

CHIASMA, INC
Form 10-Q
May 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-37500

Chiasma, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
460 Totten Pond Road, Suite 530
Waltham, Massachusetts 02451
(Address of principal executive office) (Zip Code)

76-0722250
(I.R.S. Employer
Identification No.)

Registrant's telephone number, including area code:
(617) 928-5300

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 7, 2018, there were 24,383,994 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. These statements include all matters that are not related to present facts or current conditions or that are not historical facts, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth. The words anticipate, believe, could, continue, should, predict, expect, intend, may, plan, potentially, will, would, or the negative of these terms or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, but are not limited to, statements about:

the U.S. regulatory review process of our New Drug Application, or NDA, for octreotide capsules in acromegaly, and our efforts to conduct and complete a Phase 3 clinical trial of octreotide capsules in adult acromegaly patients per our agreement with the FDA under a Special Protocol Assessment, or SPA, to potentially enable us to resubmit our NDA to the U.S. Food and Drug Administration, or the FDA, in order to secure regulatory approval of octreotide capsules in acromegaly;

our ability to preserve patients, sites and other resources necessary to enable us to simultaneously conduct two Phase 3 clinical trials in adult patients with acromegaly; and to produce data packages from each trial that could be suitable for submission in both the United States and the European Union;

any regulatory approvals that may be issued or denied by the FDA, the European Medicines Agency, or EMA, or other regulatory agencies for octreotide capsules in acromegaly or other indications;

the therapeutic benefits, effectiveness and safety of octreotide capsules;

our estimates of the size and characteristics of the markets that may be addressed by octreotide capsules;

the commercial success and market acceptance of octreotide capsules or any future product candidates that are approved for marketing in the United States or other countries;

our ability to generate future revenue;

the number, designs, results and timing of our clinical trials of octreotide capsules and the timing of the commencement and availability of data from these trials;

the safety and efficacy of therapeutics marketed by our competitors that are targeted to indications which octreotide capsules have been developed to treat;

our ability to leverage our Transient Permeability Enhancer, or TPE, platform to develop and commercialize novel oral product candidates incorporating peptides that are currently only available in injectable or other non-absorbable forms;

the possibility that competing products or technologies may make octreotide capsules, other product candidates we may develop and commercialize or our TPE technology obsolete;

our ability to manufacture sufficient amounts of octreotide capsules for clinical trials and commercialization activities;

our ability to secure collaborators to license, manufacture, market and sell octreotide capsules or any products for which we receive regulatory approval in the future;

our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;

our product development and operational plans generally; and

our estimates and expectations regarding our capital requirements, cash and expense levels and liquidity sources.

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We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in the section titled Risk Factors and elsewhere in this Quarterly Report on Form 10-Q and our prior filings with the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in, or implied by, any forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to we, us, our and Chiasma refer to Chiasma, Inc. and our subsidiaries. We own various U.S. federal trademark registrations and applications, and unregistered trademarks and service marks, including Chiasma, TPE, MYCAPSSA and our corporate logo. Other trademarks or service marks that may appear in this Quarterly Report on Form 10-Q are the property of their respective holders. For convenience, we do not use the ® and symbols in each instance in which one of our trademarks appears throughout this Quarterly Report on Form 10-Q, but this should not be construed as any indication that we will not assert, to the fullest extent under applicable law, our rights thereto. We do not intend to use or display other companies trademarks and trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

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Chiasma, Inc.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Chiasma, Inc.****Condensed Consolidated Balance Sheets**

	March 31, 2018 Unaudited	December 31, 2017
	(in thousands except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 15,248	\$ 14,603
Marketable securities	45,250	52,336
Prepaid expenses and other current assets	1,688	1,768
Total current assets	62,186	68,707
Property and equipment, net	175	193
Other assets	986	983
Total assets	\$ 63,347	\$ 69,883
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 2,295	\$ 1,017
Accrued expenses	4,409	4,033
Other current liabilities		1,695
Total current liabilities	6,704	6,745
Long-term liabilities	586	664
Total liabilities	7,290	7,409
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock, \$0.01 par value; authorized 125,000,000 shares at March 31, 2018 and December 31, 2017; issued and outstanding 24,383,994 shares at March 31, 2018 and 24,381,605 shares at December 31, 2017	244	244
Preferred stock, \$0.01 par value; authorized 5,000,000 shares; none outstanding		
Additional paid-in capital	268,304	267,642
Accumulated other comprehensive loss	(95)	(59)
Accumulated deficit	(212,396)	(205,353)

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Total stockholders equity	56,057	62,474
Total liabilities and stockholders equity	\$ 63,347	\$ 69,883

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**Chiasma, Inc.****Condensed Consolidated Statements of Operations***(Unaudited)*

	For the Three Months Ended March 31,	
	2018	2017
	(in thousands except share and per share data)	
Operating expenses:		
General and administrative	\$ 2,434	\$ 2,460
Research and development	4,863	4,655
Total operating expenses	7,297	7,115
Loss from operations	(7,297)	(7,115)
Other income, net	(230)	(160)
Loss before income taxes	(7,067)	(6,955)
Provision (benefit) for income taxes	(24)	65
Net loss	(7,043)	(7,020)
Earnings per share attributable to common stockholders		
Basic	\$ (0.29)	\$ (0.29)
Diluted	\$ (0.29)	\$ (0.29)
Weighted-average shares outstanding:		
Basic	24,381,924	24,359,584
Diluted	24,381,924	24,359,584

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**Chiasma, Inc.****Condensed Consolidated Statements of Comprehensive Loss***(Unaudited)*

	For the Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net loss	\$ (7,043)	\$ (7,020)
Other comprehensive loss:		
Unrealized losses on available for sale securities, net	(36)	(22)
Total other comprehensive loss	(36)	(22)
Comprehensive loss	\$ (7,079)	\$ (7,042)

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**Chiasma, Inc.****Condensed Consolidated Statements of Cash Flows***(Unaudited)*

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Operating Activities:		
Net loss	\$ (7,043)	\$ (7,020)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	23	40
Stock-based compensation	637	719
Amortization of discount on marketable securities, net	(54)	(73)
Provision for deferred income taxes		5
Non-cash interest expense	5	36
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	80	341
Accounts payable and accrued expenses	1,654	(457)
Other assets	(3)	(7)
Other current and long-term liabilities	(53)	102
Net cash used in operating activities	(4,754)	(6,314)
Investing Activities:		
Purchase of marketable securities	(7,673)	(40,779)
Maturities of marketable securities	14,777	30,772
Purchases of property and equipment	(5)	(3)
Net cash provided by (used in) investing activities	7,099	(10,010)
Financing Activities:		
Payment under license termination agreement	(1,700)	(1,700)
Net cash used in financing activities	(1,700)	(1,700)
Net increase (decrease) in cash and cash equivalents	645	(18,024)
Cash and cash equivalents, beginning of period	14,603	37,013
Cash and cash equivalents, end of period	\$ 15,248	\$ 18,989

See accompanying notes to these unaudited condensed consolidated financial statements.

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CHIASMA, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2018

1. Description of Business and Summary of Significant Accounting Policies

Chiasma, Inc. is a clinical-stage biopharmaceutical company incorporated in 2001 under the laws of the State of Delaware. Chiasma, Inc. is headquartered in Massachusetts and has two wholly owned subsidiaries; Chiasma (Israel) Ltd., and Chiasma Securities Corp, collectively referred to as the Company, we, us, our or Chiasma. We are a clinical-stage biopharmaceutical company focused on improving the lives of patients who face challenges associated with their existing treatments for rare and serious chronic disease. Employing our proprietary Transient Permeability Enhancer (TPE) technology platform, we seek to develop oral medications that are currently available only as injections. We are currently developing oral octreotide capsules, conditionally trade-named MYCAPSSA, our sole TPE platform-based clinical product candidate, in two Phase 3 clinical trials in adult patients for the treatment of acromegaly to potentially support regulatory approval in the United States and European Union. Acromegaly is a rare and debilitating condition that results in the body's production of excess growth hormone. Octreotide is an analog of somatostatin, a natural inhibitor of growth hormone secretion. Octreotide capsules have been granted orphan designation in the United States and the European Union for the treatment of acromegaly. We retain worldwide rights to develop and commercialize octreotide capsules with no royalty obligations to third parties.

In September 2017, we initiated a third Phase 3 clinical trial for oral octreotide capsules for the maintenance therapy of adult patients with acromegaly following our agreement with the United States Food and Drug Administration (FDA) on the design of the trial, reached through a Special Protocol Assessment in August 2017. The trial, referred to as CHIASMA OPTIMAL, is a randomized, double-blind, placebo-controlled, nine-month trial expected to enroll 50 adult acromegaly patients designed to support regulatory approval of octreotide capsules in the United States. We are also currently conducting an international Phase 3 clinical trial, referred to as MPOWERED, of oral octreotide capsules for the maintenance treatment of adult patients with acromegaly to support regulatory approval in the European Union. The MPOWERED trial is a global, randomized, open-label and active-controlled 15-month trial expected to enroll approximately 130 adult acromegaly patients, of which we expect to randomize at least 80 patients who are responders to octreotide capsules following a six-month run-in to either octreotide capsules or injectable somatostatin receptor ligands (octreotide or lanreotide), and then followed for an additional nine months.

Liquidity

We have incurred significant losses from operations since our inception and expect losses to continue for at least the next several years. We are heavily dependent on the regulatory approval and subsequent commercial success of our product candidate, octreotide capsules for the treatment of acromegaly in the United States and European Union, both of which may never occur.

We expect to continue with our ongoing international Phase 3 CHIASMA OPTIMAL clinical trial of octreotide capsules in acromegaly to support potential regulatory approval in the United States and ongoing international Phase 3 MPOWERED clinical trial of octreotide capsules in acromegaly to support potential regulatory approval in the European Union. In June and August 2016, we announced two separate corporate restructuring plans, which were completed in 2017, intended to focus our resources on the continued development of octreotide capsules for the maintenance treatment of adult acromegaly patients. We currently expect our existing cash, cash equivalents and marketable securities to fund our operations for at least one year after the date these condensed consolidated financial

statements are issued. We expect to continue to incur significant operating losses for the foreseeable future.

Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. We plan to continue to fund our losses from operations and capital funding needs from existing balances of cash, cash equivalents and marketable securities and potentially through the issuance of debt and/or equity or through collaborations or license agreements with other companies. Debt or equity financing may not be available on a timely basis on terms acceptable to us, or at all. If we are not able to secure adequate additional funding, we may be forced to make further reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail our planned development of octreotide capsules. Any of these actions could materially harm our business, results of operations and future prospects. Failure to obtain regulatory approval of octreotide capsules in acromegaly will prevent us from commercializing the product candidate, which could raise significant concerns about our continued viability as a business.

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Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, certain information and footnote disclosures required by accounting principles generally accepted in the United States (U.S. GAAP) for annual financial statements have been condensed or omitted. The information included in this quarterly report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from our audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, we have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as our audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

Cash Equivalents

Cash equivalents consist of highly liquid instruments purchased with an original maturity of three months or less at the date of purchase.

Marketable Securities

Our investments primarily consist of commercial paper and corporate and government debt securities. These marketable securities are classified as available-for-sale, and as such, are reported at fair value on our condensed consolidated balance sheets. Unrealized holding gains and losses are reported within accumulated other comprehensive income as a separate component of stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, together with interest on securities, are included in other income, net, on our condensed consolidated statements of operations.

If a decline in the fair value of a marketable security below our cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge. The cost of securities sold is based on the specific identification method.

Concentrations of credit risk

Financial instruments that potentially subject us to significant concentration of credit risk consist primarily of cash, cash equivalents and marketable securities. We routinely maintain deposits in financial institutions in excess of government insured limits. Management believes that we are not exposed to significant credit risk as our deposits are held at financial institutions that management believes to be of high credit quality and we have not experienced any significant losses in these deposits. We regularly invest excess operating cash in deposits with major financial institutions and money market funds and in notes issued by the U.S. government, as well as in fixed income investments and U.S. bond funds, both of which can be readily purchased and sold using established markets. We believe that the market risk arising from our holdings of these financial instruments is mitigated based on the fact that many of these securities are either government backed or of high credit rating.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and the disclosure of contingent assets and liabilities as of and during the reporting period. We base these estimates and assumptions on historical experience when available, and on various factors that we believe to be reasonable under the specific circumstances. Significant estimates relied upon in preparing the accompanying condensed consolidated financial statements include, but are not limited to, accounting for stock-based compensation, present value of long-term purchase obligation, income taxes, and accounting for certain accruals. We assess the above estimates on an ongoing basis; however, actual results could materially differ from those estimates.

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In February 2016, the Financial Accounting Standards Board issued new guidance which establishes a right-of-use model that requires a lessee to record an asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for annual periods beginning after December 15, 2018, including interim periods within those annual reporting periods. A modified retrospective transition approach, which includes a number of optional practical expedients that we may elect to apply, is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact the standard may have on our consolidated condensed financial statements and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

2. Investments

Our investments consisted of the following as of March 31, 2018 and December 31, 2017:

	As of March 31, 2018			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(\$ in thousands)			
Money market funds	\$ 13,275	\$	\$	\$ 13,275
Corporate notes	24,481		(60)	24,421
Commercial paper	20,864		(35)	20,829
Total	\$ 58,620	\$	\$ (95)	\$ 58,525
		As of December 31, 2017		
		\$ 12,245	9,000 \$ 6,941	

[a] These amounts for 2003 were earned pursuant to the Executive Incentive Program, which is described in the Compensation Committee Report on Executive Compensation. For years prior to 2003, these amounts were earned pursuant to the Simmons First National Corporation Incentive Compensation Program.

[b] Fees paid to Directors for attendance at Board meetings of the Company and its subsidiaries.

[c] For 2003, this category includes for **Mr. May** contribution to the ESOP, \$10,484, the Company's matching contribution to the §401(k) Plan, \$2,500, the accrual to his deferred compensation agreement, \$67,841, and other life insurance premiums, \$840; for **Mr. Crow** contribution to the ESOP, \$10,466, the Company's matching contribution to the §401(k) Plan, \$2,496, and life insurance premiums, \$491; for **Mr. Fehlman** contribution to the ESOP, \$7,734, and the Company's matching contribution to the §401(k) Plan, \$1,844; and for **Ms. Jones** contribution to the ESOP, \$7,064, the Company's matching contribution to the §401(k) Plan, \$1,684, and life insurance premiums, \$344. Certain additional personal benefits, including club memberships, are granted to officers of the Company,

including the named executive officers; however, in the Company's estimation the value of such personal benefits to the named executive officers does not exceed the lesser of \$50,000 or 10% of the aggregate compensation of any such officer.

Deferred Compensation and Change in Control Arrangements

One of the individuals named above, J. Thomas May, is a party to a deferred compensation agreement, under the terms of which Simmons First National Bank, agrees to pay to Mr. May, upon normal retirement at age 65, or upon death or disability prior to age 65, a monthly sum of deferred compensation equal to one twelfth (1/12) of fifty percent (50%) of the final average compensation (the average compensation paid to him by the employer for the most recent five consecutive calendar years), less the accrued monthly benefit to such individual under the deferred annuity received upon the termination of the Company's pension plan; such payments begin the month following retirement and continue for 120 consecutive months or until the individual's death, whichever shall occur later.

Further, the deferred compensation agreement provides that, in the event of a change of control of the Company and the subsequent separation from service of Mr. May, eligibility to receive payments under the Agreement will be accelerated. In such circumstance, if Mr. May has attained age 60, the officer is entitled to commence receiving the specified monthly payments under the agreement immediately after separation from service, without any actuarial reduction due to age. If at such time he has not attained age 60, Mr. May will be entitled to immediately commence receiving 72 monthly payments equal to one twelfth (1/12) of fifty (50%) percent of the final average compensation, less the accrued monthly benefit to such individual then payable under the annuity received pursuant to the termination of the Company's pension plan.

Aggregated Option/SAR Exercises in the Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth information with respect to the named executive officers concerning unexercised options held as of December 31, 2003.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year End Option/SAR Values

Name	Shares		Number of Securities		Value of Unexercised In-the-Money Options at FY-End (\$) [a] Exercisable/Unexercisable
	Acquired on Exercise (#)	Value Realized (\$)	Underlying Unexercised Options at FY-End (#)	Exercisable/ Unexercisable	
J. Thomas May	9,000	\$ 111,285	165,000 / 44,000		\$ 2,452,050 / \$679,580
Barry L. Crow	3,400	\$ 32,197	19,600 / 7,600		\$ 283,988 / \$118,007
Robert A. Fehlman	0	\$ 0	11,160 / 5,440		\$ 172,410 / \$ 84,646
Tommie Jones	600	\$ 8,314	10,600 / 3,800		\$ 144,898 / \$ 59,004

[a] The Value Realized is computed using the difference between the market price upon the date of exercise and the option price. The Value of Unexercised In-the-Money Options at FY-End is computed using \$27.57, the closing price on December 31, 2003.

Performance Graph

The graph below shows a comparison of the cumulative total shareholder return (assuming reinvestment of dividends), as of December 31 of each year, for the Common Stock, the S&P 500 Index and the NASDAQ Bank Stock Index, assuming a \$100 investment on December 31, 1998.

Note: The results shown on the graph below is not indicative of future price performance.

Proxy Graph Data

	1998	1999	2000	2001	2002	2003
SFNC	\$ 100	\$ 69	\$ 63	\$ 95	\$ 111	\$ 171
NASDAQ Bank Index	\$ 100	\$ 96	\$ 110	\$ 119	\$ 122	\$ 157
S&P 500	\$ 100	\$ 121	\$ 110	\$ 97	\$ 76	\$ 97

Compensation Committee Report on Executive Compensation

The Executive Compensation and Retirement Committee issued the following report on the general guidelines for executive compensation and the bases for establishing the compensation of the Chief Executive Officer:

General Compensation Guidelines for Executive Officers

The Company currently utilizes a unitary compensation structure for its executive officers and the executive officers of its subsidiaries. The compensation program consists of four elements: Salary, Incentive Compensation, Stock Related Compensation, and Retirement Compensation.

The Company, after consultation with a nationally recognized compensation advisory firm, has established job grades and determined the value of each job within the Company. Subject to adjustment for unique factors affecting the job or the executive, the Company targets the midpoint of the market salary range for each job grade, as adjusted annually, as the guide for salaries for executive officers, who are satisfactorily performing their duties.

The Simmons First National Corporation Executive Incentive Program provides compensatory incentives for executive officers to reinforce achievement of the financial goals of the Company, its subsidiary banks and the participating executives. The plan establishes performance thresholds for the Company, each of the subsidiary banks and each of the participating executive officers. The performance thresholds for the Company are the prior year's earnings per share and the current year's targeted earnings per share. The performance thresholds for the subsidiary banks are the prior year's net income and the current year's targeted net income. The performance thresholds of the participating executives are based upon specific criteria affecting the performance of the Company or its subsidiaries within such officer's area of responsibility. At the beginning of each year, participating executives are allocated incentive points, which are the basis of the executive's participation within the program. Each such point allocated to an executive is assigned a maximum value of \$100. The ultimate value of a point, if any, is based upon the achievement of the performance thresholds during the calendar year.

Stock related compensation may consist of incentive stock options, non-qualified options (with or without stock appreciation rights) or restricted shares of the Company's stock. Over the years the Company has maintained several different stock option and stock incentive plans. The Company currently maintains an executive stock incentive plan which authorizes the granting of incentive stock options, non-qualified options (with or without stock appreciation rights) or restricted shares of the Company's stock to certain executive officers. The plans are designed to provide an incentive for the participating executive officers to enhance the long term financial performance of the Company and the value of the Common Stock. Participation under these plans has been offered to those executive officers whose long term employment and job performance can significantly affect the continued profitability of the Company and its subsidiary banks.

The Company also maintains a Profit-Sharing/Employee Stock Ownership Plan and a §401(k) Plan to provide retirement benefits for substantially all of its employees, including its executive officers.

Bases for the Chief Executive Officer's Compensation

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The compensation of the Chief Executive Officer is set by the Executive Compensation and Retirement Committee and approved by the Board of Directors. The committee and the Board examine the annual market analysis provided by the compensation consultant retained by the Company prior to setting his compensation. The committee emphasizes incentive compensation for the Chief Executive Officer, through the incentive compensation program and stock related compensation. In analyzing the compensation of the Chief Executive Officer, the committee evaluates his performance in managing the operations as well as the financial results of operations of the Company. Among the criteria examined are management and leadership, revenue growth, expense control, net earnings, market share, acquisition and expansion activities and other factors material to the job performance of the Chief Executive Officer.

The Chief Executive Officer was allocated 740 points in the executive incentive program. For him, the Company threshold was earnings per share. The personal thresholds for the chief executive officer were based upon income, expense, loan growth, asset quality, return on equity and documentation exceptions. The Company's earnings per share exceeded the previous year's earnings per share but did not meet the Company's budgeted performance threshold for 2003. The Chief Executive Officer satisfied his personal performance thresholds. Based upon the Company's performance, each of the points awarded to the Chief Executive Officer were valued at \$87.50 and the incentive compensation earned by the Chief Executive Officer was \$64,750.

In addition, Simmons First National Bank maintains a deferred compensation agreement for the Chief Executive Officer, as a supplement to the retirement benefits available under the other plans. This agreement provides for a monthly benefit at age 65, or earlier upon death or disability, equal to 50% of the average monthly compensation of the executive officer during the prior five years and provides certain benefits, in the event of a change in control of the Company and the subsequent separation from service by the Chief Executive Officer.

Executive Compensation & Retirement Committee

Harry L. Ryburn, Chairman George Makris, Jr. Henry F. Trotter, Jr.

Compensation Committee Interlocks and Insider Participation

During 2003, the Executive Compensation and Retirement Committee was composed of Harry L. Ryburn, George Makris, Jr., Henry F. Trotter, Jr., W. E. Ayres (non-voting Advisory Director), Louis L. Ramsay, Jr. (non-voting Advisory Director) and Jerry Watkins (non-voting Advisory Director). None of the committee members were employed as officers or employees of the Company during 2003. Prior to retirement in 1983 and 1995, respectively, two of the advisory members, Louis L. Ramsay, Jr. and W. E. Ayres, were previously employed by the Company in various capacities, including Chief Executive Officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 and the regulations issued thereunder require directors and certain officers of any company registered under that Act to file statements on SEC Forms 3, 4 & 5 with the Securities and Exchange Commission, showing their beneficial ownership in securities issued by such company. Based upon a review of such statements by the directors and officers of the Company for the preceding fiscal year,

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provided to the Company by such persons, the Company has not identified any person who failed to timely file the required statements during the preceding fiscal year.

AUDIT & SECURITY COMMITTEE

During 2003, the Audit & Security Committee was composed of William E. Clark, Lara F. Hutt, III, George Makris, Jr. and David Perdue. Each of the listed committee members are independent as defined in Rule 4200 of the NASDAQ listing requirements. This committee provides assistance to the Board in fulfilling its responsibilities concerning accounting and reporting practices, by regularly reviewing the adequacy of the internal and external auditors, the disclosure of the financial affairs of the Company and its subsidiaries, the control systems of management and internal accounting controls. This Committee met 13 times in 2003. Attached as Annex A to this Proxy Statement is the Audit & Security Committee Charter adopted by the Board of Directors establishing the duties and responsibilities of this committee.

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The Board has determined that none of the members of the Audit & Security Committee meet the definition of audit committee financial expert as defined in Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission. The Audit & Security Committee receives directly or has access to extensive information from reviews and examinations by the Company's internal auditor, independent auditor and the various banking regulatory agencies having jurisdiction over the Company and its subsidiaries. The Company has not retained an audit committee financial expert to serve on the Board and the Audit & Security Committee because the Board believes that the present members of the committee have sufficient knowledge and experience in financial affairs to effectively perform their duties.

The Company is required to obtain pre-approval by the Audit & Security Committee for all audit and permissible non-audit services obtained from the independent auditors. All services obtained from the independent auditors during 2003, whether audit services or permitted non-audit services, were pre-approved by the Audit & Security Committee. The Audit Committee has not adopted any additional pre-approval policies and procedures, but consistent with its charter, which is set forth in Appendix A, it may do so in the future.

The Audit & Security Committee issued the following report concerning its activities related to the Company for the previous year:

The Audit & Security Committee has reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2003 with management.

The Audit & Security Committee has discussed with BKD, LLP (BKD), its independent auditors, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380).

The Audit & Security Committee has received the written disclosures and the letter from independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees) and has discussed with BKD its independence.

Based upon the foregoing review and discussions, the Audit & Security Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

In its analysis of the independence of BKD, the Audit & Security Committee considered whether the non-audit related professional services rendered by BKD to the Company, were compatible with maintaining the principal accountant's independence.

Audit & Security Committee

William E. Clark Lara F. Hutt, III George Makris, Jr. David Perdue

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PROPOSAL TO REDUCE THE PAR VALUE OF THE CLASS A COMMON STOCK OF THE CORPORATION AND ELIMINATE THE AUTHORITY TO ISSUE CLASS B COMMON STOCK, CLASS A PREFERRED STOCK AND CLASS B PREFERRED STOCK

The third item to be acted upon is the approval of an amendment to the Articles of Incorporation of the Company reducing the par value of the Class A Common Stock of the Company from \$1.00 to \$0.01 and eliminating the authority of the Company to issue Class B Common Stock, Class A Preferred Stock and Class B Preferred Stock. If this proposal is approved the only type and class of capital stock which the Company will be authorized to issue will be Class A Common Stock, par value \$0.01. The Board of Directors, at a special meeting on February 12, 2004, approved such an amendment to the Articles of Incorporation, by amending Article Fourth of the Articles of Incorporation to read as follows:

FOURTH: The authorized capital stock of this Corporation shall consist of 30,000,000 shares of Class A common stock having a par value of \$0.01 per share with the powers, privileges, incidents, preferences and limitations hereinafter set forth:

(a) The entire voting power of this Corporation shall be vested in the Class A common stock, and the holder of each share of the Class A common stock shall be entitled to one vote, in person or by proxy, for

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each share of such stock standing in the holder's name on the books of the Corporation.

(b) No stockholder of the Corporation shall because of the ownership of stock have a pre-emptive or other right to purchase, subscribe for, or take any part of the stock or any part of the notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase stock of the Corporation issued, optioned, or sold by it. Any part of the capital stock and any part of the notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase stock of the Corporation authorized by the Articles of Incorporation or any amendment thereto duly filed, may at any time be issued, optioned for sale, and sold or disposed of by the Corporation pursuant to resolution of its Board of Directors to such persons and upon such terms as to such Board may seem proper without first offering such stock or securities or any part thereof to existing stockholders of any class.

(c) The Board of Directors of the Corporation shall have the power, at their discretion, to prepare and cause to be issued convertible bonds or debentures of the Corporation, whether or not secured by a sinking fund, pledge or other commitment, having such rights, conversion options into the Class A common stock of the Corporation, bearing such interest, having such maturity dates, with such restrictions, incidents, privileges, and characteristics, and in such amounts, total and individually, as may be determined by the Board of Directors to be appropriate for the corporate purposes.

Summary of Amendment to Article

The amendment to Article Fourth revises the introductory language and subparagraph (a) to refer only to the Class A Common Stock and changes the par value of the Class A Common Stock from \$1.00 to \$0.01. Subparagraphs (f) and (g) of the present Article Fourth are being amended to delete any references to the deleted classes of stock and are being redesignated as subparagraphs (b) and (c), respectively.

Reduction in Par Value of Class A Common Stock

Certain taxes which are assessed upon the Company are computed upon the aggregate par value of the outstanding stock of the Company. Management estimates that the adoption of the proposed amendment and the reduction in the aggregate par value of the Company's outstanding Class A Common Stock may reduce the Company's tax liability by as much as \$37,800 per year based upon current tax rates and the number of shares of Class A Common Stock of the Company currently outstanding.

The amendment, if adopted, will not change or affect the number of shares of Class A Common Stock of the Company outstanding or the number of such shares held by any shareholder. The change in par value will cause

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technical changes in the balance sheet as to the amounts shown as Capital Stock and Surplus thereon. Specifically, the amount shown as Capital Stock will be reduced from \$1.00 times the number of shares of Class A Common Stock outstanding to \$0.01 times the number of such shares outstanding, while Surplus will be increased in the same amount by which Capital Stock is reduced. Total Stockholders Equity will not change or be affected by the proposed amendment.

To illustrate the effect that the proposed amendment would have on the balance sheet of the Company, the following shows the Capital Stock and Surplus, as of December 31, 2003, as shown in the financial statements of the Company and as such items would have been adjusted had the proposed amendment been in effect on December 31, 2003:

	December 31, 2003	Adjusted
Capital stock		
Class A, common, authorized 30,000,000 shares, 14,101,521 issued and outstanding at December 31, 2003	\$ 14,102,000	\$ 141,000
Surplus	35,988,000	49,949,000
	<u>\$ 50,090,000</u>	<u>\$ 50,090,000</u>

Elimination of Class B Common Stock, Class A Preferred Stock and Class B Preferred Stock

In addition to the Class A Common Stock of the Company, of which 14,101,521 shares were outstanding on December 31, 2003, the Articles of Incorporation of the Company authorize the issuance of Class B Common Stock, Class A Preferred Stock and the Class B Preferred Stock (Other Classes of Stock). There are not now, nor has there ever been, any shares of the Other Classes of Stock issued or outstanding. The Company has no current plans or intentions regarding the issuance of any shares of the Other Classes of Stock. From time to time, management has received inquiries from stock analysts and certain institutional investors concerning the Other Classes of Stock and their plans and intentions about issuance of shares of such securities.

After a review of the Articles of Incorporation governing the Other Classes of Stock, the Company has determined that the governing terms and provisions as set forth in the Articles of Incorporation may not be consistent with the current market practices concerning these types of securities. Management and the Board believe that if the Company were to decide to issue a second class of common stock or preferred stock that the terms of those securities should be established in connection with the issuance and that the shareholders of the Company at such time should have the opportunity to vote to approve the terms of such securities. Further, management believes that the elimination of the Other Classes of Stock may resolve any concerns that certain investors or prospective investors have raised and such elimination will not adversely affect any plans or intentions of the Board regarding the capitalization of the Company.

The Board of Directors proposes to amend the Articles of Incorporation as set forth above and to restate the Articles of Incorporation of the Company with such amendment. The Board of Directors believes that it is in the best interests of the Company and its stockholders to reduce the par value of its Class A Common Stock and to eliminate the Class B Common Stock, Class A Preferred Stock and the Class B Preferred Stock.

If authority to amend and restate the Articles of Incorporation is granted by the stockholders at the Shareholders Meeting, management intends to file the Amended and Restated Articles of Incorporation immediately following such approval, and the Amended and Restated Articles of Incorporation will become effective upon filing with the Arkansas Secretary of State.

ADOPTION OF THIS PROPOSAL AND THE PROPOSED AMENDED AND RESTATED ARTICLES OF INCORPORATION REQUIRES THE AFFIRMATIVE VOTE OF THE HOLDERS OF AT LEAST A MAJORITY OF THE SHARES OF COMMON STOCK OF SFNC ELIGIBLE TO VOTE AT THE SHAREHOLDERS MEETING. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

BKD, LLP (BKD) served as the Company s auditors in 2003 and has been selected to serve in 2004. Representatives of BKD are expected to be present at the shareholders meeting with the opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

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Audit Fees

The aggregate fees billed to the Company for professional services rendered by BKD for the audit of the Company s annual financial statements for the year ended December 31, 2003 and the reviews of the financial statements included in the Company s Form 10-Q s for 2003 were \$210,975. The aggregate fees billed to the Company by BKD for such services in 2002 were \$172,585.

Audit Related Fees

The aggregate fees billed to the Company for professional services rendered by BKD for the audit related fees during 2003 were \$62,150. The aggregate fees billed to the Company by BKD for such services in 2002 was \$52,126. These services are primarily for the audits of employee benefit plans for which Simmons First Trust Company, N.A. is a fiduciary and for the audit of the common trust funds maintained by Simmons First Trust Company, N.A.

Tax Fees

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The aggregate fees billed to the Company for professional services rendered by BKD for tax services and preparation of tax returns during 2003 were \$24,695. The aggregate fees billed to the Company by BKD for such services in 2002 was \$31,090.

All Other Fees

There were no fees billed to the Company by BKD for services other than those set forth above.

FINANCIAL STATEMENTS

A copy of the annual report of the Company for 2003 on Form 10-K required to be filed with the Securities and Exchange Commission, including audited financial statements, is enclosed herewith. Such report and financial statements contained therein are not incorporated into this Proxy Statement and are not considered a part of the proxy soliciting materials, since they are not deemed material for the exercise of prudent judgment in regard to the matters to be acted upon at the meeting.

PROPOSALS FOR 2005 ANNUAL MEETING

Shareholders who intend to have a proposal considered for inclusion in the Company's proxy materials for presentation at the 2005 Annual Meeting of Shareholders must submit the proposal to the Company no later than October 30, 2004. Shareholders who intend to present a proposal at the 2005 Annual Meeting of Shareholders without inclusion of such proposal in the Company's proxy materials are required to provide notice of such proposal to the Company no later than January 13, 2005. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

OTHER MATTERS

Management knows of no other matters to be brought before this annual meeting. However, if other matters should properly come before the meeting, it is the intention of the persons named in the proxy to vote such

proxy in accordance with their best judgment on such matters.

BY ORDER OF THE BOARD OF DIRECTORS:

/s/ John L. Rush

John L. Rush, Secretary
Pine Bluff, Arkansas
February 27, 2004

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ANNEX A

SIMMONS FIRST NATIONAL CORPORATION

AUDIT & SECURITY COMMITTEE CHARTER

FEBRUARY 12, 2004

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SIMMONS FIRST NATIONAL CORPORATION
AUDIT & SECURITY COMMITTEE CHARTER

This charter identifies the authority, responsibility, membership requirements, purpose and objectives of the Audit & Security Committee of Simmons First National Corporation.

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The Audit & Security Committee is appointed by the Board to assist the Board in monitoring (1) the integrity and accuracy of financial reporting (2) compliance with legal and regulatory requirements (3) the adequacy of internal controls and (4) the independence and performance of internal and external auditors.

The Audit & Security Committee shall have the authority to retain, with funding provided through the Internal Audit Budget, special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Audit & Security Committee shall make regular reports to the Board.

The Audit & Security Committee shall:

1. Be composed of a minimum of three members and be comprised of independent directors satisfying the independence standard as defined by the applicable listing standards of the NASDAQ.
2. Strive to have at least one director on the Committee who has past employment experience in finance or accounting, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities.
3. Be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor, which shall report directly to the Committee.
4. Pre-approve all services provided by the independent auditor, provided that the Chairman of the Committee shall be authorized to approve requests for services between scheduled meetings of the Committee, and such interim action shall be presented to the Committee at its next scheduled meeting.
5. Be authorized to engage independent counsel and other advisers, as it determines to be necessary to carry out its duties.
6. Receive funding from SFNC as the Committee deems necessary to compensate the independent auditor, compensate any independent advisors retained to assist the Committee in carrying out its duties.
7. Determine that the independent external auditor has reviewed the audited financial statements with management and discussed with the Committee, any major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the financial statements.
8. Review major changes to the auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
9. Ensure rotation of the lead audit partner every five years.
10. Evaluate the performance of the independent auditor and, if so determined by the Committee, replace the independent auditor.
11. Review the appointment and replacement of the senior internal auditing executive.
12. Review the significant reports to management prepared by the internal auditing department and management's responses.

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13. At their discretion meet with the independent auditor prior to the audit to review the planning and staffing of the audit.

14. Discuss with the independent auditor the matters required to be discussed by the Statement on Auditing Standards No. 61 relating to the conduct of the audit. This will include a review of all fees paid to the independent auditor to ensure that independence has not been impaired.
15. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and responses to that letter. Such review should include:
 - (a) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
 - (b) Any disagreements with management regarding financial reporting.
 - (c) Any changes required in the planned scope of the internal audit.
 - (d) The internal audit department responsibilities, budget and staffing.
16. Meet at least annually with the chief financial officer, the senior internal auditing executive and the independent auditor in separate executive sessions.
17. Establish/ document procedures to respond to internal and external complaints received on accounting and auditing matters. (See Appendix A)

While the Audit & Security Committee has the responsibility and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such duties are the responsibility of management and the independent auditor.

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APPENDIX A

SIMMONS FIRST NATIONAL CORPORATION

Procedures for the Submission of Complaints or Concerns Regarding Financial Statement Disclosures, Accounting, Internal Accounting Controls or Auditing Matters

1. Any complaints received regarding financial statement disclosures, accounting, internal accounting controls or auditing matters received by Simmons First National Corporation (SFNC) or any of its subsidiaries shall be forwarded to the Audit & Security Committee of the SFNC Board of Directors
2. Any employee of SFNC or its subsidiaries may submit, on a confidential, anonymous basis if the employee so desires, any concerns regarding financial statement disclosures, accounting, internal accounting controls or auditing matters by setting forth such concerns in writing and forwarding them to the address below in a sealed envelope to the Chairman of the Audit & Security Committee, or to the Corporate Secretary, such envelope to be labeled with a legend such as: To be opened by the Audit & Security Committee only. If an employee would like to discuss any matter with the Audit & Security Committee, the employee should indicate this in the submission and include a telephone number at which he or she might be contacted if the Committee deems it appropriate. Any such envelopes received by the Corporate Secretary shall be promptly forwarded unopened to the Chairman of the Audit & Security Committee.
3. At each of its meetings, including any special meeting called by the Chairman of the Committee following the receipt of any information pursuant to this Appendix, the Audit & Security Committee

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shall review and consider any such complaints or concerns that it has received and take any action that it deems appropriate in order to respond thereto.

- 4. The Audit & Security Committee shall retain any such complaints or concerns for a period of no less than 7 years.

Chairman, Audit & Security Committee
Simmons First National Corporation
P.O. Box 7009
Pine Bluff, AR 71611-7009
(To be opened by the Audit & Security Committee only)

Secretary, Corporate Board
Simmons First National Corporation
P.O. Box 7009
Pine Bluff, AR 71611-7009
(To be opened by the Audit & Security Committee only)

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PROXY BALLOT
SIMMONS FIRST NATIONAL CORPORATION
March 30, 2004

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR
THE ANNUAL MEETING OF STOCKHOLDERS, MARCH 30, 2004

The undersigned hereby constitutes and appoints William C. Bridgforth, Barry L. Crow and Rita Gronwald as Proxies, each with the power of substitution, to represent and vote as designated on this proxy card all of the shares of common stock of Simmons First National Corporation held of record by the undersigned on January 22, 2004, at the Annual Meeting of Shareholders to be held on March 30, 2004, and any adjournment thereof.

This proxy, when properly executed, will be voted as directed. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR ALL PROPOSALS.

(1) PROPOSAL TO FIX THE NUMBER OF DIRECTORS AT EIGHT.

___ FOR ___ AGAINST ___ABSTAIN

(2) ELECTION OF DIRECTORS (mark only one box)

___ FOR ALL NOMINEES
___ WITHHOLD AUTHORITY FOR ALL NOMINEES
___ WITHHOLD AUTHORITY FOR CERTAIN NOMINEES below whose names have been lined through:
William E. Clark Lara F. Hutt, III J. Thomas May Dr. Harry L. Ryburn
Steven A. Cossé George A. Makris, Jr. David R. Perdue Henry F. Trotter, Jr.

(3) PROPOSAL TO AMEND THE ARTICLES OF INCORPORATION TO REDUCE THE PAR VALUE OF THE CLASS A COMMON STOCK OF THE COMPANY FROM \$1.00 PER SHARE TO \$0.01 PER SHARE AND TO ELIMINATE THE AUTHORITY TO ISSUE CLASS B COMMON STOCK, CLASS A PREFERRED STOCK AND CLASS B PREFERRED STOCK

___ FOR ___ AGAINST ___ABSTAIN

(4) Upon such other business as may properly come before the meeting or any adjournment or adjournments thereof.

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The undersigned acknowledges receipt of this ballot, Notice of Annual Meeting, Proxy Statement, and Form10-K.

Date

Signature(s) of Shareholder(s) Date

IMPORTANT: Please date this proxy and sign your name exactly as your name appears and return promptly in the envelope provided.

Please make reservations for

Simmons First National Corporation
SHAREHOLDER'S DINNER

6:30 in the Evening

March 30, 2004

The Pine Bluff Convention
Center Banquet Hall

DINNER RESERVATION CARD

_____ I will attend

_____ A guest and I will attend

_____ I will NOT attend
