HOME BANCSHARES INC
Form 10-Q
May 08, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2007

or

o **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: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	71-0682831
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
719 Harkrider, Suite 100, Conway, Arkansas	72032
(Address of principal executive offices)	(Zip Code)

(501) 328-4770
(Registrant s telephone number, including area code)
Not Applicable
Former name, former address and former fiscal year, if changed since last report

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

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

Common Stock Issued and Outstanding: 17,235,063 shares as of April 27, 2007.

HOME BANCSHARES, INC.
FORM 10-Q
March 31, 2007
INDEX

Exhibit List

10.1 Home BancShares Inc. Chairman s Retirement Plan

15 Awareness of Independent Registered Public Accounting Firm

31.1 CEO Certification Pursuant to 13a-14(a)/15d-14(a)

31.2 CFO Certification Pursuant to 13a-14(a)/15d-14(a)

32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350

32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this document, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operation are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, continue, expect, project, predict, estimate, could, shou expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of future economic conditions, including inflation or a decrease in residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- credit risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire; and
- the failure of assumptions underlying the establishment of our allowance for loan losses.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on March 20, 2007.

Table of Contents

PART I: FINANCIAL INFORMATION
Item 1: Financial Statements

Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 57,998	$ 53,004
Interest-bearing deposits with other banks	2,962	6,696
Cash and cash equivalents	60,960	59,700
Federal funds sold	10,685	9,003
Investment securities available for sale	476,534	531,891
Loans receivable	1,475,376	1,416,295
Allowance for loan losses	(26,934)	(26,111)
Loans receivable, net	1,448,442	1,390,184
Bank premises and equipment, net	60,751	57,339
Foreclosed assets held for sale	327	435
Cash value of life insurance	42,746	42,149
Investments in unconsolidated affiliates	12,336	12,449
Accrued interest receivable	14,331	13,736
Deferred tax asset, net	8,455	8,361
Goodwill	37,527	37,527
Core deposit and other intangibles	9,019	9,458
Other assets	21,463	18,416
Total assets	$ 2,203,576	$ 2,190,648
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 228,716	$ 215,142
Savings and interest-bearing transaction accounts	606,593	582,425
Time deposits	792,951	809,627
Total deposits	1,628,260	1,607,194
Federal funds purchased	25,450	25,270
Securities sold under agreements to repurchase	128,335	118,825
FHLB and other borrowed funds	127,842	151,768
Accrued interest payable and other liabilities	12,192	11,509
Subordinated debentures	44,640	44,663
Total liabilities	1,966,719	1,959,229
Stockholders equity:		
Common stock, par value $0.01 in 2007 and 2006; 25,000,000 shares authorized in 2007 and 2006; shares issued and outstanding 17,221,938 in	172	172

2007 and 17,205,649 in 2006				
Capital surplus		194,930		194,595
Retained earnings		45,875		41,544
Accumulated other comprehensive loss		(4,120)		(4,892)
Total stockholders equity		236,857		231,419
Total liabilities and stockholders equity	$	2,203,576	$	2,190,648

See Condensed Notes to Consolidated Financial Statements.

4

Table of Contents

Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended March 31, 2007	2006
	(Unaudited)	
Interest income:		
Loans	$ 28,288	$ 21,842
Investment securities		
Taxable	4,586	4,725
Tax-exempt	1,026	967
Deposits other banks	49	41
Federal funds sold	235	159
Total interest income	34,184	27,734
Interest expense:		
Interest on deposits	14,133	9,529
Federal funds purchased	205	304
FHLB and other borrowed funds	1,811	1,476
Securities sold under agreements to repurchase	1,224	870
Subordinated debentures	749	749
Total interest expense	18,122	12,928
Net interest income	16,062	14,806
Provision for loan losses	820	484
Net interest income after provision for loan losses	15,242	14,322
Non-interest income:		
Service charges on deposit accounts	2,588	2,052
Other services charges and fees	1,500	611
Trust fees	24	152
Data processing fees	218	193
Mortgage banking income	348	411
Insurance commissions	289	284
Income from title services	156	237
Increase in cash value of life insurance	598	51
Dividends from FHLB, FRB & bankers bank	227	106
Equity in loss of unconsolidated affiliates	(114)	(116)
Gain on sale of SBA loans		34
Gain on sale of premises and equipment, net	14	2
Other income	357	384

Total non-interest income	6,205	4,401
Non-interest expense:		
Salaries and employee benefits	7,440	7,348
Occupancy and equipment	2,210	2,005
Data processing expense	644	567
Other operating expenses	4,447	3,699
Total non-interest expense	14,741	13,619
Income before income taxes	6,706	5,104
Income tax expense	1,945	1,588
Net income available to all shareholders	4,761	3,516
Less: Preferred stock dividends		155
Income available to common shareholders	$ 4,761	$ 3,361
Basic earnings per share	$ 0.28	$ 0.28
Diluted earnings per share	$ 0.27	$ 0.24

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.
Consolidated Statements of Stockholders Equity

Three Months Ended March 31, 2007 and 2006

(In thousands, except share data)	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2006	$ 21	$ 2	$ 121	$ 146,285	$ 27,331	$ (7,903)	$ 165,857
Comprehensive income (loss):							
Net income					3,516		3,516
Other comprehensive income (loss):							
Unrealized loss on investment securities available for sale, net of tax effect of $179						(282)	(282)
Unconsolidated affiliates unrecognized loss on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						(6)	(6)
Comprehensive income							3,228
Issuance of 14,617 shares of preferred stock A from exercise of stock options				2			2
Net issuance of 681 shares of preferred stock B from exercise of stock options				8			8
Net issuance of 15,490 shares of common stock from exercise of stock options				143			143
Tax benefit from stock options exercised				84			84
Share-based compensation				116			116
Cash dividends Preferred Stock A, $0.0625 per share					(131)		(131)
Cash dividends Preferred Stock B, $0.1425 per share					(24)		(24)
Cash dividends Common Stock, $0.02 per share					(243)		(243)
Balances at March 31, 2006 (unaudited)	21	2	121	146,638	30,449	(8,191)	169,040
Comprehensive income (loss):							
Net income					12,402		12,402
Other comprehensive income (loss):							

Unrealized gain on investment securities available for sale, net of tax effect of $2,105						3,276	3,276
Unconsolidated affiliates unrecognized gain on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						23	23
Comprehensive income							15,701
Conversion of 2,090,812 shares of preferred stock A to 1,650,489 shares of common stock	(21)		17	2			(2)
Conversion of 169,760 shares of preferred stock B to 509,280 shares of common stock		(2)	5	(3)			
Issuance of 2,875,000 shares of common stock from Initial Public Offering, net of offering costs of $4,545			29	47,176			47,205
Issuance of 41,526 shares of common stock from exercise of stock options				391			391
Tax benefit from stock options exercised				127			127
Share-based compensation				264			264
Cash dividends Preferred Stock A,$0.0833 per share					(172)		(172)
Cash dividends Preferred Stock B, $0.19 per share					(32)		(32)
Cash dividends Common Stock, $0.07 per share					(1,103)		(1,103)
Balances at December 31, 2006			172	194,595	41,544	(4,892)	231,419

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.
Consolidated Statements of Stockholders Equity Continued
Three Months Ended March 31, 2007 and 2006

(In thousands, except share data)	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Comprehensive income (loss):							
Net income					4,761		4,761
Other comprehensive income (loss):							
Unrealized gain on investment securities available for sale, net of tax effect of $497						771	771
Unconsolidated affiliates unrecognized gain on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						1	1
Comprehensive income							5,533
Issuance of 16,289 shares of common stock from exercise of stock options				123			123
Tax benefit from stock options exercised				103			103
Share-based compensation				109			109
Cash dividends Common Stock, $0.025 per share					(430)		(430)
Balances at March 31, 2007 (unaudited)	$	$	$ 172	$ 194,930	$ 45,875	$ (4,120)	$ 236,857

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Period Ended March 31, 2007	2006
	(Unaudited)	
Operating Activities		
Net income	$ 4,761	$ 3,516
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,065	1,090
Amortization/Accretion	305	665
Share-based compensation	109	116
Tax benefits from stock options exercised	(103)	(84)
Loss (gain) on sale of assets	12	(89)
Provision for loan losses	820	484
Deferred income tax benefit	(597)	(420)
Equity in loss of unconsolidated affiliates	114	116
Increase in cash value of life insurance	(598)	(51)
Originations of mortgage loans held for sale	(17,609)	(22,115)
Proceeds from sales of mortgage loans held for sale	15,619	23,384
Changes in assets and liabilities:		
Accrued interest receivable	(595)	(382)
Other assets	(3,046)	(3,305)
Accrued interest payable and other liabilities	786	3,426
Net cash provided by operating activities	1,043	6,351
Investing Activities		
Net (increase) decrease in federal funds sold	(1,682)	(12,503)
Net (increase) decrease in loans	(57,088)	(44,207)
Purchases of investment securities available for sale	(84,664)	(38,823)
Proceeds from maturities of investment securities available for sale	141,406	43,132
Proceeds from sale of loans		540
Proceeds from foreclosed assets held for sale	110	801
Purchases of premises and equipment, net	(4,491)	(1,704)
Investments in unconsolidated affiliates		(3,000)
Net cash used in investing activities	(6,409)	(55,764)
Financing Activities		
Net increase (decrease) in deposits	21,066	80,335
Net increase (decrease) in securities sold under agreements to repurchase	9,510	(5,173)
Net increase (decrease) in federal funds purchased	180	(44,495)
Net increase (decrease) in FHLB and other borrowed funds	(23,926)	22,251
Proceeds from exercise of stock options	123	153
Tax benefits from stock options exercised	103	84
Dividends paid	(430)	(398)

Net cash provided by financing activities	6,626	52,757
Net change in cash and cash equivalents	1,260	3,344
Cash and cash equivalents beginning of year	59,700	44,679
Cash and cash equivalents end of period	$ 60,960	$ 48,023

See Condensed Notes to Consolidated Financial Statements.

8

Table of Contents

Home BancShares, Inc.
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a financial holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its five wholly owned community bank subsidiaries. Three of our bank subsidiaries are located in the central Arkansas market area, a fourth serves Stone County in north central Arkansas, and a fifth serves the Florida Keys and southwestern Florida. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

A summary of the significant accounting policies of the Company follows:

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Investments in Unconsolidated Affiliates

The Company has a 20.1% investment in White River Bancshares, Inc. (WRBI), which at March 31, 2007 and December 31, 2006 totaled $11.0 million and $11.1 million, respectively. The investment in WRBI is accounted for on the equity method. The Company s share of WRBI operating loss included in non-interest income in the three months ended March 31, 2007 and 2006 totaled $114,000 and $116,000, respectively. The Company s share of WRBI unrealized loss on investment securities available for sale at March 31, 2007 and 2006 amounted to $1,000 and $25,000, respectively. See the Acquisitions footnote related to the Company s acquisition of WRBI.

Table of Contents

The Company has invested funds representing 100% ownership in four statutory trusts which issue trust preferred securities. The Company s investment in these trusts was $1.3 million at March 31, 2007 and December 31, 2006, respectively. Under generally accepted accounting principles, these trusts are not consolidated.

The summarized financial information below represents an aggregation of the Company s unconsolidated affiliates as of March 31, 2007 and 2006, and for the three-month periods then ended:

	March 31,	
	2007	2006
	(In thousands)	
Assets	$402,142	$261,779
Liabilities	345,695	203,825
Equity	56,447	57,954
Net income (loss)	(415)	(512)

Interim financial information

The accompanying unaudited consolidated financial statements as of March 31, 2007 and 2006 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2006 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three-month periods ended March 31:

	2007	2006
	(In thousands)	
Net income available to all shareholders	$ 4,761	$ 3,516
Less: Preferred stock dividends		(155)
Income available to common shareholders	$ 4,761	$ 3,361
Average shares outstanding	17,219	12,123
Effect of common stock options	282	79
Effect of preferred stock options		28
Effect of preferred stock conversions		2,162
Diluted shares outstanding	17,501	14,392
Basic earnings per share	$ 0.28	$ 0.28
Diluted earnings per share	$ 0.27	$ 0.24

Table of Contents

2. Acquisitions

On January 3, 2005, HBI purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in the northwest Arkansas area. In January 2006, White River Bancshares issued an additional $15.0 million of their common stock. To maintain a 20% ownership, the Company made an additional investment in White River Bancshares of $3.0 million in January 2006. At March 31, 2007, White River Bancshares had approximately $357.8 million in total assets, $316.3 million in total loans and $279.4 million in total deposits.

During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. As a result, we anticipate making a $2.6 million additional investment in White River Bancshares to maintain our 20% ownership. This additional investment is subject to regulatory approval.

3. Investment Securities

The amortized cost and estimated market value of investment securities were as follows:

	March 31, 2007 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 155,656	$ 71	$ (2,638)	$ 153,089
Mortgage-backed securities	214,256	71	(5,133)	209,194
State and political subdivisions	101,251	1,402	(449)	102,204
Other securities	12,196		(149)	12,047
Total	$ 483,359	$ 1,544	$ (8,369)	$ 476,534

	December 31, 2006 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 199,085	$ 79	$ (2,927)	$ 196,237
Mortgage-backed securities	225,747	41	(5,988)	219,800
State and political subdivisions	102,536	1,360	(496)	103,400
Other securities	12,631		(177)	12,454
Total	$ 539,999	$ 1,480	$ (9,588)	$ 531,891

Assets, principally investment securities, having a carrying value of approximately $221.6 million and $287.2 million at March 31, 2007 and December 31, 2006, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $128.3 million and $118.8 million at March 31, 2007 and December 31, 2006, respectively.

During the three month periods ended March 31, 2007 and 2006, no available for sale securities were sold.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of paragraph

Table of Contents

16 of SFAS No. 115, EITF 03-1, Staff Accounting Bulletin 59 and FASB Staff Position No. 115-1. Certain investment securities are valued less than their historical cost. These declines primarily resulted from recent increases in market interest rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management s intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other than temporary, impairment is identified.

4: Loans Receivable and Allowance for Loan Losses

The various categories of loans are summarized as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 519,680	$ 465,306
Construction/land development	369,022	393,410
Agricultural	33,245	11,659
Residential real estate loans		
Residential 1-4 family	231,788	229,588
Multifamily residential	39,329	37,440
Total real estate	1,193,064	1,137,403
Consumer	42,345	45,056
Commercial and industrial	205,531	206,559
Agricultural	16,986	13,520
Other	17,450	13,757
Total loans receivable before allowance for loan losses	1,475,376	1,416,295
Allowance for loan losses	26,934	26,111
Total loans receivable, net	$ 1,448,442	$ 1,390,184

The following is a summary of activity within the allowance for loan losses:

	2007	2006
	(In thousands)	
Balance, beginning of year	$ 26,111	$ 24,175
Additions		
Provision charged to expense	820	484
Net (recoveries) loans charged off Losses charged to allowance, net of recoveries of $103 and $262 for the first three months of 2007 and 2006, respectively	(3)	224
Balance, March 31	$ 26,934	24,435

Additions

Provision charged to expense	1,823
Net loans charged off	
Losses charged to allowance, net of recoveries of $881 for the last nine months of 2006	147
Balance, end of year	$ 26,111

Table of Contents

At March 31, 2007 and December 31, 2006, accruing loans delinquent 90 days or more totaled $1.1 million and $641,000, respectively. Non-accruing loans at March 31, 2007 and December 31, 2006 were $5.1 million and $3.9 million, respectively.

During the three-month period ended March 31, 2007, the Company did not sell any of the guaranteed portion of SBA loans. During the three-month period ended March 31, 2006, the Company sold $506,000 of the guaranteed portion of certain SBA loans, which resulted in gains of $34,000.

Mortgage loans held for resale of approximately $4.4 million and $2.4 million at March 31, 2007 and December 31, 2006, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis.

At March 31, 2007 and December 31, 2006, impaired loans totaled $8.8 million and $11.2 million, respectively. As of March 31, 2007 and 2006, average impaired loans were $10.0 million and $5.7 million, respectively. All impaired loans had designated reserves for possible loan losses. Reserves relative to impaired loans were $1.6 million and $2.1 million at March 31, 2007 and December 31, 2006, respectively. Interest recognized on impaired loans during 2007 and 2006 was immaterial.

5: Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company s core deposits and other intangibles at March 31, 2007 and December 31, 2006, were as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Gross carrying amount	$ 13,457	$ 13,457
Accumulated amortization	4,438	3,999
Net carrying amount	$ 9,019	$ 9,458

Core deposit and other intangible amortization for the three months ended March 31, 2007 and 2006 was approximately $439,000 and $425,000, respectively. Including all of the mergers completed, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2007 through 2011 is: 2007 $1.7 million; 2008 $1.7 million; 2009 $1.7 million; 2010 - $1.6 million; and 2011 $981,000.

The carrying amount of the Company s goodwill was $37.5 million at March 31, 2007 and December 31, 2006. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

6: Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $458.6 million and $486.3 million at March 31, 2007 and December 31, 2006, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $5.8 million and $3.9 million for the three months ended March 31, 2007 and 2006, respectively.

Deposits totaling approximately $206.9 million and $203.0 million at March 31, 2007 and December 31, 2006, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

Table of Contents

7: FHLB and Other Borrowed Funds

The Company s FHLB and other borrowed funds were $127.8 million and $151.8 million at March 31, 2007 and December 31, 2006, respectively. The outstanding balance for March 31, 2007 includes $127.8 million of long-term advances. The outstanding balance for December 31, 2006 includes $5.0 million of short-term advances and $146.8 million of long-term advances. Short-term borrowings consist of short-term FHLB borrowings. Long-term borrowings consist of long-term FHLB borrowings. The long-term FHLB advances mature from 2007 to 2020 with interest rates ranging from 2.019% to 5.42% and are secured by residential real estate loans.

8: Subordinated Debentures

Subordinated Debentures at March 31, 2007 and December 31, 2006 consisted of guaranteed payments on trust preferred securities with the following components:

	March 31, 2007	December 31, 2006
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, isssued in 2000, due 2030, fixed at 10.60%, callable in 2010 with a penalty ranging from 5.30% to 0.53% depending on the year of prepayment, callable in 2020 without penalty	3,401	3,424
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total subordinated debt	$ 44,640	$ 44,663

As a result of the acquisition of Marine Bancorp, Inc., the Company has an interest rate swap agreement that effectively converts the floating rate on the $5.2 million trust preferred security noted above into a fixed interest rate of 7.29%, thus reducing the impact of interest rate changes on future interest expense until the call date.

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

Table of Contents

9: Income Taxes

The following is a summary of the components of the provision for income taxes for the three-month periods ended March 31:

	2007	2006
	(In thousands)	
Current:		
Federal	$ 2,252	$ 1,675
State	290	333
Total current	2,542	2,008
Deferred:		
Federal	(501)	(350)
State	(96)	(70)
Total deferred	(597)	(420)
Provision for income taxes	$ 1,945	$ 1,588

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three-month periods ended March 31:

	2007	2006
Statutory federal income tax rate	35.00%	35.00%
Effect of nontaxable interest income	(4.94)	(6.19)
Cash value of life insurance	(3.12)	(0.35)
State income taxes, net of federal benefit	1.88	1.98
Other	0.18	0.69
Effective income tax rate	29.00%	31.13%

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:

	March 31, 2007	December 31, 2006
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 10,545	$ 10,219
Deferred compensation	240	244
Defined benefit pension plan	111	107
Stock options	197	155
Non-accrual interest income	523	489
Investment in unconsolidated subsidiary	530	485
Unrealized loss on securities	2,676	3,179
Other	161	170

Gross deferred tax assets	14,983	15,048
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,016	2,082
Core deposit intangibles	3,388	3,552
Market value of cash flow hedge	19	25
FHLB dividends	603	567
Other	502	461
Gross deferred tax liabilities	6,528	6,687
Net deferred tax assets	$ 8,455	$ 8,361

Table of Contents

10: Common Stock and Stock Compensation Plans

On August 1, 2006, the Company redeemed and converted the issued and outstanding shares of Home BancShares s Class A Preferred Stock and Class B Preferred Stock into Home BancShares Common Stock. The conversion of the preferred stock increased the Company s outstanding common stock by approximately 2.2 million shares.

The holder s of shares of Class A Preferred Stock, received 0.789474 of Home BancShares Common Stock for each share of Class A Preferred Stock owned, plus a check for the pro rata amount of the third quarter Class A Preferred Stock dividend accrued through July 31, 2006. The Class A Preferred shareholder s did not receive fractional shares, instead they received cash at a rate of $12.67 times the fraction of a share they otherwise would have been entitled to.

The holder s of shares of Class B Preferred Stock, received three shares of Home BancShares Common Stock for each share of Class B Preferred Stock owned, plus a check for the pro rata amount of the third quarter Class B Preferred Stock dividend accrued through July 31, 2006.

On June 22, 2006, the Company priced its initial public offering of 2.5 million shares of common stock at $18.00 per share. The total price to the public for the shares offered and sold by the Company was $45.0 million. The amount of expenses incurred for the Company s account in connection with the offering includes approximately $3.1 million of underwriting discounts and commissions and offering expenses of approximately $1.0 million. The Company received net proceeds of approximately $40.9 million from its sale of shares after deducting sales commissions and expenses.

On July 21, 2006, the underwriter s of the Company s initial public offering exercised and completed their option to purchase an additional 375,000 shares of common stock to cover over-allotments effective July 26, 2006. The Company received net proceeds of approximately $6.3 million from this sale of shares after deducting sales commissions.

On March 13, 2006, the Company s board of directors adopted the 2006 Stock Option and Performance Incentive Plan. The Plan was submitted to the shareholders for approval at the 2006 annual meeting of shareholders. The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve our business results.

The Plan amends and restates various prior plans that were either adopted by the Company or companies that were acquired. Awards made under any of the prior plans will be subject to the terms and conditions of the Plan, which is designed not to impair the rights of award holders under the prior plans. The Plan goes beyond the prior plans by including new types of awards (such as unrestricted stock, performance shares, and performance and annual incentive awards) in addition to the stock options (incentive and non-qualified), stock appreciation rights, and restricted stock that could have been awarded under one or more of the prior plans. In addition, the Company s outstanding preferred stock options are also subject to the Plan.

As of March 13, 2006, options for a total of 613,604 shares of common stock outstanding under the prior plans became subject to the Plan. Also, on that date, the Company s board of directors replaced 341,000 outstanding stock appreciation rights with 354,640 options, each with an exercise price of $13.18. During 2005, the Company had issued 341,000 stock appreciation rights at $12.67 for certain executive employees throughout the Company. The appreciation rights were on a five-year cliff-vesting schedule with all appreciation rights vesting on December 31, 2009. The vesting was also subject to various financial performance goals of the Company and the subsidiary banks over the five-year period ending January 1, 2010. The options issued in replacement of the stock appreciation rights are subject to achievement of the same financial goals by the Company and the bank subsidiaries over the five-year period ending January 1, 2010.

On January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (R), Share-Based Payment (SFAS123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost is recognized beginning in 2006 includes: (a) the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, and (b) the compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was $744,000 as of March 31, 2007.

As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the three months ended March 31, 2007, are $109,000 and $66,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. The Company s income before income taxes and net income for the three months ended March 31, 2006, are $116,000 and $70,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. Basic and diluted earnings per share for the three months ended March 31, 2007, would have been $0.28, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.28 and $0.27, respectively. Basic and diluted earnings per share for the three months ended March 31, 2006, would have been $0.28 and $0.25, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.28 and $0.24, respectively. For purposes of pro forma disclosures as required by SFAS No. 123(R), the estimated fair value of stock options is amortized over the options vesting period. The intrinsic value of the stock options outstanding and vested at March 31, 2007 was $10.6 million and $6.9 million, respectively. The intrinsic value of the stock options exercised during the three-month period ended March 31, 2007 was $263,000.

The Company has a nonqualified stock option plan for employees, officers, and directors of the Company. This plan provides for the granting of incentive nonqualified options to purchase up to 1.2 million shares of common stock in the Company.

The table below summarized the transactions under the Company s stock option plans at March 31, 2007 and December 31, 2006 and changes during the three-month period and year then ended, respectively:

	For Three Months Ended March 31, 2007		For the Year Ended December 31, 2006	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	1,032	$11.39	630	$10.07
Granted	33	23.29	410	14.22
Converted options of preferred stock A			9	8.66
Converted options of preferred stock B			71	6.36
Forfeited	(7)	11.76	(31)	12.90
Exercised	(16)	7.56	(57)	9.40
Outstanding, end of period	1,042	11.85	1,032	11.39
Exercisable, end of period	542	$ 9.33	560	$ 9.27

Table of Contents

For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company s employee stock options. The weighted-average fair value of options granted during the three months ended March 31, 2007 and year-ended December 31, 2006, was $5.47 and $3.39, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For Three Months Ended March 31, 2007	For the Year Ended December 31, 2006
Expected dividend yield	0.43%	0.59%
Expected stock price volatility	9.91%	9.23%
Risk-free interest rate	4.69%	4.80%
Expected life of options	6.0 years	6.3 years

The following is a summary of currently outstanding and exercisable options at March 31, 2007:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$6.14 to $6.68	59	5.0	$ 6.37	59	$ 6.37
$7.33 to $8.66	211	5.1	7.44	211	7.44
$9.33 to $10.31	108	6.5	10.16	102	10.17
$11.34 to $11.67	69	8.1	11.41	63	11.38
$12.67 to $12.67	184	9.7	12.67	104	12.67
$13.18 to $13.18	324	9.0	13.18	3	13.18
$21.17 to $24.15	87	9.6	22.02		
	1,042			542	

Table of Contents

11. Non-Interest Expense

The table below shows the components of non-interest expense for three months ended March 31, 2007 and 2006:

	2007	2006
	(In thousands)	
Salaries and employee benefits	$ 7,440	$ 7,348
Occupancy and equipment	2,210	2,005
Data processing expense	644	567
Other operating expenses:		