusting rates on existing loans and leases or reinvesting principal cash flow in new loans and leases.

**Loan and Lease Cash Flows or Repricing**

| | 1 Year or Less | Over 1 Through 2 Years | Over 2 Through 3 Years | Over 3 Through 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Fixed rate | $ 403,493 | $212,044 | $143,002 | $127,183 | $53,147 | $ 938,869 |
| Floating rate (not at a floor or ceiling rate) | 615,151 | 5,267 | 455 | 382 | 417 | 621,672 |
| Floating rate (at floor rate) | 276,426 | 477 | — | — | — | 276,903 |
| Floating rate (at ceiling rate) | 33,691 | — | — | — | — | 33,691 |
| Total | $1,328,761 | $217,788 | $143,457 | $127,565 | $53,564 | $1,871,135 |
| Percentage of total | 71.0% | 11.7% | 7.6% | 6.8% | 2.9% | 100.0% |
| Cumulative percentage of total | 71.0 | 82.7 | 90.3 | 97.1 | 100.0 | |

**Nonperforming Assets**

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

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

The following table presents information concerning nonperforming assets including nonaccrual and restructured loans and leases, foreclosed assets held for sale and repossessions.

**Nonperforming Assets**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | | | |
| Nonaccrual loans and leases | $6,610 | $5,713 | $3,385 | $6,497 | $4,235 |
| Accruing loans and leases 90 days or more past due | 26 | — | — | — | — |
| Restructured loans and leases | — | — | — | — | — |
| Total nonperforming loans and leases | 6,636 | 5,713 | 3,385 | 6,497 | 4,235 |
| Foreclosed assets held for sale and repossessions(1) | 3,112 | 407 | 356 | 157 | 780 |
| Total nonperforming assets | $9,748 | $6,120 | $3,741 | $6,654 | $5,015 |
| Nonperforming loans and leases to total loans and leases | 0.35% | 0.34% | 0.25% | 0.57% | 0.47% |
| Nonperforming assets to total assets | 0.36 | 0.24 | 0.18 | 0.39 | 0.36 |

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

**Allowance and Provision for Loan and Lease Losses**

The Company's allowance for loan and lease losses was $19.6 million at December 31, 2007, or 1.05% of total loans and leases, compared with $17.7 million, or 1.06% of total loans and leases, at December 31, 2006. The allowance for loan and lease losses was $17.0 million, or 1.24% of loans and leases, at December 31, 2005. The increase in the allowance for loan and lease losses in recent years primarily reflects the growth in the Company's loan and lease portfolio. While the Company believes the current allowance is adequate, changing economic and other conditions may require future adjustments to the allowance for loan and lease losses.

Recent events in local and national real estate markets have increased certain lenders' loss exposure. In particular, many institutions participating in "subprime" lending products have experienced losses which, in some cases, have been material to operating results. The Company's loan portfolio is believed to have little direct exposure to "subprime" lending products because it does not typically originate loans for its portfolio which are "subprime" in nature. However lenders, such as the Company, engaged in financing construction and development of residential houses and lots may be affected indirectly by conditions in the "subprime" lending market to the extent that deterioration of this market has disqualified many potential home buyers and reduced the availability of credit for home purchases.

The Company's net charge-offs to average loans and leases were 24 bps in 2007 compared to 12 bps in 2006 and 11 bps in 2005. The relatively low level of net charge-offs in recent years has resulted in a decline in the historical loss percentages used in the analysis of the adequacy of the allowance for loan and lease losses. This has contributed to the decline in the Company's allowance for loan and lease losses as a percentage of outstanding loans and leases.

The amounts of provision to the allowance for loan and lease losses are based on the Company's analysis of the adequacy of the allowance for loan and lease losses utilizing the criteria discussed below. The provision for loan and lease losses for 2007 was $6.2 million compared to $2.5 million in 2006 and $2.3 million in 2005.

The Company's increase in its provision for loan and lease losses and its net charge-offs for 2007 compared to 2006 were significantly impacted by generally slower economic conditions, including the effects of higher energy prices, a slowdown in commercial real estate activity, deterioration in the residential housing and mortgage markets and other factors. In addition, approximately $1.0 million, or 24% of net charge-offs in 2007, and $1.3 million, or 21% of the provision for loan and lease losses during 2007, related to inappropriate and unusual activity in the loan portfolio of a former loan officer who resigned in lieu of termination in the fourth quarter of 2007. The problem assets identified in this former loan officer's portfolio also contributed to increases in the Company's ratios of non-performing loans and leases to total loans and leases, nonperforming assets to total assets and past due loans and leases at year end 2007.

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

**Analysis of the Allowance for Loan and Lease Losses**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | | | |
| Balance, beginning of period | $17,699 | $17,007 | $16,133 | $13,820 | $10,936 |
| Loans and leases charged off: | | | | | |
| Real estate: | | | | | |
| Residential 1-4 family | 215 | 124 | 196 | 167 | 288 |
| Non-farm/non-residential | 182 | 132 | 47 | 201 | 433 |
| Construction/land development | 796 | 58 | — | 29 | 44 |
| Agricultural | 37 | — | — | — | 5 |
| Total real estate | 1,230 | 314 | 243 | 397 | 770 |
| Commercial and industrial | 1,798 | 872 | 706 | 346 | 632 |
| Consumer | 1,046 | 709 | 785 | 503 | 450 |
| Direct financing leases | 367 | 63 | — | — | — |
| Agricultural (non-real estate) | 203 | 107 | 50 | 31 | 23 |
| Total loans and leases charged off | 4,644 | 2,065 | 1,784 | 1,277 | 1,875 |
| Recoveries of loans and leases previously charged off: | | | | | |
| Real estate: | | | | | |
| Residential 1-4 family | 25 | 5 | 53 | 32 | 20 |
| Non-farm/non-residential | 3 | 4 | 17 | 48 | 6 |
| Construction/land development | — | 4 | 23 | 1 | 8 |
| Agricultural | 19 | — | — | — | 6 |
| Total real estate | 47 | 13 | 93 | 81 | 40 |
| Commercial and industrial | 62 | 47 | 102 | 35 | 35 |
| Consumer | 209 | 234 | 152 | 142 | 141 |
| Direct financing leases | 27 | 13 | — | — | — |
| Agricultural (non-real estate) | 7 | — | 11 | 2 | 18 |
| Total recoveries | 352 | 307 | 358 | 260 | 234 |
| Net loans and leases charged off | 4,292 | 1,758 | 1,426 | 1,017 | 1,641 |
| Provision charged to operating expense | 6,150 | 2,450 | 2,300 | 3,330 | 3,865 |
| Allowance added in bank acquisition | — | — | — | — | 660 |
| Balance, end of period | $19,557 | $17,699 | $17,007 | $16,133 | $13,820 |
| Net charge-offs to average loans and leases | 0.24% | 0.12% | 0.11% | 0.10% | 0.20% |
| Allowance for loan and lease losses to total loans and leases | 1.05% | 1.06% | 1.24% | 1.42% | 1.52% |
| Allowance for loan and lease losses to nonperforming loans and leases | 295% | 310% | 502% | 248% | 326% |

Provisions to and the adequacy of the allowance for loan and lease losses are determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 5, "Accounting for Contingencies," and are based on the Company's judgment and evaluation of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria utilized by the Company to assess the adequacy of its allowance for loan and lease losses and required additions to such allowance consists primarily of an internal grading system and specific allowances determined in accordance with SFAS No. 114. The Company also utilizes a peer group analysis and an historical analysis in an effort to validate the overall adequacy of its allowance for loan and lease losses. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan and lease losses and the need for additions thereto, with consideration given to the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans and leases, national, regional and local business and economic conditions that may affect borrowers' or lessees' ability to pay, the value of collateral securing the loans and leases, and other relevant factors.

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

All loans deemed to be impaired are evaluated individually. The majority of the Company's impaired loans are dependent upon collateral for repayment. Accordingly, impairment is generally measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan. For all other impaired loans, the Company compares estimated discounted cash flows to the current investment in the loan. To the extent that the Company's current investment in a particular loan exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is specifically considered in the determination of the allowance for loan and lease losses, or is immediately charged off as a reduction of the allowance for loan and lease losses.

The sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance determined by management that reflects inherent but undetected losses in the portfolio and imprecision in the allowance methodology, is utilized as the primary indicator of the appropriate level of allowance for loan and lease losses. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. The factors and conditions evaluated in determining the unallocated portion of the allowance may include the following: (1) general economic and business conditions affecting key lending areas, (2) credit quality trends (including trends in nonperforming loans and leases expected to result from existing conditions), (3) trends that could affect collateral values, (4) seasoning of the loan and lease portfolio, (5) specific industry conditions affecting portfolio segments, (6) recent loss experience in particular segments of the portfolio, (7) concentrations of credit to single borrowers or related borrowers or to specific industries, or in specific collateral types in the loan and lease portfolio, including concentrations of credit in commercial real estate loans, (8) the Company's ongoing expansion into new markets, (9) the offering of new loan and lease products, (10) expectations regarding the current business cycle, (11) bank regulatory examination results and (12) findings of the internal loan review department. At December 31, 2007 management believed it was appropriate to maintain an unallocated portion of the allowance not derived by the allowance allocation percentages that ranges from 15% to 25% of the total allowance for loan and lease losses.

In addition to the internal grading system and specific impairment analysis, the Company compares the allowance for loan and lease losses (as a percentage of total loans and leases) maintained by the Bank to the peer group average percentage as shown on the most recently available Federal Deposit Insurance Corporation's ("FDIC") Uniform Bank Performance Report and the Federal Reserve Bank's ("FRB") Bank Holding Company Performance Report. The Company also compares the allowance for loan and lease losses to its historical cumulative net charge-offs for the five preceding calendar years.

The Company's allowance for loan and lease losses exceeds its cumulative historical net charge-off experience for the last five years. However, the allowance is considered reasonable given the significant growth in the loan and lease portfolio during recent years, key allowance and nonperforming loan and lease ratios, comparisons to industry averages, current economic conditions in the Company's market area and other factors.

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

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

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

**Allocation of the Allowance for Loan and Lease Losses**

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | | 2004 | | 2003 | |
| | Allowance | % of Loans and Leases | Allowance | % of Loans and Leases | Allowance | % of Loans and Leases | Allowance | % of Loans and Leases | Allowance | % of Loans and Leases |
| | (Dollars in thousands) | | | | | | | | | |
| Real estate: | | | | | | | | | | |
| Residential 1-4 family | $ 2,217 | 14.9% | $ 3,052 | 16.8% | $ 3,423 | 19.8% | $ 3,427 | 21.9% | $ 1,393 | 24.1% |
| Non-farm/non-residential | 3,470 | 23.8 | 3,085 | 25.9 | 3,368 | 27.4 | 3,107 | 29.1 | 3,790 | 31.4 |
| Construction/land development | 5,192 | 36.6 | 3,381 | 30.7 | 2,820 | 26.8 | 1,881 | 21.6 | 1,301 | 12.9 |
| Agricultural | 791 | 4.9 | 765 | 5.2 | 562 | 5.5 | 510 | 5.8 | 756 | 6.8 |
| Multifamily residential | 198 | 1.7 | 272 | 3.0 | 235 | 2.2 | 226 | 2.6 | 261 | 2.6 |
| Commercial and industrial | 1,439 | 9.3 | 1,373 | 8.9 | 1,111 | 8.0 | 1,004 | 8.9 | 1,600 | 12.3 |
| Consumer | 2,280 | 4.7 | 2,179 | 5.1 | 2,062 | 5.8 | 1,752 | 6.5 | 1,083 | 7.1 |
| Direct financing leases | 335 | 2.8 | 305 | 3.0 | 286 | 2.8 | 170 | 1.7 | 72 | 0.4 |
| Agricultural (non-real estate) | 142 | 1.2 | 150 | 1.3 | 200 | 1.5 | 164 | 1.6 | 195 | 1.7 |
| Other | 65 | 0.1 | 77 | 0.1 | 41 | 0.2 | 25 | 0.3 | 952 | 0.7 |
| Unallocated allowance | 3,428 | | 3,060 | | 2,899 | | 3,867 | | 2,417 | |
| Total | $19,557 | | $17,699 | | $17,007 | | $16,133 | | $13,820 | |

The Company maintains an internally classified loan and lease list that, along with the list of nonaccrual loans and leases and the list of impaired loans and leases, helps management assess the overall quality of the loan and lease portfolio and the adequacy of the allowance. Loans and leases classified as "substandard" have clear and defined weaknesses such as highly leveraged positions, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize collectability of the loan or lease. Loans and leases classified as "doubtful" have characteristics similar to substandard loans and leases, but also have an increased risk that a loss may occur or at least a portion of the loan or lease may require a charge-off if liquidated. Although loans and leases classified as substandard do not duplicate loans and leases classified as doubtful, both substandard and doubtful loans and leases may include some that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans and leases classified as "loss" are charged off. At December 31, 2007 substandard loans and leases not designated as nonaccrual or 90 days past due totaled $10.0 million compared to $5.4 million at December 31, 2006. No loans or leases were designated as doubtful or loss at December 31, 2007 or 2006.

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

Loans or leases and aggregate loan and lease relationships exceeding $3.0 million up to the legal lending limit of the Bank are authorized by the loan committee, which during 2007 consisted of any five or more directors and three of the Bank's senior officers. The Company's loan committee, at least quarterly, reviews various loan and lease concentration reports and various other loan and lease reports. At least quarterly the Board of Directors reviews reports of loan and lease originations and commitments over $100,000, past due loans and leases, internally classified and watch list loans and leases, a summary of the activity in the Company's allowance for loan and lease losses and various other loan and lease reports.

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

**Investment Securities**

The Company's investment securities portfolio provides a significant source of revenue for the Company. At December 31, 2007, 2006 and 2005, the Company classified all of its investment securities portfolio as available for sale. Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and included in other comprehensive income (loss). The Company's investments in FHLB and Arkansas Bankers' Bancorporation, Inc. ("ABB") stock do not have readily determinable fair values and are carried at cost.

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

**Investment Securities**

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | Amortized Cost | Fair Value(1) | Amortized Cost | Fair Value(1) | Amortized Cost | Fair Value(1) |
| | (Dollars in thousands) | | | | | |
| Mortgage-backed securities | $370,061 | $344,346 | $406,611 | $397,964 | $266,722 | $258,540 |
| Obligations of states and political subdivisions | 163,339 | 166,467 | 133,255 | 135,149 | 227,286 | 231,681 |
| Securities of U.S. Government agencies | 51,982 | 49,738 | 75,875 | 74,530 | 66,027 | 65,503 |
| FHLB and ABB stock | 16,753 | 16,753 | 11,489 | 11,489 | 16,020 | 16,020 |
| Other securities | 1,044 | 1,044 | 1,000 | 1,000 | 2,300 | 2,376 |
| Total | $603,179 | $578,348 | $628,230 | $620,132 | $578,355 | $574,120 |

(1) The fair value of the Company's investment securities is obtained from an independent pricing service and is based on quoted market prices where available. If quoted market prices are not available, fair values are based on market prices for comparable securities or other pricing methodologies.

The Company's mortgage-backed securities portfolio consists of collateralized mortgage obligations ("CMOs") issued by either the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). Each CMO is "AAA"-rated with no underlying collateral consisting of "subprime" or "Alt-A" mortgages. The Company's portfolio of state and political subdivision investment securities consists of both revenue and general obligation bonds issued by municipalities or other political subdivisions, 95.8% of which are in the State of Arkansas and 4.2% of which are in other states. The Company's portfolio of U.S. Government agency investment securities consists primarily of callable Federal Home Loan Bank bonds which are being called in the first quarter of 2008.

The following table reflects the maturity distribution of the Company's investment securities, at fair value, as of December 31, 2007 and weighted-average yields (for tax-exempt obligations on a FTE basis) of such securities. The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) equity securities with no contractual maturity date which are shown in the longest maturity category, (2) mortgage-backed securities which are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds based on interest rate levels at December 31, 2007 and (3) callable investment securities for which the Company has received notification of call are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Maturity Distribution of Investment Securities**

| | 1 Year or Less | Over 1 Through 5 Years | Over 5 Through 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| Mortgage-backed securities | $32,044 | $124,788 | $187,514 | $ — | $344,346 |
| Obligations of states and political subdivisions | 2,600 | 17,257 | 27,056 | 119,554 | 166,467 |
| Securities of U.S. Government agencies(1) | 38,119 | 3,972 | 7,647 | — | 49,738 |
| Other securities(2) | — | — | — | 17,797 | 17,797 |
| Total | $72,763 | $146,017 | $222,217 | $137,351 | $578,348 |
| Percentage of total | 12.58% | 25.25% | 38.42% | 23.75% | 100.00% |
| Weighted-average yield - FTE(3) | 5.16 | 5.41 | 5.52 | 7.25 | 5.86 |

(1) Includes approximately $28.7 million of callable Federal Home Loan Bank bonds, which contain contractual maturity dates after December 31, 2008 where the Company has received notification of call to occur during the first quarter of 2008. Accordingly, these bonds are shown in the "1 Year or Less" category.
(2) Includes approximately $16.7 million of FHLB stock which has historically paid quarterly dividends at a variable rate approximating the federal funds rate.
(3) The weighted-average yields - FTE are based on amortized cost.

**Deposits**

The Company's lending and investing activities are funded primarily by deposits. The Company's total deposits increased 0.6% to $2.06 billion at December 31, 2007, compared to $2.05 billion at December 31, 2006. These deposit totals included brokered deposits of $381.3 million at December 31, 2007 and $309.2 million at December 31, 2006.

Total deposits at December 31, 2007 consisted of 67.0% time deposits and 33.0% demand and savings deposits. Total deposits at December 31, 2006 consisted of 66.4% time deposits and 33.6% demand and savings deposits. Interest bearing deposits other than time deposits consist of transaction, savings and money market accounts. These deposits comprised 25.1% of total deposits at December 31, 2007 and 25.4% at December 31, 2006. Non-interest bearing demand deposits constituted 7.9% of total deposits at December 31, 2007 compared to 8.2% at December 31, 2006.

The following table reflects the average balance and average rate paid for each deposit category shown for the years ended December 31, 2007, 2006 and 2005.

**Average Deposit Balances and Rates**

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid |
| | | | (Dollars in thousands) | | | |
| Non-interest bearing accounts | $ 168,786 | — | $ 152,281 | — | $ 138,072 | — |
| Interest bearing accounts: | | | | | | |
| Transaction (NOW) | 403,288 | 2.48% | 404,433 | 2.55% | 375,361 | 1.48% |
| Savings | 25,746 | 0.22 | 27,107 | 0.20 | 27,265 | 0.20 |
| Money market | 92,841 | 3.95 | 91,784 | 3.65 | 63,983 | 2.23 |
| Time deposits less than $100,000 | 487,382 | 4.84 | 398,178 | 4.15 | 299,104 | 2.68 |
| Time deposits $100,000 or more | 899,666 | 5.10 | 752,765 | 4.67 | 542,378 | 3.00 |
| Total deposits | $2,077,709 | | $1,826,548 | | $1,446,163 | |

The following table sets forth, by time remaining to maturity, time deposits in amounts of $100,000 and over at December 31, 2007.

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

| | December 31, 2007 |
|---|---|
| | (Dollars in thousands) |
| 3 months or less | $ 353,974 |
| Over 3 to 6 months | 166,992 |
| Over 6 to 12 months | 310,858 |
| Over 12 months | 74,851 |
| | $ 906,675 |

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

**Deposits by State**

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| Deposits Attributable to Offices In | Amount | % | Amount | % | Amount | % |
| | | | (Dollars in thousands) | | | |
| Arkansas | $1,922,746 | 93.5% | $1,943,638 | 95.0% | $1,482,752 | 93.2% |
| Texas | 134,315 | 6.5 | 101,454 | 5.0 | 108,891 | 6.8 |
| Total | $2,057,061 | 100.0% | $2,045,092 | 100.0% | $1,591,643 | 100.0% |

### Other Interest Bearing Liabilities

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

Total other interest bearing liabilities were $447.6 million at December 31, 2007, an increase of $147.0 million from $300.6 million at December 31, 2006. Repurchase agreements with customers increased to $46.1 million at December 31, 2007 from $41.0 million at December 31, 2006. Subordinated debentures totaled $64.9 million at both December 31, 2007 and 2006. Other borrowings, including FHLB advances and federal funds purchased, increased to $336.5 million at December 31, 2007 from $194.7 million at December 31, 2006 as the Company utilized lower cost FHLB advances to fund growth in earning assets during 2007.

### Interest Rate Risk

Interest rate risk results from timing differences in the repricing of assets and liabilities or from changes in relationships between interest rate indexes. The Company's interest rate risk management is the responsibility of the ALCO and Investments Committee ("ALCO") which reports to the Board of Directors. The ALCO oversees the asset/liability (interest rate risk) position, liquidity and funds management, and investment portfolio functions of the Company.

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

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

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing January 1, 2008. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

**Earnings Simulation Model Results**

| Change in Interest Rates (in bps) | % Change in Projected Baseline Net Interest Income |
|---|---|
| +200 | 1.4% |
| +100 | 1.0 |
| -100 | (2.1) |
| -200 | (4.4) |

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

### Impact of Inflation and Changing Prices

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

### Capital Compliance

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

The Company's consolidated risk-based capital and leverage ratios exceeded these minimum requirements at December 31, 2007 and 2006 and are presented in the following table, followed by the capital ratios of the Bank at December 31, 2007 and 2006.

**Consolidated Capital Ratios**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (Dollars in thousands) | |
| Tier 1 capital: | | |
| Stockholders' equity | $ 190,829 | $ 174,633 |
| Allowed amount of trust preferred securities | 63,000 | 59,851 |
| Net unrealized losses on available-for-sale investment securities | 15,091 | 4,922 |
| Less goodwill and certain intangible assets | (5,877) | (6,140) |
| Total Tier 1 capital | 263,043 | 233,266 |
| Tier 2 capital: | | |
| Remaining amount of trust preferred securities | — | 3,149 |
| Qualifying allowance for loan and lease losses | 19,557 | 17,699 |
| Total risk-based capital | $ 282,600 | $ 254,114 |
| Risk-weighted assets | $2,230,309 | $1,991,570 |
| Adjusted quarterly average assets—fourth quarter | $2,683,323 | $2,485,450 |
| Ratios at end of period: | | |
| Leverage | 9.80% | 9.39% |
| Tier 1 risk-based capital | 11.79 | 11.71 |
| Total risk-based capital | 12.67 | 12.76 |
| Minimum ratio guidelines: | | |
| Leverage(1) | 3.00% | 3.00% |
| Tier 1 risk-based capital | 4.00 | 4.00 |
| Total risk-based capital | 8.00 | 8.00 |

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

**Bank Capital Ratios**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (Dollars in thousands) | |
| Stockholders' equity - Tier 1 capital | $236,122 | $196,816 |
| Leverage ratio | 8.82% | 7.95% |
| Tier 1 risk-based capital ratio | 10.63 | 9.94 |
| Total risk-based capital ratio | 11.51 | 10.83 |

## Liquidity and Capital Resources

*Growth and Expansion.* During 2007 the Company added three new Arkansas banking offices, including offices in Hot Springs, Fayetteville and Rogers. In addition to these three permanent banking offices, the Company replaced a temporary office in Frisco, Texas with a new permanent facility. During 2006 the Company added nine Arkansas and two Texas banking offices, replaced a temporary office with a new permanent facility, replaced one of its oldest banking offices with a new facility, and closed one facility. At December 31, 2007, the Company had 65 Arkansas banking offices, five Texas banking offices and loan production offices in Little Rock, Arkansas and Charlotte, North Carolina.

The Company expects to continue its growth and *de novo* branching strategy. During 2008 the Company expects to add approximately three new banking offices, including its new corporate headquarters which is expected to open late in the fourth quarter of 2008. Opening new offices is subject to availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty. The Company may increase or decrease its expected number of new offices as a result of a variety of factors including the Company's financial results, changes in economic or competitive conditions or other factors.

During 2007 the Company spent $18.8 million on capital expenditures for premises and equipment. The Company's capital expenditures for 2008 are expected to be in the range of $20 to $26 million, including progress payments on construction projects expected to be completed in 2008 or 2009, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in or inability to obtain required approvals and other factors.

*Subordinated Debentures.* At December 31, 2007, the Company had an aggregate of $64.9 million of subordinated debentures and related trust preferred securities outstanding consisting of $20.6 million of subordinated debentures and securities issued in 2006 that bear interest, adjustable quarterly, at LIBOR plus 1.60%, $15.4 million of subordinated debentures and securities issued in 2004 that bear interest, adjustable quarterly, at LIBOR plus 2.22% and $28.9 million of subordinated debentures and securities issued in 2003 that bear interest, adjustable quarterly, at a weighted-average rate of LIBOR plus 2.925%. These subordinated debentures and securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval, on or after approximately five years from the date of issuance, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements. These subordinated debentures and the related trust preferred securities provide the Company additional regulatory capital to support its expected future growth and expansion.

*Bank Liquidity.* Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and lessees by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility the Company may be unable to satisfy current or future financial commitments. The ALCO has primary oversight for the Company's liquidity and funds management.

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

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

At December 31, 2007 the Company had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $236 million of available blanket borrowing capacity with the FHLB, (2) $59 million of investment securities available to pledge for federal funds or other borrowings, (3) $57 million of available unsecured federal funds borrowing lines and (4) up to $168 million from borrowing programs of the FRB.

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

Net cash provided by operating activities totaled $42.7 million, $22.6 million and $32.1 million, respectively, for the years ended December 31, 2007, 2006 and 2005. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in operating assets and liabilities.

Net cash used by investing activities was $190.6 million in 2007, $384.7 million in 2006 and $404.7 million in 2005. The Company's primary uses of cash for investing activities include net loan fundings, which used $207.0 million, $306.6 million and $242.7 million, respectively, in 2007, 2006 and 2005, purchases of premises and equipment in conjunction with its growth and *de novo* branching strategy, which used $18.8 million, $31.0 million and $27.0 million, respectively, in 2007, 2006 and 2005 and net activity in its investment securities portfolio, which provided $26.5 million in 2007, used $47.0 million in 2006 and used $139.7 million in 2005.

Net cash provided by financing activities totaled $152.7 million, $364.2 million and $371.6 million, respectively, for the years ended December 31, 2007, 2006 and 2005. The Company's primary financing activities include net increases in deposit accounts, which provided $12.0 million, $453.5 million and $211.7 million, respectively, in 2007, 2006 and 2005, and net proceeds from or repayments of other borrowings and repurchase agreements with customers, which provided $147.0 million in 2007, used $104.9 million in 2006 and provided $163.2 million in 2005. In addition the Company paid cash dividends of $7.2 million, $6.7 million and $6.2 million, respectively, in 2007, 2006 and 2005. The Company's financing activities for 2006 were also impacted by $20.6 million of proceeds received from the issuance of subordinated debentures.

*Dividend Policy.* In 2007 the Company paid dividends of $0.43 per share. In 2006 and 2005 the Company paid dividends of $0.40 and $0.37 per share, respectively. In 2006 the per share dividend was $0.10 in each of the quarters. In 2007 the per share dividend was $0.10 per quarter in the first and second quarters, $0.11 in the third quarter and $0.12 in the fourth quarter. In the first quarter of 2008, the Company paid a dividend of $0.12 per share. The determination of future dividends on the Company's common stock will depend on conditions existing at that time. The Company's goal is to continue at approximately the current level of quarterly dividend with consideration given to future changes depending on the Company's earnings, capital and liquidity needs.

*Contractual Obligations.* The following table presents, as of December 31, 2007, significant fixed and determinable contractual obligations to third parties by contractual date with no consideration given to earlier call or prepayment features. Other obligations consist primarily of contractual obligations for capital expenditures and other contractual obligations.

**Contractual Obligations**

| | 1 Year or Less | Over 1 Through 3 Years | Over 3 Through 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Time deposits(1) | $1,373,414 | $101,277 | $ 1,979 | $ 81 | $1,476,751 |
| Deposits without a stated maturity(2) | 679,530 | — | — | — | 679,530 |
| Repurchase agreements with customers(1) | 46,088 | — | — | — | 46,088 |
| Other borrowings(1) | 31,056 | 86,219 | 20,678 | 309,078 | 447,031 |
| Subordinated debentures(1) | 5,309 | 9,684 | 9,698 | 165,557 | 190,248 |
| Lease obligations | 534 | 696 | 440 | 2,250 | 3,920 |
| Other obligations | 22,106 | 1,607 | — | — | 23,713 |
| Total contractual obligations | $2,158,037 | $199,483 | $32,795 | $479,966 | $2,867,281 |

(1) Includes unpaid interest through the contractual maturity on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon interest rates in effect at December 31, 2007. The contractual amounts to be paid on variable rate obligations are affected by changes in market rates. Future changes in market interest rates could materially affect the contractual amounts to be paid.

(2) Includes interest accrued and unpaid through December 31, 2007.

*Off-Balance Sheet Commitments.* The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2007. Commitments to extend credit do not necessarily represent future cash requirements as these commitments may expire without being drawn.

**Off-Balance Sheet Commitments**

| | 1 Year or Less | Over 1 Through 3 Years | Over 3 Through 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Commitments to extend credit(1) | $218,772 | $147,011 | $29,822 | $25,497 | $421,102 |
| Standby letters of credit | 6,635 | 814 | 119 | — | 7,568 |
| Total commitments | $225,407 | $147,825 | $29,941 | $25,497 | $428,670 |

(1) Includes commitments to extend credit under mortgage interest rate locks of $8.4 million that expire in one year or less.

## Critical Accounting Policy

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. The Company's determination of the adequacy of the allowance for loan and lease losses involves a higher degree of judgment and complexity than its other significant accounting policies discussed in Note 1 to the Notes to the Company's Consolidated Financial Statements. Accordingly, the Company considers the allowance for loan and lease losses to be a critical accounting policy.

Provisions to and the adequacy of the allowance for loan and lease losses are determined in accordance with SFAS No. 114 and SFAS No. 5, and are based on the Company's evaluation of the loan and lease portfolio utilizing objective and subjective criteria as described in this report. See the "Analysis of Financial Condition" section of Management's Discussion and Analysis for a detailed discussion of the Company's allowance for loan and lease losses. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

## Recently Issued Accounting Standards

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

## Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations, other filings made by the Company with the Securities and Exchange Commission and other oral and written statements or reports by the Company and its management include certain forward-looking statements including, without limitation, statements about economic, competitive and interest rate conditions, plans, goals, beliefs, expectations and outlook for revenue growth, growth in income and earnings per share, net interest margin, including the effects of the relatively flat to inverted yield curve and intense competition and the goal of maintaining or improving net interest margin, net interest income, non-interest income, including service charges on deposit accounts, mortgage lending and trust income, gains (losses) on sales of investment securities and other assets, non-interest expense, including the cost of opening new offices, achieving positive operating leverage by growing revenue at a faster rate than non-interest expense, efficiency ratio, anticipated future operating results and financial performance, asset quality, nonperforming loans and leases, nonperforming assets, net charge-offs, past due loans and leases, interest rate sensitivity, including the effects of possible interest rate changes, future growth and expansion opportunities, opportunities and goals for future market share growth, plans for opening new offices including a new corporate headquarters, expected capital expenditures, loan, lease and deposit growth, changes in the Company's investment securities portfolio and other similar forecasts and statements of expectation. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs, plans and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management due to certain risks, uncertainties and assumptions. Certain factors that may affect operating results of the Company include, but are not limited to, potential delays or other problems in implementing the Company's growth and expansion strategy including delays in identifying satisfactory sites, hiring qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to attract new deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including continued interest rate changes and/or changes in the yield curve between short-term and long-term interest rates; competitive factors and pricing pressures, including their effect on the Company's net interest margin; general economic conditions, including their effect on investment securities values, the creditworthiness of borrowers and lessees, collateral values and the value of investment securities; changes in legal and regulatory requirements; adoption of new accounting standards or changes in existing standards; and adverse results in future litigation as well as other factors described in this and other Company reports and statements. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in the forward-looking statements.

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

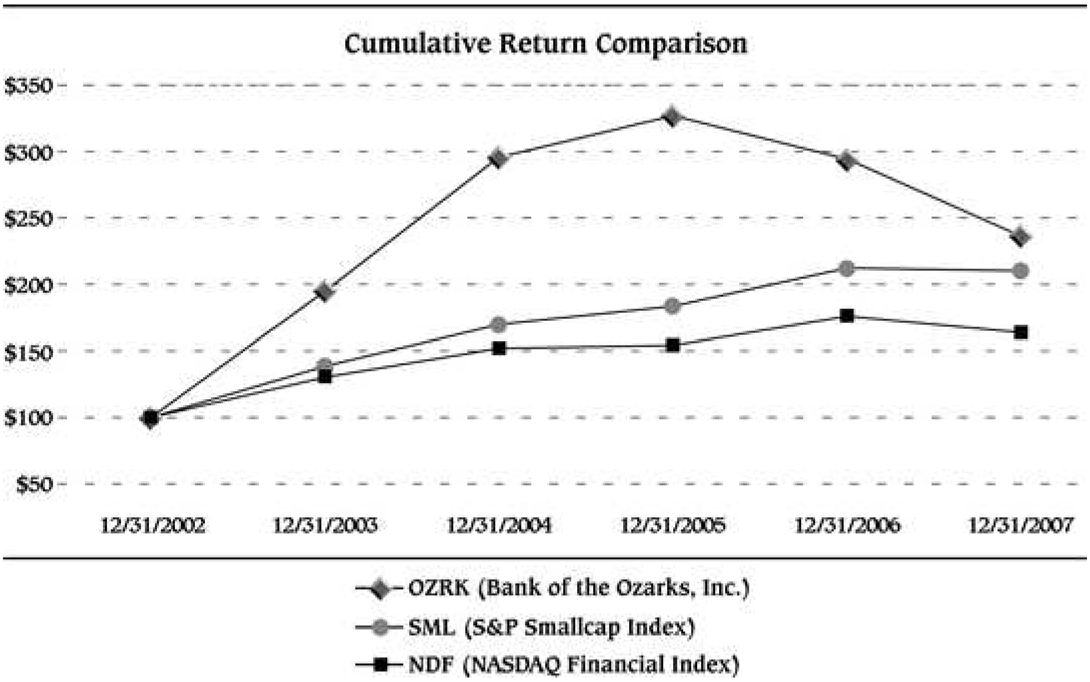
| | 2007 - Three Months Ended | | | |
|---|---|---|---|---|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| | (Dollars in thousands, except per share amounts) | | | |
| Total interest income | $ 42,828 | $ 44,128 | $ 44,917 | $ 45,096 |
| Total interest expense | 24,579 | 24,837 | 25,246 | 24,690 |
| Net interest income | 18,249 | 19,291 | 19,671 | 20,406 |
| Provision for loan and lease losses | 1,100 | 1,250 | 1,100 | 2,700 |
| Non-interest income | 5,959 | 5,623 | 5,419 | 5,975 |
| Non-interest expense | 12,138 | 11,876 | 11,732 | 12,507 |
| Income taxes | 3,449 | 3,702 | 3,856 | 3,437 |
| Net income | $ 7,521 | $ 8,086 | $ 8,402 | $ 7,737 |
| Per share: | | | | |
| Earnings - diluted | $ 0.45 | $ 0.48 | $ 0.50 | $ 0.46 |
| Cash dividends | 0.10 | 0.10 | 0.11 | 0.12 |
| Bid price per common share: | | | | |
| Low | $ 28.55 | $ 27.53 | $ 26.79 | $ 26.11 |
| High | 32.67 | 30.68 | 33.48 | 33.00 |

| | 2006 - Three Months Ended | | | |
|---|---|---|---|---|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| | (Dollars in thousands, except per share amounts) | | | |
| Total interest income | $ 33,781 | $ 37,854 | $ 41,467 | $ 42,096 |
| Total interest expense | 16,343 | 19,869 | 23,693 | 24,573 |
| Net interest income | 17,438 | 17,985 | 17,774 | 17,523 |
| Provision for loan and lease losses | 500 | 500 | 550 | 900 |
| Non-interest income | 6,164 | 4,954 | 5,680 | 6,434 |
| Non-interest expense | 11,160 | 11,017 | 11,707 | 12,506 |
| Income taxes | 3,545 | 3,491 | 3,187 | 3,196 |
| Net income | $ 8,397 | $ 7,931 | $ 8,010 | $ 7,355 |
| Per share: | | | | |
| Earnings - diluted | $ 0.50 | $ 0.47 | $ 0.48 | $ 0.44 |
| Cash dividends | 0.10 | 0.10 | 0.10 | 0.10 |
| Bid price per common share: | | | | |
| Low | $ 34.44 | $ 31.74 | $ 29.96 | $ 30.99 |
| High | 37.69 | 37.20 | 34.63 | 34.53 |

See Note 14 to Consolidated Financial Statements for discussion of dividend restrictions.

**Company Performance**

The graph below shows a comparison for the period commencing December 31, 2002 through December 31, 2007 of the cumulative total stockholder returns (assuming reinvestment of dividends) for the common stock of the Company, the S&P Smallcap Index and the NASDAQ Financial Index, assuming a $100 investment on December 31, 2002.




| | 12/31/2002 | 12/31/2003 | 12/31/2004 | 12/31/2005 | 12/31/2006 | 12/31/2007 |
|---|---|---|---|---|---|---|
| OZRK (Bank of the Ozarks, Inc.) | $ 100 | $ 195 | $ 297 | $ 326 | $ 295 | $ 237 |
| SML (S&P Smallcap Index) | $ 100 | $ 139 | $ 170 | $ 183 | $ 211 | $ 210 |
| NDF (NASDAQ Financial Index) | $ 100 | $ 131 | $ 151 | $ 155 | $ 177 | $ 164 |

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

February 22, 2008

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

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

Management of Bank of the Ozarks, Inc., including the Chief Executive Officer and the Chief Financial Officer and Chief Accounting Officer, has assessed the Company's internal control over financial reporting as of December 31, 2007, based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007, based on the specified criteria.

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

George Gleason
*Chairman and Chief Executive Officer*

Paul Moore
*Chief Financial Officer and Chief Accounting Officer*

**Report of Independent Registered Public Accounting Firm**

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

We have audited Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bank of the Ozarks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on the Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Bank of the Ozarks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Bank of the Ozarks, Inc. as of December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 2007, and our report dated February 22, 2008, expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC

Brentwood, Tennessee
February 22, 2008

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Bank of the Ozarks, Inc. (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the Ozarks, Inc. at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008, expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC

Brentwood, Tennessee
February 22, 2008

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Bank of the Ozarks, Inc. for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Dallas, Texas
March 9, 2006

**Bank of the Ozarks, Inc.**
**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (Dollars in thousands, except per share amounts) | |
| **ASSETS** | | |
| Cash and due from banks | $ 47,192 | $ 42,531 |
| Interest earning deposits | 329 | 203 |
| Cash and cash equivalents | 47,521 | 42,734 |
| Investment securities - available for sale (“AFS”) | 578,348 | 620,132 |
| Loans and leases | 1,871,135 | 1,677,389 |
| Allowance for loan and lease losses | (19,557) | (17,699) |
| Net loans and leases | 1,851,578 | 1,659,690 |
| Premises and equipment, net | 130,048 | 116,679 |
| Foreclosed assets held for sale, net | 3,112 | 407 |
| Accrued interest receivable | 17,420 | 17,384 |
| Bank owned life insurance | 46,148 | 44,229 |
| Intangible assets, net | 5,877 | 6,140 |
| Other, net | 30,823 | 22,005 |
| Total assets | $ 2,710,875 | $ 2,529,400 |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** | | |
| Deposits: | | |
| Demand non-interest bearing | $ 162,995 | $ 167,841 |
| Savings and interest bearing transaction | 516,312 | 519,427 |
| Time | 1,377,754 | 1,357,824 |
| Total deposits | 2,057,061 | 2,045,092 |
| Repurchase agreements with customers | 46,086 | 41,001 |
| Other borrowings | 336,533 | 194,661 |
| Subordinated debentures | 64,950 | 64,950 |
| Accrued interest payable and other liabilities | 11,984 | 9,063 |
| Total liabilities | 2,516,614 | 2,354,767 |
| Minority interest | 3,432 | — |
| Stockholders’ equity: | | |
| Preferred stock; $0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock; $0.01 par value; 50,000,000 shares authorized; 16,818,240 and 16,746,540 shares issued and outstanding at December 31, 2007 and 2006, respectively | 168 | 167 |
| Additional paid-in capital | 38,613 | 36,779 |
| Retained earnings | 167,139 | 142,609 |
| Accumulated other comprehensive income (loss) | (15,091) | (4,922) |
| Total stockholders’ equity | 190,829 | 174,633 |
| Total liabilities and stockholders’ equity | $ 2,710,875 | $ 2,529,400 |

See accompanying notes to the consolidated financial statements.

**Bank of the Ozarks, Inc.**
**CONSOLIDATED STATEMENTS OF INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands, except per share amounts) | | |
| Interest income: | | | |
| Loans and leases | $ 145,669 | $ 121,462 | $ 87,768 |
| Investment securities: | | | |
| Taxable | 24,775 | 25,346 | 16,998 |
| Tax-exempt | 6,507 | 8,380 | 8,104 |
| Deposits with banks and federal funds sold | 19 | 10 | 11 |
| Total interest income | 176,970 | 155,198 | 112,881 |
| Interest expense: | | | |
| Deposits | 83,140 | 65,345 | 31,314 |
| Repurchase agreements with customers | 1,603 | 1,312 | 450 |
| Other borrowings | 9,543 | 13,953 | 9,848 |
| Subordinated debentures | 5,066 | 3,868 | 2,693 |
| Total interest expense | 99,352 | 84,478 | 44,305 |
| Net interest income | 77,618 | 70,720 | 68,576 |
| Provision for loan and lease losses | 6,150 | 2,450 | 2,300 |
| Net interest income after provision for loan and lease losses | 71,468 | 68,270 | 66,276 |
| Non-interest income: | | | |
| Service charges on deposit accounts | 12,193 | 10,217 | 9,875 |
| Mortgage lending income | 2,668 | 2,918 | 3,034 |
| Trust income | 2,223 | 1,947 | 1,673 |
| Bank owned life insurance income | 1,919 | 1,832 | 1,816 |
| Gains on sales of investment securities | 520 | 3,917 | 213 |
| Other | 3,452 | 2,400 | 2,641 |
| Total non-interest income | 22,975 | 23,231 | 19,252 |
| Non-interest expense: | | | |
| Salaries and employee benefits | 28,661 | 27,506 | 23,477 |
| Net occupancy and equipment | 8,098 | 7,030 | 6,254 |
| Other operating expenses | 11,493 | 11,854 | 10,349 |
| Total non-interest expense | 48,252 | 46,390 | 40,080 |
| Income before taxes | 46,191 | 45,111 | 45,448 |
| Provision for income taxes | 14,445 | 13,418 | 13,959 |
| Net income | $ 31,746 | $ 31,693 | $ 31,489 |
| Basic earnings per share | $ 1.89 | $ 1.90 | $ 1.89 |
| Diluted earnings per share | $ 1.89 | $ 1.89 | $ 1.88 |

See accompanying notes to the consolidated financial statements.

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

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share amounts) | | | | |
| Balances - January 1, 2005 | $ 165 | $30,760 | $ 92,262 | $ (1,781) | $121,406 |
| Comprehensive income: | | | | | |
| Net income | — | — | 31,489 | — | 31,489 |
| Other comprehensive income (loss): | | | | | |
| Unrealized gains and losses on AFS investment securities, net of $412 tax effect | — | — | — | (639) | (639) |
| Reclassification adjustment for gains and losses included in income, net of $100 tax effect | — | — | — | (154) | (154) |
| Total comprehensive income | | | | | 30,696 |
| Cash dividends paid, $0.37 per share | — | — | (6,151) | — | (6,151) |
| Issuance of 170,250 shares of common stock for exercise of stock options | 2 | 972 | — | — | 974 |
| Tax benefit on exercise of stock options | — | 1,864 | — | — | 1,864 |
| Compensation expense under stock-based compensation plans | — | 614 | — | — | 614 |
| Balances - December 31, 2005 | 167 | 34,210 | 117,600 | (2,574) | 149,403 |
| Comprehensive income: | | | | | |
| Net income | — | — | 31,693 | — | 31,693 |
| Other comprehensive income (loss): | | | | | |
| Unrealized gains and losses on AFS investment securities, net of $21 tax effect | — | — | — | 32 | 32 |
| Reclassification adjustment for gains and losses included in income, net of $1,537 tax effect | — | — | — | (2,380) | (2,380) |
| Total comprehensive income | | | | | 29,345 |
| Cash dividends paid, $0.40 per share | — | — | (6,684) | — | (6,684) |
| Issuance of 81,900 shares of common stock for exercise of stock options | — | 824 | — | — | 824 |
| Tax benefit on exercise of stock options | — | 880 | — | — | 880 |
| Compensation expense under stock-based compensation plans | — | 865 | — | — | 865 |
| Balances - December 31, 2006 | 167 | 36,779 | 142,609 | (4,922) | 174,633 |
| Comprehensive income: | | | | | |
| Net income | — | — | 31,746 | — | 31,746 |
| Other comprehensive income (loss): | | | | | |
| Unrealized gains and losses on AFS investment securities, net of $6,359 tax effect | — | — | — | (9,853) | (9,853) |
| Reclassification adjustment for gains and losses included in income, net of $204 tax effect | — | — | — | (316) | (316) |
| Total comprehensive income | | | | | 21,577 |
| Cash dividends paid, $0.43 per share | — | — | (7,216) | — | (7,216) |
| Issuance of 71,700 shares of common stock for exercise of stock options | 1 | 545 | — | — | 546 |
| Tax benefit on exercise of stock options | — | 420 | — | — | 420 |
| Compensation expense under stock-based compensation plans | — | 869 | — | — | 869 |
| Balances - December 31, 2007 | $ 168 | $38,613 | $167,139 | $ (15,091) | $190,829 |

See accompanying notes to the consolidated financial statements.

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

| | Year Ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | $ 31,746 | $ 31,693 | $ 31,489 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 3,286 | 3,024 | 2,770 |
| Amortization | 262 | 262 | 262 |
| Provision for loan and lease losses | 6,150 | 2,450 | 2,300 |
| Provision for losses on foreclosed assets | 122 | 75 | 32 |
| Net accretion of investment securities | (900) | (1,159) | (980) |
| Gains on sales of investment securities | (520) | (3,917) | (213) |
| Originations of mortgage loans for sale | (161,223) | (173,689) | (175,558) |
| Proceeds from sales of mortgage loans for sale | 163,296 | 170,485 | 176,439 |
| (Gains) losses on dispositions of premises and equipment and other assets | (487) | 89 | (567) |
| Deferred income tax (benefit) expense | (1,057) | (352) | 21 |
| Increase in cash surrender value of bank owned life insurance | (1,919) | (1,832) | (1,816) |
| Tax benefits on exercise of stock options | (420) | (880) | (1,864) |
| Compensation expense under stock-based compensation plans | 869 | 865 | 614 |
| Changes in assets and liabilities: | | | |
| Accrued interest receivable | (36) | (3,583) | (5,241) |
| Other assets, net | 88 | (3,013) | (551) |
| Accrued interest payable and other liabilities | 3,413 | 2,098 | 4,917 |
| Net cash provided by operating activities | 42,670 | 22,616 | 32,054 |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investment securities AFS | 56,240 | 157,954 | 9,013 |
| Proceeds from maturities of investment securities AFS | 40,383 | 51,469 | 124,721 |
| Purchases of investment securities AFS | (70,153) | (256,389) | (273,449) |
| Net increase in loans and leases | (206,969) | (306,556) | (242,721) |
| Purchases of premises and equipment | (18,848) | (31,017) | (26,966) |
| Proceeds from disposition of premises and equipment and other assets | 6,949 | 1,561 | 5,553 |
| Assets acquired for lease under operating leases | — | — | (141) |
| Cash received from (paid for) interests in unconsolidated investments | 1,839 | (1,704) | (674) |
| Net cash used by investing activities | (190,559) | (384,682) | (404,664) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | 11,969 | 453,450 | 211,713 |
| Net proceeds from (repayments of) other borrowings | 141,872 | (110,205) | 160,800 |
| Net increase in repurchase agreements with customers | 5,085 | 5,330 | 2,448 |
| Proceeds from issuance of subordinated debentures | — | 20,619 | — |
| Proceeds from exercise of stock options | 546 | 824 | 974 |
| Tax benefits on exercise of stock options | 420 | 880 | 1,864 |
| Cash dividends paid | (7,216) | (6,684) | (6,151) |
| Net cash provided by financing activities | 152,676 | 364,214 | 371,648 |
| Net increase (decrease) in cash and cash equivalents | 4,787 | 2,148 | (962) |
| Cash and cash equivalents—beginning of year | 42,734 | 40,586 | 41,548 |
| Cash and cash equivalents—end of year | $ 47,521 | $ 42,734 | $ 40,586 |

See accompanying notes to the consolidated financial statements.

**Bank of the Ozarks, Inc.**
**Notes to Consolidated Financial Statements**
**December 31, 2007, 2006 and 2005**

## 1. Summary of Significant Accounting Policies

Organization—Bank of the Ozarks, Inc. (the "Company") is a bank holding company headquartered in Little Rock, Arkansas, which operates under the rules and regulations of the Board of Governors of the Federal Reserve System. The Company owns a wholly-owned state chartered bank subsidiary—Bank of the Ozarks (the "Bank"), four 100%-owned finance subsidiary business trusts—Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV") and Ozark Capital Statutory Trust V ("Ozark V") (collectively, the "Trusts") and, indirectly through the Bank, a subsidiary engaged in the development of real estate. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank has banking offices located in northern, western, and central Arkansas, Frisco, Dallas and Texarkana, Texas and loan production offices in Little Rock, Arkansas and Charlotte, North Carolina.

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

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

The Company, through investments in certain limited partnerships and limited liability companies, has invested in (i) a venture capital fund to promote economic development in Arkansas and surrounding states and (ii) low-income housing and new market tax credit projects to promote economic development and to contribute to the enhancement of the communities it serves. Investments primarily consist of real estate projects and providing working capital. The carrying value of these investments was $6.5 million and $6.6 million, respectively, at December 31, 2007 and 2006. As a limited partner or member in these investments, the Company is allocated tax credits and deductions associated with the underlying projects. During 2007, 2006 and 2005 the Company's aggregate federal and state income tax liability was reduced by $440,000, $330,000 and $235,000, respectively, as a result of the allocation of such credits and deductions. The Company evaluates the carrying value of these investments for impairment, which is generally based on total credits and deductions allocated to date and total estimated credits and deductions remaining to be allocated. As a result of such evaluation, the Company recorded impairment charges of $203,000, $223,000 and $191,000, respectively, during 2007, 2006 and 2005.

The voting interest approach is not applicable for entities that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk. In such instances, Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised) ("FIN 46R"), "Consolidation of Variable Interest Entities," provides guidance on when the assets, liabilities and activities of a variable interest entity ("VIE") should be included in the Company's consolidated financial statements. The provisions of FIN 46R require a VIE to be consolidated by a company if that company is considered the primary beneficiary of the VIE's activities. The Company has determined that the 100%-owned finance subsidiary Trusts are VIEs, but that the Company is not the primary beneficiary of the Trusts. Accordingly, the Company does not consolidate the activities of the Trusts into its financial statements, but instead reports its ownership interests in the Trusts as other assets and reports the subordinated debentures as a liability in the consolidated balance sheets. The distributions on the subordinated debentures are reported as interest expense in the accompanying consolidated statements of income.

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

Investment securities—Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 2007 and 2006, the Company has classified all of its investment securities as available for sale ("AFS").

AFS investment securities are stated at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. Such unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity and included in other comprehensive income (loss). Fair values are obtained from an independent pricing service and are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or other pricing methodologies. The Company also owns stock in the Federal Home Loan Bank of Dallas ("FHLB") and the Arkansas Bankers' Bancorporation, Inc. ("ABB"). These securities do not have readily determinable fair values and are carried at cost.

Declines in the fair value of investment securities below their cost are reviewed by the Company for other-than-temporary impairment. Factors considered during such review include the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the investment security for a period sufficient to allow for any anticipated recovery in fair value.

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

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

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

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

Mortgage loans held for sale are included in the Company's loans and leases and totaled \$5.4 million and \$6.7 million, respectively, at December 31, 2007 and 2006. Mortgage loans held for sale are carried at the lower of cost or fair value. Gains and losses from the sales of mortgage loans are the difference between the selling price of the loan and its carrying value, net of discounts and points, and are recognized when the loan is sold to investors and servicing rights are released.

As part of its standard mortgage lending practice, the Company issues a written put option, in the form of an interest rate lock commitment ("IRLC"), such that the interest rate on the mortgage loan is established prior to funding. In addition to the IRLC, the Company also enters into a forward sale commitment ("FSC") for the sale of its mortgage loans originations to reduce its market risk on such originations in process. The IRLC on mortgage loans held for sale and the FSC have been determined to be derivatives as defined by Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Accordingly, the fair values of derivative assets and liabilities for the Company's IRLC and FSC are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year-end. At December 31, 2007 and 2006, the Company had recorded IRLC and FSC derivative assets of \$80,000 and \$68,000, respectively, and had recorded corresponding derivative liabilities of \$80,000 and \$68,000, respectively. The notional amounts of loan commitments under the IRLC were \$8.4 million and \$8.2 million, respectively, at December 31, 2007 and 2006.

Allowance for loan and lease losses ("ALLL")—The ALLL is established through a provision for such losses charged against income. All or portions of loans or leases deemed to be uncollectible are charged against the ALLL when management believes that collectibility of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans or leases previously charged off are credited to the ALLL.

The ALLL is maintained at a level management believes will be adequate to absorb losses on existing loans and leases that may become uncollectible. Provision to and the adequacy of the ALLL are determined in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 5, "Accounting for Contingencies," and are based on evaluations of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances determined in accordance with SFAS No. 114. The Company also utilizes a peer group analysis and an historical analysis in an effort to validate the overall adequacy of its ALLL. The subjective criteria take into consideration such factors as the nature, mix and volume of the portfolio, overall portfolio quality, review of specific problem loans and leases, national, regional and local business and economic conditions that may affect the borrowers' or lessees' ability to pay, the value of collateral securing the loans and leases and other relevant factors. Changes in any of these criteria or the availability of new information could require adjustment of the ALLL in future periods. Except for the ALLL calculated under SFAS No. 114 for impaired loans and leases, no portion of the Company's ALLL is restricted to any individual loan or lease or group of loans or leases, and the entire ALLL is available to absorb losses from any and all loans and leases.

The Company's policy generally is to place a loan or lease on nonaccrual status when payment of principal or interest is contractually past due 90 days, or earlier when concern exists as to the ultimate collection of principal and interest. Nonaccrual loans or leases are generally returned to accrual status when principal and interest payments are less than 90 days past due and the Company reasonably expects to collect all principal and interest. The Company may continue to accrue interest on certain loans and leases contractually past due 90 days if such loans or leases are both well secured and in the process of collection.

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

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

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

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

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

The Company files consolidated tax returns. The Bank provides for income taxes on a separate return basis and remits to the Company amounts determined to be currently payable.

Bank owned life insurance ("BOLI")—BOLI consists of life insurance purchased by the Company on a qualifying group of officers with the Company designated as owner and beneficiary of the policies. The earnings on BOLI policies is used to offset a portion of employee benefit costs. BOLI is carried at the policies' cash surrender values with changes in cash surrender values reported in non-interest income.

Intangible assets—Intangible assets consist of goodwill, bank charter costs and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Company had goodwill of $5.2 million at both December 31, 2007 and 2006. As required by SFAS No. 142, the Company performed its annual impairment test of goodwill as of October 1, 2007. This test indicated no impairment of the Company's goodwill.

Bank charter costs represent costs paid to acquire a Texas bank charter and are being amortized over 20 years. Bank charter costs totaled $239,000 at both December 31, 2007 and 2006, less accumulated amortization of $46,000 and $33,000 at December 31, 2007 and 2006, respectively.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over 8 to 10 years. Core deposit intangibles totaled $2.3 million at both December 31, 2007 and 2006, less accumulated amortization of $1.9 million and $1.6 million at December 31, 2007 and 2006, respectively.

The aggregate amount of amortization expense for the Company's core deposit and bank charter intangibles is expected to be $214,000 in 2008; $110,000 per year in years 2009—2010; $56,000 in 2011; and $12,000 in 2012.

Earnings per share—Basic earnings per share is computed by dividing reported earnings available to common stockholders by the weighted-average number of shares outstanding. Diluted earnings per share is computed by dividing reported earnings available to common stockholders by the weighted-average number of shares outstanding after consideration of the dilutive effect of the Company's outstanding stock options.

Stock-based compensation—The Company has an employee stock option plan and a non-employee director stock option plan, which are described more fully in Note 11. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004) ("SFAS No. 123R") "Share-Based Payment," to account for these stock option plans. SFAS No. 123R eliminated the alternative to use the intrinsic value method of accounting for stock-based compensation that was provided for under the provisions of Accounting Principles Board Opinion No. 25. SFAS No. 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Such cost is to be recognized over the vesting period of the award.

As allowed by SFAS No. 123R, the Company is using the modified prospective application. Accordingly, the provisions of SFAS No. 123R apply to all new awards granted subsequent to December 31, 2005 and to all awards outstanding on January 1, 2006 for which the requisite service had not been rendered. Since the Company had previously adopted the fair value provisions of SFAS No. 123, as amended by SFAS No. 148, in accounting for its stock options, the adoption of SFAS No. 123R did not have a material impact on the Company's financial position, results of operations or liquidity.

For the years ended December 31, 2007 and 2006, the Company recognized $869,000 and $865,000, respectively, of non-interest expense as a result of applying the provisions of SFAS No. 123R to its stock option plans. For the year ended December 31, 2005, the Company recognized $614,000 of non-interest expense as a result of applying the provisions of SFAS No. 123, as amended by SFAS No. 148, to its stock option plans. The effect on net income and earnings per share if the Company had applied the fair value provisions of accounting for all of its stock-based employee compensation prior to the adoption of SFAS No. 123R and SFAS No. 123, as amended, is provided in Note 11.

Segment disclosures—SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers. As the Company operates in only one segment—community banking—SFAS No. 131 has no impact on the Company's financial statements or its disclosure of segment information. No revenues are derived from foreign countries and no single external customer comprises more than 10% of the Company's revenues.

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

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

In December 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 110. SAB No. 110 amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payments," as amended, and expresses the views of the SEC staff regarding the use of a "simplified" method in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123R. In particular, SAB No. 110 states that the SEC staff will continue to accept the use of a "simplified" method beyond December 31, 2007 in situations where a company does not have sufficient data to provide a reasonable basis upon which to estimate share option expected term. Management expects to continue to use a "simplified" method, as allowed by SAB No. 110, in developing an estimate of expected term of its options to purchase shares of the Company's common stock until such time as sufficient historical data is available to appropriately measure such expected share option term.

In November 2007, the SEC issued SAB No. 109, which amends and replaces Section DD of Topic 5, "Miscellaneous Accounting." SAB No. 109 expresses the views of the SEC staff regarding written loan commitments that are accounted for at fair value through earnings in accordance with SAB No. 105 and SFAS No. 133, as amended. SAB No. 109 requires the expected net future cash flows related to the associated servicing of the loan be included in the measurement of such written loan commitments. The provisions of SAB No. 109 are effective on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. Management has determined the adoption of SAB No. 109 will not have a material impact on the Company's financial position, results of operations or liquidity.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value with the objective of improving financial reporting. The provisions of SFAS No. 159 provide entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management does not expect SFAS No. 159 will have a material impact on the Company's financial position, results of operations or liquidity.

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements, with the intent of increasing consistency and comparability in fair value measures and providing financial users with better information about the extent to which fair value is used and their effect on earnings for the periods reported. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. Management has not yet determined the impact, if any, that adoption of SFAS No. 157 will have on the Company's financial position, results of operations or liquidity.

In September 2006, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-5 ("EITF 06-5"), "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4." The provisions of EITF 06-5 require that a policyholder of a BOLI contract should (i) consider separately any additional amounts or limitations included in the contractual terms of the policy other than the cash surrender value in determining the amount that could be realized under the contract in accordance with Technical Bulletin No. 85-4, (ii) determine the amount that could be realized under multiple contracts assuming surrender of each contract individually for situations where surrender of all contracts provides the policyholder an amount greater than does surrender of each contract individually, and (iii) not discount the cash surrender value component to be realized under the contract when contractual restrictions or the ability to surrender a policy exist, as long as the policyholder continues to participate in changes in the cash surrender value. EITF 06-5 was effective for fiscal years beginning after December 15, 2006, and did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2006 the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48, as amended, clarifies the accounting for uncertainty in income taxes recognized in financial statements by prescribing a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 were effective for fiscal years beginning after December 15, 2006, and did not have a material impact on the Company's financial position, results of operations or liquidity.

Reclassifications—Certain reclassifications of 2006 and 2005 amounts have been made to conform with the 2007 financial statements presentation. These reclassifications had no impact on prior years' net income, as previously reported.

## 2. Investment Securities

The following is a summary of the amortized cost and estimated fair values of investment securities, all of which are classified as AFS:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| **December 31, 2007:** | | | | |
| Mortgage-backed securities | $370,061 | $ — | $(25,715) | $344,346 |
| Obligations of states and political subdivisions | 163,339 | 3,695 | (567) | 166,467 |
| Securities of U.S. Government agencies | 51,982 | 67 | (2,311) | 49,738 |
| FHLB and ABB stock | 16,753 | — | — | 16,753 |
| Other securities | 1,044 | — | — | 1,044 |
| Total investment securities AFS | $603,179 | $ 3,762 | $(28,593) | $578,348 |
| **December 31, 2006:** | | | | |
| Mortgage-backed securities | $406,611 | $ 1,014 | $ (9,661) | $397,964 |
| Obligations of states and political subdivisions | 133,255 | 2,416 | (522) | 135,149 |
| Securities of U.S. Government agencies | 75,875 | — | (1,345) | 74,530 |
| FHLB and ABB stock | 11,489 | — | — | 11,489 |
| Other securities | 1,000 | — | — | 1,000 |
| Total investment securities AFS | $628,230 | $ 3,430 | $(11,528) | $620,132 |

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

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | | | (Dollars in thousands) | | | |
| **December 31, 2007:** | | | | | | |
| Mortgage-backed securities | $167,457 | $ 10,418 | $176,830 | $ 15,297 | $344,287 | $ 25,715 |
| Obligations of states and political subdivisions | 16,676 | 308 | 15,497 | 259 | 32,173 | 567 |
| Securities of U.S. Government agencies | 3,972 | 4 | 7,646 | 2,307 | 11,618 | 2,311 |
| Total temporarily impaired securities | $188,105 | $ 10,730 | $199,973 | $ 17,863 | $388,078 | $ 28,593 |
| **December 31, 2006:** | | | | | | |
| Mortgage-backed securities | $161,430 | $ 2,131 | $180,914 | $ 7,530 | $342,344 | $ 9,661 |
| Obligations of states and political subdivisions | 18,022 | 176 | 14,387 | 346 | 32,409 | 522 |
| Securities of U.S. Government agencies | 9,739 | 80 | 64,791 | 1,265 | 74,530 | 1,345 |
| Total temporarily impaired securities | $189,191 | $ 2,387 | $260,092 | $ 9,141 | $449,283 | $ 11,528 |

In evaluating the Company's unrealized loss positions for other-than-temporary impairment, management considers the credit quality of the issuer, the nature and cause of the unrealized loss and the severity and duration of the impairments. At December 31, 2007 and 2006, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. Accordingly, management believes that all of its unrealized losses on investment securities are temporary in nature, and the Company has both the ability and intent to hold these investments until maturity or until such time as fair value recovers above amortized cost.

A maturity distribution of investment securities AFS reported at amortized cost and estimated fair value as of December 31, 2007 is as follows:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| | (Dollars in thousands) | |
| Due in one year or less | $ 44,026 | $ 41,646 |
| Due after one year to five years | 186,234 | 177,134 |
| Due after five years to ten years | 238,045 | 222,217 |
| Due after ten years | 134,874 | 137,351 |
| Total | $603,179 | $578,348 |

For purposes of this maturity distribution, all investment securities are shown based on their contractual maturity date, except FHLB and ABB stock with no contractual maturity date which are shown in the longest maturity category and mortgage-backed securities which are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds and interest rate levels at December 31, 2007. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Sales activities of the Company’s investment securities AFS are summarized as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Sales proceeds | $56,240 | $157,954 | $9,013 |
| Gross realized gains | $ 530 | $ 3,924 | $ 213 |
| Gross realized losses | (10) | (7) | — |
| Net gains on sales | $ 520 | $ 3,917 | $ 213 |

Investment securities with carrying values of $502.8 million and $566.5 million at December 31, 2007 and 2006, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

**3. Loans and Leases**

The Company maintains a diversified loan and lease portfolio. The following is a summary of the loan and lease portfolio by principal category:

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Real estate: | | |
| Residential 1-4 family | $ 279,375 | $ 281,400 |
| Non-farm/non-residential | 445,303 | 433,998 |
| Construction/land development | 684,775 | 514,899 |
| Agricultural | 91,810 | 88,021 |
| Multifamily residential | 31,414 | 50,202 |
| Commercial and industrial | 173,128 | 148,853 |
| Consumer | 87,867 | 86,048 |
| Direct financing leases | 53,446 | 49,705 |
| Agricultural (non-real estate) | 22,439 | 22,298 |
| Other | 1,578 | 1,965 |
| Total loans and leases | $1,871,135 | $1,677,389 |

The Company’s direct financing leases include estimated residual values of $1.8 million at December 31, 2007 and $2.3 million at December 31, 2006, and are presented net of unearned income totaling $8.2 million and $8.3 million at December 31, 2007 and 2006, respectively. The above table includes deferred costs, net of deferred fees, that totaled $1.8 million and $1.4 million at December 31, 2007 and 2006, respectively. Loans and leases on which the accrual of interest has been discontinued aggregated $6.6 million and $5.7 million at December 31, 2007 and 2006, respectively. Interest income recorded during 2007, 2006 and 2005 for non-accrual loans and leases at December 31, 2007, 2006 and 2005 was $300,000, $264,000 and $126,000, respectively. Under the original terms, these loans and leases would have reported $574,000, $486,000 and $233,000 of interest income during 2007, 2006 and 2005, respectively.

## 4. Allowance for Loan and Lease Losses ("ALLL")

The following is a summary of activity within the ALLL:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Balance—beginning of year | $17,699 | $17,007 | $16,133 |
| Loans and leases charged off | (4,644) | (2,065) | (1,784) |
| Recoveries of loans and leases previously charged off | 352 | 307 | 358 |
| Net loans and leases charged off | (4,292) | (1,758) | (1,426) |
| Provision charged to operating expense | 6,150 | 2,450 | 2,300 |
| Balance—end of year | $19,557 | $17,699 | $17,007 |

Impairment of loans and leases having carrying values of $6.8 million ($6.6 million of which were on non-accrual basis) at December 31, 2007 and $5.7 million (all of which were on a non-accrual basis) at December 31, 2006 has been recognized in conformity with SFAS No. 114. Impaired loans and leases had an allowance allocated which totaled $1.1 million and $0.9 million at December 31, 2007 and 2006, respectively. The average carrying value of these impaired loans and leases was $4.8 million, $3.9 million and $3.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Real estate and other collateral securing loans having a carrying value of $8.3 million and $1.5 million were transferred to foreclosed assets held for sale in 2007 and 2006, respectively. The Company is not committed to lend additional funds to debtors whose loans have been transferred to foreclosed assets.

## 5. Premises and Equipment

The following is a summary of premises and equipment:

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Land | $ 55,722 | $ 53,837 |
| Construction in process | 6,124 | 2,432 |
| Buildings and improvements | 62,376 | 53,371 |
| Leasehold improvements | 5,786 | 5,904 |
| Equipment | 18,963 | 17,114 |
| | 148,971 | 132,658 |
| Accumulated depreciation | (18,923) | (15,979) |
| Premises and equipment, net | $130,048 | $116,679 |

The Company capitalized $1.3 million, $1.0 million and $0.4 million of interest on construction projects during the years ended December 31, 2007, 2006 and 2005, respectively. Included in occupancy expense is rent of $657,000, $696,000 and $691,000 incurred under noncancelable operating leases in 2007, 2006 and 2005, respectively, for leases of real estate in connection with buildings and premises. These leases contain certain renewal and purchase options according to the terms of the agreements. Future amounts due under noncancelable operating leases at December 31, 2007 are as follows: $534,000 in 2008, $389,000 in 2009, $307,000 in 2010, $220,000 in 2011, $220,000 in 2012 and $2,250,000 thereafter. Rental income recognized during 2007, 2006 and 2005 for leases of buildings and premises and for equipment leased under operating leases was $517,000, $638,000 and $624,000, respectively.

## 6. Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $906.7 million and $877.9 million at December 31, 2007 and 2006, respectively.

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Up to one year | $1,284,475 | $1,324,361 |
| Over one to two years | 89,860 | 28,262 |
| Over two to three years | 1,694 | 3,830 |
| Over three to four years | 651 | 645 |
| Over four to five years | 1,015 | 693 |
| Thereafter | 59 | 33 |
| Total time deposits | $1,377,754 | $1,357,824 |

**7. Borrowings**

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

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (Dollars in thousands) | |
| Average annual balance | $ 74,192 | $221,300 |
| December 31 balance | 15,461 | 133,427 |
| Maximum month-end balance during year | 122,427 | 280,784 |
| Interest rate: | | |
| Weighted-average—year | 5.06% | 4.99% |
| Weighted-average—December 31 | 3.58 | 5.23 |

At December 31, 2007 and 2006, the Company had FHLB advances with original maturities exceeding one year of $321.1 million and $61.2 million, respectively. These advances bear interest at rates ranging from 3.16% to 6.43% at December 31, 2007, with a weighted-average rate of 4.34%, and are collateralized by a blanket lien on a substantial portion of the Company's real estate loans. At December 31, 2007, the Bank had $236.3 million of unused FHLB borrowing availability.

FHLB advances of $60 million maturing in 2010 at a weighted-average rate of 6.27% and FHLB advances of $105 million maturing in 2017 at a weighted-average rate of 3.93% are callable on a quarterly basis. FHLB advances of $110 million maturing in 2017 at a weighted-average rate of 3.81% are callable quarterly beginning in the first quarter of 2008. FHLB advances of $25 million maturing in 2017 at a weighted-average rate of 3.94% are callable quarterly beginning in the second quarter of 2008. FHLB advances of $20 million maturing in 2017 at a weighted-average rate of 4.10% are callable quarterly beginning in the third quarter of 2008.

At December 31, 2007, aggregate annual maturities and weighted-average rates of FHLB advances with an original maturity of over one year were as follows:

| Maturity | Amount | Weighted-Average Rate |
|---|---|---|
| | (Dollars in thousands) | |
| 2008 | $ 229 | 6.10% |
| 2009 | 33 | 4.81 |
| 2010 | 60,034 | 6.27 |
| 2011 | 31 | 4.80 |
| 2012 | 21 | 4.64 |
| Thereafter | 260,724 | 3.90 |
| | $321,072 | 4.34 |

**8. Subordinated Debentures**

At December 31, 2007 the Company had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts:

| Description | Subordinated Debentures Owed to Trusts | Trust Preferred Securities of the Trusts | Interest Rate at December 31, 2007 | Final Maturity Date |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Ozark III | $ 14,434 | $ 14,000 | 8.19% | September 25, 2033 |
| Ozark II | 14,433 | 14,000 | 7.73 | September 29, 2033 |
| Ozark IV | 15,464 | 15,000 | 7.24 | September 28, 2034 |
| Ozark V | 20,619 | 20,000 | 6.59 | December 15, 2036 |
| | $ 64,950 | $ 63,000 | | |

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

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

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

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

At both December 31, 2007 and 2006, the Company had an aggregate of $64.9 million of subordinated debentures outstanding and had an asset of $1.9 million representing its investment in the common equity issued by the Trusts. The sole assets of the Trusts are the respective adjustable rate debentures and the liabilities of the respective Trusts are the 2003 Securities, the 2004 Securities, the 2006 Securities and the aggregate trust common equity of $1.9 million. At both December 31, 2007 and 2006, the Trusts did not have any restricted net assets. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all obligations of the Trusts with respect to the 2003 Securities, the 2004 Securities and the 2006 Securities. Additionally, there are no restrictions on the ability of the Trusts to transfer funds to the Company in the form of cash dividends, loans or advances.

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

**9. Income Taxes**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Current: | | | |
| Federal | $13,332 | $12,100 | $11,574 |
| State | 2,170 | 1,670 | 2,364 |
| Total current | 15,502 | 13,770 | 13,938 |
| Deferred: | | | |
| Federal | (938) | (412) | 24 |
| State | (119) | 60 | (3) |
| Total deferred | (1,057) | (352) | 21 |
| Provision for income taxes | $14,445 | $13,418 | $13,959 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in taxes resulting from: | | | |
| State income taxes, net of federal benefit | 2.9 | 2.5 | 3.4 |
| Effect of non-taxable interest income | (4.2) | (5.6) | (5.8) |
| Effect of BOLI and other non-taxable income | (1.6) | (1.6) | (1.5) |
| Other, net | (0.8) | (0.6) | (0.4) |
| Effective income tax rate | 31.3% | 29.7% | 30.7% |

Income tax benefits from the exercise of stock options in the amount of $0.4 million, $0.9 million and $1.9 million in 2007, 2006 and 2005, respectively, were recorded as an increase to additional paid-in capital.

At December 31, 2007 and 2006, income taxes refundable of $0.7 million and $1.9 million, respectively, were included in other assets.

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

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Allowance for loan and lease losses | $ 7,671 | $ 6,942 |
| Stock-based compensation under the fair value method | 940 | 673 |
| Unrealized depreciation of investment securities AFS | 9,740 | 3,176 |
| Gross deferred tax assets | 18,351 | 10,791 |
| Deferred tax liabilities: | | |
| Accelerated depreciation on premises and equipment | 4,415 | 4,116 |
| Direct financing leases | 736 | 897 |
| FHLB stock dividends | 875 | 1,034 |
| Other, net | 655 | 590 |
| Gross deferred tax liabilities | 6,681 | 6,637 |
| Net deferred tax assets | $11,670 | $ 4,154 |

**10. Employee Benefit Plans**

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

Contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options. Distributions from participant accounts are not permitted before age 65, except in the event of death, permanent disability, certain financial hardships or termination of employment. The Company made matching cash contributions to the 401(k) Plan during 2007, 2006 and 2005 of $311,000, $483,000 and $419,000, respectively.

Prior to January 1, 2005, all full-time employees of the Company were eligible to participate in the 401(k) Plan. Beginning January 1, 2005, certain key employees of the Company have been excluded from further salary deferrals to the 401(k) Plan, but may make salary deferrals through participation in the Bank of the Ozarks, Inc. Deferred Compensation Plan (the “Plan”). The Plan, an unfunded deferred compensation arrangement for the group of employees designated as key employees, including certain of the Company’s executive officers, was adopted by the Company’s board of directors on December 14, 2004 and became effective January 1, 2005. Under the terms of the Plan, eligible participants may elect to defer a portion of their compensation. Such deferred compensation will be distributable in lump sum or specified installments upon separation from service with the Company or upon other specified events as defined in the Plan. The Company has the ability to make a contribution to each participant’s account, limited to one half of the first 6% of compensation deferred by the participant and subject to certain other limitations. Amounts deferred under the Plan are to be invested in certain approved investments (excluding securities of the Company or its affiliates). Company contributions to the Plan in 2007 and 2006 totaled $103,000 and $84,000, respectively. At December 31, 2007 and 2006, the Company had Plan assets, along with an equal amount of liabilities, totaling $1.4 million and $0.8 million, respectively, recorded on the accompanying consolidated balance sheet.

**11. Stock-Based Compensation**

The Company has a nonqualified stock option plan for certain key employees and officers of the Company. This plan provides for the granting of nonqualified options to purchase up to 1.5 million shares of common stock in the Company. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. While the vesting period and the termination date for the employee plan options is determined when options are granted, all such employee options outstanding at December 31, 2007 were issued with a vesting period of three years and an expiration of seven years after issuance. The Company also has a nonqualified stock option plan for non-employee directors. The non-employee director plan calls for options to purchase 1,000 shares of common stock to be granted to each non-employee director the day after the annual stockholders’ meeting. Additionally, a non-employee director elected or appointed for the first time as a director on a date other than an annual meeting shall be granted an option to purchase 1,000 shares of common stock. These options are exercisable immediately and expire ten years after issuance. All shares issued in connection with options exercised under both the employee and non-employee director stock option plans are in the form of newly-issued shares.

The following table summarizes stock option activity for the year ended December 31, 2007:

| | Options | Weighted-Average Exercise Price/Share | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding—January 1, 2007 | 489,550 | $ 23.43 | | |
| Granted | 122,600 | 30.97 | | |
| Exercised | (71,700) | 7.62 | | |
| Forfeited | (19,800) | 27.76 | | |
| Outstanding—December 31, 2007 | 520,650 | $ 27.22 | 4.9 | $ 1,761(1) |
| Exercisable—December 31, 2007 | 222,200 | $ 19.76 | 3.8 | $ 1,761(1) |

(1)Based on average trade value of $26.20 per share on December 29, 2007.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. The total intrinsic value of options exercised during 2007, 2006 and 2005 was $1.6 million, $2.0 million and $4.8 million, respectively.

Options to purchase 122,600 shares, 111,800 shares and 128,200 shares, respectively, were granted during 2007, 2006 and 2005. The weighted-average fair value of options granted during 2007, 2006 and 2005 were $7.37, $9.10 and $10.62, respectively. The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions shown below. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the current annual dividend level and recent stock price of the Company's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the Company's common stock. The expected life of the options is calculated based on the "simplified" method as provided for under SAB No. 110 as management continues to gather sufficient historical experience data to appropriately estimate the expected term of options to purchase shares of the Company's common stock outstanding.

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Risk-free interest rate | 4.40% | 4.76% | 4.27% |
| Expected dividend yield | 1.54% | 1.23% | 1.16% |
| Expected stock volatility | 22.4% | 26.2% | 30.7% |
| Expected life (years) | 5.0 | 5.0 | 5.0 |

The total fair value of options to purchase shares of the Company's common stock that vested during the years ended 2007, 2006 and 2005 was $0.6 million, $0.6 million and $0.3 million, respectively. Total unrecognized compensation cost related to nonvested stock-based compensation was $1.4 million at December 31, 2007 and is expected to be recognized over a weighted-average period of 2.1 years.

The following table illustrates the effects on net income and EPS for the years indicated had the Company applied the fair value provisions of accounting for its stock options granted prior to January 1, 2003:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands, except per share data) | | |
| Net income, as reported | $ 31,746 | $ 31,693 | $ 31,489 |
| Add: Total stock-based compensation expense, net of related tax effects included in reported net income | 528 | 526 | 373 |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects | (528) | (526) | (393) |
| Pro forma net income | $ 31,746 | $ 31,693 | $ 31,469 |
| Earnings per share: | | | |
| Basic—as reported | $ 1.89 | $ 1.90 | $ 1.89 |
| Basic—pro forma | 1.89 | 1.90 | 1.89 |
| Diluted—as reported | $ 1.89 | $ 1.89 | $ 1.88 |
| Diluted—pro forma | 1.89 | 1.89 | 1.88 |

**12. Commitments and Contingencies**

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

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

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

The Company had outstanding commitments to extend credit, excluding mortgage IRLCs, of $412.7 million and $441.7 million at December 31, 2007 and 2006, respectively. The commitments extend over varying periods of time with the majority to be disbursed or to expire within a one-year period.

Outstanding standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer in third party borrowing arrangements. The term of the letters of credit are generally for a period of one year. The maximum amount of future payments the Company could be required to make under these letters of credit at December 31, 2007 and 2006 is $7.6 million and $10.0 million, respectively. The Company holds collateral to support letters of credit when deemed necessary. The total of collateralized commitments at December 31, 2007 and 2006 was $5.2 million and $7.4 million, respectively.

**13. Related Party Transactions**

The Company has had, in the ordinary course of business, lending transactions with certain of its officers, directors, director nominees and their related and affiliated parties (related parties). The aggregate amount of loans to such related parties at December 31, 2007 and 2006 was $17.8 million and $39.8 million, respectively. New loans and advances on prior commitments made to such related parties were $3.3 million, $22.1 million and $3.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. Repayments of loans made by such related parties were $25.3 million, $7.6 million and $9.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. Also, during 2006 and 2005, advances totaling $0.8 million and $12.9 million, respectively, were added to the Company's related party loans as a result of changes in the composition of the Company's related parties.

**14. Regulatory Matters**

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

Federal regulatory agencies generally require the Company and the Bank to maintain minimum Tier 1 and total capital to risk-weighted assets of 4.0% and 8.0%, respectively, and Tier 1 capital to average quarterly assets (leverage ratio) of at least 3.0%. Tier 1 capital generally consists of common equity, retained earnings, certain types of preferred stock, qualifying minority interest and trust preferred securities, subject to limitations, and excludes goodwill and various intangible assets. Total capital includes Tier 1 capital, any amounts of trust preferred securities excluded from Tier 1 capital, and the lesser of the ALLL or 1.25% of risk-weighted assets. At December 31, 2007 the Company's and the Bank's Tier 1 and total capital ratios and their leverage ratios exceeded minimum requirements.

The actual and required capital amounts and ratios of the Company and the Bank at December 31, 2007 and 2006 were as follows:

| | Actual | | Required: For Capital Adequacy Purposes | | Required: To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **December 31, 2007:** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Company | $282,600 | 12.67% | $178,425 | 8.00% | $223,031 | 10.00% |
| Bank | 255,679 | 11.51 | 177,683 | 8.00 | 222,104 | 10.00 |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Company | 263,043 | 11.79 | 89,212 | 4.00 | 133,819 | 6.00 |
| Bank | 236,122 | 10.63 | 88,841 | 4.00 | 133,262 | 6.00 |
| Tier 1 capital (to average assets): | | | | | | |
| Company | 263,043 | 9.80 | 80,500 | 3.00 | 134,166 | 5.00 |
| Bank | 236,122 | 8.82 | 80,280 | 3.00 | 133,800 | 5.00 |
| **December 31, 2006:** | | | | | | |
| Total capital (to risk-weighted assets): | | | | | | |
| Company | $254,114 | 12.76% | $159,326 | 8.00% | $199,159 | 10.00% |
| Bank | 214,515 | 10.83 | 158,453 | 8.00 | 198,066 | 10.00 |
| Tier 1 capital (to risk-weighted assets): | | | | | | |
| Company | 233,266 | 11.71 | 79,663 | 4.00 | 119,494 | 6.00 |
| Bank | 196,816 | 9.94 | 79,227 | 4.00 | 118,840 | 6.00 |
| Tier 1 capital (to average assets): | | | | | | |
| Company | 233,266 | 9.39 | 74,564 | 3.00 | 124,273 | 5.00 |
| Bank | 196,816 | 7.95 | 74,225 | 3.00 | 123,709 | 5.00 |

As of December 31, 2007 and 2006, the most recent notification from the regulators categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or the Bank's category.

As of December 31, 2007, the state bank commissioner's approval was required before the Bank could declare and pay any dividend of 75% or more of the net profits of the bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year. At December 31, 2007 and 2006, $38.1 million and $38.8 million, respectively, was available for payment of dividends by the Bank without the approval of regulatory authorities.

Under FRB regulation, the Bank is also limited as to the amount it may loan to its affiliates, including the Company, and such loans must be collateralized by specific obligations. The maximum amount available for loan from the Bank to the Company is limited to 10% of the Bank's capital and surplus or approximately $22.6 million and $19.7 million, respectively, at December 31, 2007 and 2006.

The Bank is required by bank regulatory agencies to maintain certain minimum balances of cash or non-interest bearing deposits primarily with the FRB. At December 31, 2007 and 2006, these required balances aggregated $3.3 million and $8.1 million, respectively.

**15. Fair Value of Financial Instruments**

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

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

Investment securities—For securities held for investment purposes, fair values are obtained from an independent pricing service and are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or other pricing methodologies. Investments in FHLB and ABB stock do not have readily determinable fair values and are carried at costs.

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

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

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

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

Subordinated debentures—The carrying values of these instruments approximate their fair values as the interest rates on these instruments adjust quarterly based on 90-day LIBOR.

Accrued interest—The carrying amounts of accrued interest receivable and payable approximate their fair values.

Off-balance sheet instruments—The fair values of commercial loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of IRLC and FSC derivative assets and liabilities are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year-end.

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

The following table presents the estimated fair values of the Company's financial instruments:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 47,521 | $ 47,521 | $ 42,734 | $ 42,734 |
| Investment securities AFS | 578,348 | 578,348 | 620,132 | 620,132 |
| Loans and leases, net of ALLL | 1,851,578 | 1,841,815 | 1,659,690 | 1,637,170 |
| Accrued interest receivable | 17,420 | 17,420 | 17,384 | 17,384 |
| Derivative assets—IRLC and FSC | 80 | 80 | 68 | 68 |
| Financial liabilities: | | | | |
| Demand, NOW, savings and money market account deposits | $ 679,307 | $ 679,307 | $ 687,268 | $ 687,268 |
| Time deposits | 1,377,754 | 1,377,836 | 1,357,824 | 1,354,908 |
| Repurchase agreements with customers | 46,086 | 46,086 | 41,001 | 41,001 |
| Other borrowings | 336,533 | 321,514 | 194,661 | 197,564 |
| Subordinated debentures | 64,950 | 64,908 | 64,950 | 64,950 |
| Accrued interest payable | 6,684 | 6,684 | 5,182 | 5,182 |
| Derivative liabilities—IRLC and FSC | 80 | 80 | 68 | 68 |

**16. Supplemental Cash Flow Information**

Supplemental cash flow information is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Cash paid during the period for: | | | |
| Interest | $ 97,867 | $82,653 | $43,191 |
| Income taxes | 12,917 | 15,415 | 8,887 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Transfer of loans to foreclosed assets held for sale | 8,345 | 1,504 | 4,664 |
| Loans advanced for sales of foreclosed assets | 1,487 | 168 | 265 |
| Net change in unrealized gains and losses on investment securities AFS | (16,733) | (3,863) | (1,305) |

## 17. Other Operating Expenses

The following is a summary of other operating expenses:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Postage and supplies | $ 1,620 | $ 1,910 | $ 1,620 |
| Telephone and data lines | 1,415 | 1,651 | 1,371 |
| Advertising and public relations | 1,057 | 1,545 | 1,325 |
| Professional and outside services | 1,077 | 1,129 | 886 |
| Software | 1,201 | 1,068 | 823 |
| Other | 5,123 | 4,551 | 4,324 |
| Total other operating expenses | $11,493 | $11,854 | $10,349 |

## 18. Earnings Per Share ("EPS")

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (In thousands, except per share amounts) | | |
| Numerator: | | | |
| Net income | $ 31,746 | $ 31,693 | $ 31,489 |
| Denominator: | | | |
| Denominator for basic EPS—weighted-average shares | 16,789 | 16,723 | 16,640 |
| Effect of dilutive securities—stock options | 45 | 80 | 126 |
| Denominator for diluted EPS—weighted-average shares and assumed conversions | 16,834 | 16,803 | 16,766 |
| Basic EPS | $ 1.89 | $ 1.90 | $ 1.89 |
| Diluted EPS | $ 1.89 | $ 1.89 | $ 1.88 |

Options to purchase 340,150 shares, 120,750 shares and 85,400 shares, respectively, of the Company's common stock at a weighted-average exercise price of $32.62 per share, $34.86 per share and $35.42 per share, respectively, were outstanding during 2007, 2006 and 2005, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares and inclusion would have been antidilutive.

## 19. Parent Company Financial Information

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

### Condensed Balance Sheets

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Assets | | |
| Cash | $ 20,081 | $ 31,677 |
| Investment in consolidated bank subsidiary | 225,816 | 196,941 |
| Investment in unconsolidated Trusts | 1,950 | 1,950 |
| Other investments, net | 2,143 | 4,348 |
| Loans | 2,438 | — |
| Land for future branch site | 1,855 | 1,852 |
| Excess cost over fair value of net assets acquired | 1,092 | 1,092 |
| Income taxes refundable | — | 1,411 |
| Other, net | 1,073 | 828 |
| Total assets | $256,448 | $240,099 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable and other liabilities | $ 29 | $ 41 |
| Accrued interest payable | 453 | 475 |
| Income taxes payable | 187 | — |
| Subordinated debentures | 64,950 | 64,950 |
| Total liabilities | 65,619 | 65,466 |
| Stockholders' equity: | | |
| Common stock | 168 | 167 |

| | | |
|---|---|---|
| Additional paid-in capital | 38,613 | 36,779 |
| Retained earnings | 167,139 | 142,609 |
| Accumulated other comprehensive income (loss) | (15,091) | (4,922) |
| Total stockholders' equity | 190,829 | 174,633 |
| Total liabilities and stockholders' equity | $256,448 | $240,099 |

**Condensed Statements of Income**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Income: | | | |
| Dividends from Bank | $12,600 | $ 8,300 | $ 6,100 |
| Dividends from Trusts | 152 | 116 | 81 |
| Interest | 94 | — | — |
| Other | 180 | 374 | 220 |
| Total income | 13,026 | 8,790 | 6,401 |
| Expenses: | | | |
| Interest | 5,066 | 3,867 | 2,693 |
| Other operating expenses | 2,072 | 2,108 | 1,911 |
| Total expenses | 7,138 | 5,975 | 4,604 |
| Income before income tax benefit and equity in undistributed earnings of Bank | 5,888 | 2,815 | 1,797 |
| Income tax benefit | 2,814 | 2,296 | 1,840 |
| Equity in undistributed earnings of Bank | 23,044 | 26,582 | 27,852 |
| Net income | $31,746 | $31,693 | $31,489 |

**Condensed Statements of Cash Flows**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | $ 31,746 | $ 31,693 | $ 31,489 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of Bank | (23,044) | (26,582) | (27,852) |
| Deferred income tax benefit | (341) | (353) | (245) |
| Compensation expense under stock-based compensation plans | 869 | 865 | 614 |
| Tax benefits on exercise of stock options | (420) | (880) | (1,864) |
| Changes in other assets and other liabilities | 2,013 | (2,522) | 3,586 |
| Net cash provided by operating activities | 10,823 | 2,221 | 5,728 |
| Cash flows from investing activities: | | | |
| Net increase in loans | (2,438) | — | — |
| Purchase of premises and equipment | — | — | (1,853) |
| Proceeds from sales of other investments | 2,269 | — | — |
| Purchase of other investments | — | (1,000) | — |
| Cash paid for interest in unconsolidated Trusts | — | (619) | — |
| Equity contributed to Bank | (16,000) | (10,000) | — |
| Net cash used by investing activities | (16,169) | (11,619) | (1,853) |
| Cash flows from financing activities: | | | |
| Proceeds from exercise of stock options | 546 | 824 | 974 |
| Proceeds from issuance of subordinated debentures | — | 20,619 | — |
| Tax benefits on exercise of stock options | 420 | 880 | 1,864 |
| Cash dividends paid | (7,216) | (6,684) | (6,151) |
| Net cash (used) provided by financing activities | (6,250) | 15,639 | (3,313) |
| Net (decrease) increase in cash | (11,596) | 6,241 | 562 |
| Cash—beginning of year | 31,677 | 25,436 | 24,874 |
| Cash—end of year | $ 20,081 | $ 31,677 | $ 25,436 |

EX-21 3 dex21.htm SUBSIDIARIES OF THE REGISTRANT

**Exhibit 21**

**Subsidiaries of the Registrant**

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

EX-23.1 4 dex231.htm CONSENT OF CROWE CHIZEK AND COMPANY LLC

**Exhibit 23.1**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-32173) pertaining to the Bank of the Ozarks, Inc. Stock Option Plan, (Form S-8 No. 333-74577) pertaining to the Bank of the Ozarks, Inc. 401(k) Retirement Savings Plan, and (Form S-8 No. 333-32175) pertaining to the Bank of the Ozarks, Inc. Non-employee Director Stock Option Plan, of our reports dated February 22, 2008 with respect to the consolidated financial statements of Bank of the Ozarks, Inc. and the effectiveness of internal control over financial reporting, which are incorporated by reference in this Annual Report on Form 10-K of Bank of the Ozarks, Inc. for the year ended December 31, 2007.

/s/ Crowe Chizek and Company LLC

Brentwood, Tennessee
March 11, 2008

EX-23.2 5 dex232.htm CONSENT OF ERNST & YOUNG LLP

**Exhibit 23.2**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Bank of the Ozarks, Inc. of our report dated March 9, 2006, with respect to the consolidated statements of income, stockholders' equity, and cash flows of Bank of the Ozarks, Inc., included in the 2007 Annual Report to Shareholders of Bank of the Ozarks, Inc.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-32173) pertaining to the Bank of the Ozarks, Inc. Stock Option Plan, (Form S-8 No. 333-74577) pertaining to the Bank of the Ozarks, Inc. 401(k) Retirement Savings Plan, and (Form S-8 No. 333-32175) pertaining to the Bank of the Ozarks, Inc. Non-employee Director Stock Option Plan, of our report dated March 9, 2006, with respect to the consolidated statements of income, stockholders' equity, and cash flows of Bank of the Ozarks, Inc., incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Dallas, Texas
March 10, 2008

EX-31.1 6 dex311.htm CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**Exhibit 31.1**

CERTIFICATIONS

I, George Gleason, certify that:

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

Date: March 12, 2008

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

# EX-31.2 7 dex312.htm CERTIFICATION OF CHIEF FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER

**Exhibit 31.2**

I, Paul Moore, certify that:

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

Date: March 12, 2008

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

EX-32.1 8 dex321.htm CERTIFICATION OF CHAIRMAN AND CEO PURSUANT TO SECITON 1350

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Bank of the Ozarks, Inc. (the Company) on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 12, 2008

/s/ George Gleason

George Gleason
Chairman and Chief Executive Officer

EX-32.2 9 dex322.htm CERTIFICATION OF CFO AND CHIEF ACCOUNTING OFFICER PURSUANT TO SECTION 1350

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18**
**U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Bank of the Ozarks, Inc. (the Company) on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Paul Moore, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 12, 2008

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