

HOME BANCSHARES INC

Form 10-Q

May 06, 2008

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

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 2008**

**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: 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  No

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

Large accelerated filer:  Accelerated  
filer:

Non-accelerated filer:

Smaller reporting company:

(Do not check if a smaller reporting company)

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

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: 18,342,886 shares as of April 25, 2008.



**HOME BANCSHARES, INC.**  
**FORM 10-Q**  
**March 31, 2008**  
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Exhibit List

Awareness of Independent Registered Public Accounting Firm

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

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

CEO Certification Pursuant to Section 906

CFO Certification Pursuant to Section 906

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**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, should, 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 5, 2008.

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**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1: Financial Statements****Home BancShares, Inc.  
Consolidated Balance Sheets**

| <b>(In thousands, except share data)</b>          | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>Assets</b>                                     |   |                              |
| Cash and due from banks                           | \$ 53,862                                 | \$ 51,468                    |
| Interest-bearing deposits with other banks        | 5,828                                     | 3,553                        |
| Cash and cash equivalents                         | 59,690                                    | 55,021                       |
| Federal funds sold                                | 37,331                                    | 76                           |
| Investment securities available for sale          | 403,755                                   | 430,399                      |
| Loans receivable                                  | 1,866,969                                 | 1,606,994                    |
| Allowance for loan losses                         | (37,075)                                  | (29,406)                     |
| Loans receivable, net                             | 1,829,894                                 | 1,577,588                    |
| Bank premises and equipment, net                  | 71,155                                    | 67,702                       |
| Foreclosed assets held for sale                   | 5,097                                     | 5,083                        |
| Cash value of life insurance                      | 48,678                                    | 48,093                       |
| Investments in unconsolidated affiliates          | 1,424                                     | 15,084                       |
| Accrued interest receivable                       | 14,649                                    | 14,321                       |
| Deferred tax asset, net                           | 10,583                                    | 9,163                        |
| Goodwill  | 49,849                                    | 37,527                       |
| Core deposit and other intangibles                | 7,934                                     | 7,702                        |
| Mortgage servicing rights                         | 2,333                                     |                              |
| Other assets                                      | 28,773                                    | 23,871                       |
| <b>Total assets</b>                               | <b>\$ 2,571,145</b>                       | <b>\$ 2,291,630</b>          |
| <b>Liabilities and Stockholders Equity</b>        |   |                              |
| Deposits:   |   |                              |
| Demand and non-interest-bearing                   | \$ 255,532                                | \$ 211,993                   |
| Savings and interest-bearing transaction accounts | 687,252                                   | 582,477                      |
| Time deposits                                     | 911,954                                   | 797,736                      |
| Total deposits                                    | 1,854,738                                 | 1,592,206                    |
| Federal funds purchased                           |   | 16,407                       |
| Securities sold under agreements to repurchase    | 114,589                                   | 120,572                      |
| FHLB borrowed funds                               | 249,848                                   | 251,750                      |
| Accrued interest payable and other liabilities    | 17,936                                    | 13,067                       |
| Subordinated debentures                           | 47,643                                    | 44,572                       |
| <b>Total liabilities</b>                          | <b>2,284,754</b>                          | <b>2,038,574</b>             |
| <b>Stockholders equity:</b>                       |   |                              |
|   | 183                                       | 173                          |

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Common stock, par value \$0.01 in 2008 and 2007; shares authorized  
50,000,000 in 2008 and 2007; shares issued and outstanding 18,337,222  
in 2008 and 17,250,036 in 2007

|  |                     |                     |
|--|---------------------|---------------------|
| Capital surplus                                  | 220,052             | 195,649             |
| Retained earnings                                | 65,575              | 59,489              |
| Accumulated other comprehensive income (loss)    | 581                 | (2,255)             |
| <b>Total stockholders equity</b>                 | <b>286,391</b>      | <b>253,056</b>      |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 2,571,145</b> | <b>\$ 2,291,630</b> |

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**  
**Consolidated Statements of Income**

| <b>(In thousands, except per share data)</b>               | <b>Three Months Ended March<br/>31,</b> |               |
|--|---|---------------|
|  | <b>2008</b>                             | <b>2007</b>   |
|  | <b>(Unaudited)</b>                      |               |
| <b>Interest income:</b>                                    |   |               |
| Loans  | \$ 33,245                               | \$ 28,288     |
| Investment securities                                      |   |               |
| Taxable  | 3,762                                   | 4,586         |
| Tax-exempt   | 1,168                                   | 1,026         |
| Deposits - other banks                                     | 55                                      | 49            |
| Federal funds sold   | 166                                     | 235           |
| <b>Total interest income</b>                               | <b>38,396</b>                           | <b>34,184</b> |
| <b>Interest expense:</b>                                   |   |               |
| Interest on deposits                                       | 13,522                                  | 14,133        |
| Federal funds purchased                                    | 69                                      | 205           |
| FHLB borrowed funds  | 2,575                                   | 1,811         |
| Securities sold under agreements to repurchase             | 588                                     | 1,224         |
| Subordinated debentures                                    | 811                                     | 749           |
| <b>Total interest expense</b>                              | <b>17,565</b>                           | <b>18,122</b> |
| <b>Net interest income</b>                                 | <b>20,831</b>                           | <b>16,062</b> |
| Provision for loan losses                                  | 4,809                                   | 820           |
| <b>Net interest income after provision for loan losses</b> | <b>16,022</b>                           | <b>15,242</b> |
| <b>Non-interest income:</b>                                |   |               |
| Service charges on deposit accounts                        | 3,097                                   | 2,588         |
| Other service charges and fees                             | 1,763                                   | 1,500         |
| Data processing fees                                       | 210                                     | 218           |
| Mortgage lending income                                    | 632                                     | 348           |
| Mortgage servicing income                                  | 231                                     |               |
| Insurance commissions                                      | 272                                     | 289           |
| Income from title services                                 | 168                                     | 156           |
| Increase in cash value of life insurance                   | 585                                     | 598           |
| Dividends from FHLB, FRB & bankers bank                    | 281                                     | 227           |
| Equity in earnings (loss) of unconsolidated affiliates     | 102                                     | (114)         |
| Gain on sale of equity investment                          | 6,102                                   |               |
| Gain on sale of SBA loans                                  | 101                                     |               |
| Gain (loss) on sale of premises and equipment              | (2)                                     | 14            |
| Gain (loss) on OREO  | (380)                                   | 37            |

|                                   |          |          |
|-----------------------------------|----------|----------|
| Gain (loss) on securities         |          |          |
| Other income                      | 372      | 344      |
| Total non-interest income         | 13,534   | 6,205    |
| <b>Non-interest expense:</b>      |          |          |
| Salaries and employee benefits    | 9,278    | 7,440    |
| Occupancy and equipment           | 2,702    | 2,210    |
| Data processing expense           | 786      | 644      |
| Other operating expenses          | 5,917    | 4,447    |
| Total non-interest expense        | 18,683   | 14,741   |
| <b>Income before income taxes</b> | 10,873   | 6,706    |
| Income tax expense                | 3,595    | 1,945    |
| <b>Net income</b>                 | \$ 7,278 | \$ 4,761 |
| <b>Basic earnings per share</b>   | \$ 0.40  | \$ 0.28  |
| <b>Diluted earnings per share</b> | \$ 0.39  | \$ 0.27  |

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**  
**Consolidated Statements of Stockholders Equity**  
**Three Months Ended March 31, 2008 and 2007**

| (In thousands, except share data)  | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total      |
|--|-----------------|--------------------|----------------------|---|------------|
| <b>Balance at January 1, 2007</b>  | \$ 172          | \$ 194,595         | \$ 41,544            | \$ (4,892)  | \$ 231,419 |
| 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      |
| Net 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)      |
| <b>Balances at March 31, 2007 (unaudited)</b>  | 172             | 194,930            | 45,875               | (4,120)   | 236,857    |
| Comprehensive income (loss):   |                 |                    |                      |   |            |
| Net income   |                 |                    | 15,684               |   | 15,684     |
| Other comprehensive income (loss):   |                 |                    |                      |   |            |
| Unrealized gain on investment securities available for sale, net of tax effect of \$1,142  |                 |                    |                      | 1,770   | 1,770      |
| Unconsolidated affiliates unrecognized gain on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate |                 |                    |                      | 95  | 95         |
| Comprehensive income   |                 |                    |                      |   | 17,549     |
| Net issuance of 28,098 shares of common stock from exercise of stock options   | 1               | 231                |                      |   | 232        |
| Tax benefit from stock options exercised   |                 | 141                |                      |   | 141        |
| Share-based compensation   |                 | 347                |                      |   | 347        |
| Cash dividends Common Stock, \$0.12 per share  |                 |                    | (2,070)              |   | (2,070)    |
| <b>Balances at December 31, 2007</b>   | 173             | 195,649            | 59,489               | (2,255)   | 253,056    |

See Condensed Notes to Consolidated Financial Statements.



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**Home BancShares, Inc.**  
**Consolidated Statements of Stockholders Equity Continued**  
**Three Months Ended March 31, 2008 and 2007**

| (In thousands, except share data)  | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total             |
|--|-----------------|--------------------|----------------------|---|-------------------|
| Cumulative effect of adoption of EITF 06-4   |                 |                    | (276)                |   | (276)             |
| Comprehensive income (loss):   |                 |                    |                      |   |                   |
| Net income   |                 |                    | 7,278                |   | 7,278             |
| Other comprehensive income (loss):   |                 |                    |                      |   |                   |
| Unrealized gain on investment securities<br>available for sale, net of tax effect of \$1,888   |                 |                    |                      | 2,744   | 2,744             |
| Unconsolidated affiliates unrecognized gain on<br>investment securities available for sale, net of<br>taxes recorded by the unconsolidated affiliate |                 |                    |                      | 92  | 92                |
| Comprehensive income   |                 |                    |                      |   | 10,114            |
| Issuance of 1,083,802 common shares pursuant<br>to acquisition of Centennial Bancshares, Inc.  | 10              | 24,245             |                      |   | 24,255            |
| Net issuance of 3,384 shares of common stock<br>from exercise of stock options   |                 | 23                 |                      |   | 23                |
| Tax benefit from stock options exercised   |                 | 18                 |                      |   | 18                |
| Share-based compensation   |                 | 117                |                      |   | 117               |
| Cash dividends Common Stock, \$0.05 per<br>share   |                 |                    | (916)                |   | (916)             |
| <b>Balances at March 31, 2008 (unaudited)</b>  | <b>\$ 183</b>   | <b>\$ 220,052</b>  | <b>\$ 65,575</b>     | <b>\$ 581</b>   | <b>\$ 286,391</b> |

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**  
**Consolidated Statements of Cash Flows**

| (In thousands)  | Period Ended March 31,<br>2008                      2007<br>(Unaudited) |          |
|---|---|----------|
| <b>Operating Activities</b>   |   |          |
| Net income  | \$ 7,278  | \$ 4,761 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |   |          |
| Depreciation  | 1,388   | 1,065    |
| Amortization/Accretion  | 667   | 305      |
| Share-based compensation  | 117   | 109      |
| Tax benefits from stock options exercised   | (18)  | (103)    |
| Loss (gain) on assets   | 281   | 12       |
| Gain on sale of equity investment   | (6,102)   |          |
| Provision for loan loss   | 4,809   | 820      |
| Deferred income tax benefit   | (1,475)   | (597)    |
| Equity in loss of unconsolidated affiliates   | (102)   | 114      |
| Increase in cash value of life insurance  | (585)   | (598)    |
| Originations of mortgage loans held for sale  | (34,959)  | (17,609) |
| Proceeds from sales of mortgage loans held for sale   | 34,062  | 15,619   |
| Changes in assets and liabilities:  |   |          |
| Accrued interest receivable   | 837   | (595)    |
| Other assets  | (2,958)   | (3,046)  |
| Accrued interest payable and other liabilities  | 3,474   | 786      |
| Net cash provided by operating activities   | 6,714   | 1,043    |
| <b>Investing Activities</b>   |   |          |
| Net (increase) decrease in federal funds sold   | (34,465)  | (1,682)  |
| Net (increase) decrease in loans  | (68,912)  | (57,088) |
| Purchases of investment securities available for sale                                       | (9,275)   | (84,664) |
| Proceeds from maturities of investment securities available for sale                        | 65,862  | 141,406  |
| Proceeds from sale of loans   | 1,904   |          |
| Proceeds from foreclosed assets held for sale   | 62  | 110      |
| Purchases of premises and equipment, net  | (1,429)   | (4,491)  |
| Acquisition of Centennial Bancshares, Inc., net funds received                              | 1,663   |          |
| Proceeds from sale of investment in unconsolidated affiliate                                | 19,862  |          |
| Net cash used in investing activities   | (24,728)  | (6,409)  |
| <b>Financing Activities</b>   |   |          |
| Net increase (decrease) in deposits   | 83,395  | 21,066   |
| Net increase (decrease) in securities sold under agreements to repurchase                   | (5,983)   | 9,510    |
| Net increase (decrease) in federal funds purchased  | (16,407)  | 180      |
| Net increase (decrease) in FHLB and other borrowed funds                                    | (37,447)  | (23,926) |
| Proceeds from exercise of stock options   | 23  | 123      |
| Tax benefits from stock options exercised   | 18  | 103      |

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|   |           |           |
|---|-----------|-----------|
| Dividends paid                              | (916)     | (430)     |
| Net cash provided by financing activities   | 22,683    | 6,626     |
| Net change in cash and cash equivalents     | 4,669     | 1,260     |
| Cash and cash equivalents beginning of year | 55,021    | 59,700    |
| Cash and cash equivalents end of period     | \$ 59,690 | \$ 60,960 |

See Condensed Notes to Consolidated Financial Statements.

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**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 six wholly owned community bank subsidiaries. Three of our bank subsidiaries are located in the central Arkansas market area, a fourth serves central and southern Arkansas, a fifth serves Stone County in north central Arkansas, and a sixth 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, 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.



**Table of Contents*****Investments in Unconsolidated Affiliates***

The Company had a 20.4% investment in White River Bancshares, Inc. (WRBI) at December 31, 2007. The Company's investment in WRBI at December 31, 2007 totaled \$13.8 million. On March 3, 2008, WRBI repurchased the Company's interest in WRBI which resulted in a one-time gain of \$6.1 million. Prior to this date, the investment in WRBI was accounted for on the equity method. The Company's share of WRBI operating income included in non-interest income during 2008 totaled \$102,000. See the Acquisitions footnote related to the Company's acquisition and disposal of WRBI.

The Company has invested funds representing 100% ownership in five statutory trusts which issue trust preferred securities. The Company's investment in these trusts was \$1.4 million at March 31, 2008 and \$1.3 million at December 31, 2007, 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, 2008 and 2007, and for the three-month periods then ended:

|                   | <b>March 31,</b>      |             |
|-------------------|-----------------------|-------------|
|                   | <b>2008</b>           | <b>2007</b> |
|                   | <b>(In thousands)</b> |             |
| Assets            | \$47,425              | \$402,142   |
| Liabilities       | 46,000                | 345,695     |
| Equity            | 1,424                 | 56,447      |
| Net income (loss) | 163                   | (415)       |

***Interim financial information***

The accompanying unaudited consolidated financial statements as of March 31, 2008 and 2007 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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 2007 Form 10-K, filed with the Securities and Exchange Commission.

**Table of Contents****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:

|   | <b>2008</b>           | <b>2007</b> |
|---|-----------------------|-------------|
|   | <b>(In thousands)</b> |             |
| Net income  | \$ 7,278              | \$ 4,761    |
| Average shares outstanding                                  | 18,335                | 17,219      |
| Effect of potential share issuance for acquisition earn out | 181                   |             |
| Effect of common stock options                              | 276                   | 282         |
| Diluted shares outstanding                                  | 18,792                | 17,501      |
| Basic earnings per share                                    | \$ 0.40               | \$ 0.28     |
| Diluted earnings per share                                  | \$ 0.39               | \$ 0.27     |

**2. Acquisitions**

On January 1, 2008, HBI acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of \$234.1 million, loans of \$192.8 million and total deposits of \$178.8 million on the date of acquisition. The consideration for the merger was \$25.4 million, which was paid approximately 4.6%, or \$1.2 million in cash and 95.4%, or \$24.3 million, in shares of the Company's common stock. In connection with the acquisition, \$3.0 million of the purchase price, consisting of \$139,000 in cash and 130,052 shares of the Company's common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in \$1.0 million of the escrow proceeds being released. The merger further provides for an earn out based upon 2008 earnings of up to a maximum of \$4,000,000 which can be paid in cash or the Company's stock at the election of the accredited shareholders. As a result of this transaction, the Company recorded goodwill of \$12.3 million and a core deposit intangible of \$694,000.

In January 2005, HBI purchased 20% of the common stock during the formation of White River Bancshares, Inc. of Fayetteville, Arkansas for \$9.1 million. White River Bancshares 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. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. in Brinkley, Arkansas. As a result, HBI made a \$2.6 million additional investment in White River Bancshares on June 29, 2007 to maintain its 20% ownership. On March 3, 2008, White River BancShares repurchased HBI's 20% investment in White River Bancshares resulting in a one-time gain for HBI of \$6.1 million.

**Table of Contents****3. Investment Securities**

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

|                                       | <b>March 31, 2008</b>     |                             |                             | <b>Estimated<br/>Fair<br/>Value</b> |
|---------------------------------------|---------------------------|-----------------------------|-----------------------------|-------------------------------------|
|                                       | <b>Available for Sale</b> |                             |                             |                                     |
|                                       | <b>Amortized</b>          | <b>Gross<br/>Unrealized</b> | <b>Gross<br/>Unrealized</b> |                                     |
|                                       | <b>Cost</b>               | <b>Gains</b>                | <b>(Losses)</b>             |                                     |
|                                       | <b>(In thousands)</b>     |                             |                             |                                     |
| U.S. government-sponsored enterprises | \$ 85,367                 | \$ 1,042                    | \$ (8)                      | \$ 86,401                           |
| Mortgage-backed securities            | 194,077                   | 1,555                       | (1,517)                     | 194,115                             |
| State and political subdivisions      | 111,915                   | 1,520                       | (1,106)                     | 112,329                             |
| Other securities                      | 11,266                    |                             | (356)                       | 10,910                              |
| <b>Total</b>                          | <b>\$ 402,625</b>         | <b>\$ 4,117</b>             | <b>\$ (2,987)</b>           | <b>\$ 403,755</b>                   |

|                                       | <b>December 31, 2007</b>  |                             |                             | <b>Estimated<br/>Fair<br/>Value</b> |
|---------------------------------------|---------------------------|-----------------------------|-----------------------------|-------------------------------------|
|                                       | <b>Available for Sale</b> |                             |                             |                                     |
|                                       | <b>Amortized</b>          | <b>Gross<br/>Unrealized</b> | <b>Gross<br/>Unrealized</b> |                                     |
|                                       | <b>Cost</b>               | <b>Gains</b>                | <b>(Losses)</b>             |                                     |
|                                       | <b>(In thousands)</b>     |                             |                             |                                     |
| U.S. government-sponsored enterprises | \$ 126,898                | \$ 268                      | \$ (872)                    | \$ 126,294                          |
| Mortgage-backed securities            | 184,949                   | 179                         | (3,554)                     | 181,574                             |
| State and political subdivisions      | 111,014                   | 1,105                       | (812)                       | 111,307                             |
| Other securities                      | 11,411                    |                             | (187)                       | 11,224                              |
| <b>Total</b>                          | <b>\$ 434,272</b>         | <b>\$ 1,552</b>             | <b>\$ (5,425)</b>           | <b>\$ 430,399</b>                   |

Assets, principally investment securities, having a carrying value of approximately \$169.3 million and \$210.6 million at March 31, 2008 and December 31, 2007, 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 \$114.6 million and \$120.6 million at March 31, 2008 and December 31, 2007, respectively.

During the three-month periods ended March 31, 2008 and 2007, no available for sale securities were sold.

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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 16 of SFAS No. 115, 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 increases in market interest rates during 2005 and 2006. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold these securities to maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary, impairment is identified.

**4: Loans Receivable and Allowance for Loan Losses**

The various categories of loans are summarized as follows:

|   | <b>March 31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|---|---------------------------|----------------------------------|
|   | (In thousands)            |                                  |
| Real estate:  |                           |                                  |
| Commercial real estate loans                            |                           |                                  |
| Non-farm/non-residential                                | \$ 765,881                | \$ 607,638                       |
| Construction/land development                           | 341,442                   | 367,422                          |
| Agricultural  | 24,739                    | 22,605                           |
| Residential real estate loans                           |                           |                                  |
| Residential 1-4 family                                  | 343,475                   | 259,975                          |
| Multifamily residential                                 | 73,220                    | 45,428                           |
| Total real estate                                       | 1,548,757                 | 1,303,068                        |
| Consumer  | 55,251                    | 46,275                           |
| Commercial and industrial                               | 224,756                   | 219,062                          |
| Agricultural  | 17,559                    | 20,429                           |
| Other   | 20,646                    | 18,160                           |
| Total loans receivable before allowance for loan losses | 1,866,969                 | 1,606,994                        |
| Allowance for loan losses                               | 37,075                    | 29,406                           |
| Total loans receivable, net                             | \$ 1,829,894              | \$ 1,577,588                     |

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

|   | <b>2008</b>    | <b>2007</b> |
|---|----------------|-------------|
|   | (In thousands) |             |
| Balance, beginning of year  | \$ 29,406      | \$ 26,111   |
| Additions   |                |             |
| Provision charged to expense  | 4,809          | 820         |
| Allowance for loan loss of Centennial Bancshares, Inc.  | 3,382          |             |
| Net (recoveries) loans charged off  |                |             |
| Losses charged to allowance, net of recoveries of \$101 and \$103 for the first three months of 2008 and 2007, respectively | 522            | (3)         |
| Balance, March 31   | \$ 37,075      | 26,934      |
| Additions   |                |             |
| Provision charged to expense  |                | 2,422       |
| Net (recoveries) loans charged off  |                |             |
| Losses charged to allowance, net of recoveries of \$776 for the last nine months of 2007                                    |                | (50)        |
| Balance, end of year  |                | \$ 29,406   |

At March 31, 2008, there were no accruing loans delinquent 90 days or more. At December 31, 2007, accruing loans delinquent 90 days or more totaled \$301,000. Non-accruing loans at March 31, 2008 and December 31, 2007 were \$12.0 million and \$3.0 million, respectively.

During the three-month period ended March 31, 2008, the Company sold \$1.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of \$101,000. During the three-month period ended March 31, 2007, the Company did not sell any of the guaranteed portion of SBA loans.

Mortgage loans held for sale of approximately \$5.7 million and \$4.8 million at March 31, 2008 and December 31, 2007, 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, 2008 and December 31, 2007, impaired loans totaled \$33.2 million and \$11.9 million, respectively. As of March 31, 2008 and 2007, average impaired loans were \$22.5 million and \$10.0 million, respectively. All impaired loans had designated reserves for possible loan losses. Reserves relative to impaired loans were \$6.8 million and \$2.6 million at March 31, 2008 and December 31, 2007, respectively. Interest recognized on impaired loans during 2008 and 2007 was immaterial.

**Table of Contents****5: Goodwill and Core Deposits and Other Intangibles**

Changes in the carrying amount of the Company's goodwill and core deposits and other intangibles for the three-month period ended March 31, 2008 and for the year ended December 31, 2007, were as follows:

|  | <b>March<br/>31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|-------------------------------|----------------------------------|
|  | <b>(In thousands)</b>         |                                  |
| <b>Goodwill</b>                            |                               |                                  |
| Balance, beginning of period               | \$ 37,527                     | \$ 37,527                        |
| Acquisition of Centennial Bancshares, Inc. | 12,322                        |                                  |
| Balance, end of period                     | \$ 49,849                     | \$ 37,527                        |
| <br>                                       |                               |                                  |
|  | <b>2008</b>                   | <b>2007</b>                      |
|  | <b>(In thousands)</b>         |                                  |
| <b>Core Deposit and Other Intangibles</b>  |                               |                                  |
| Balance, beginning of period               | \$ 7,702                      | \$ 9,458                         |
| Acquisition of Centennial Bancshares, Inc. | 694                           |                                  |
| Amortization expense                       | (462)                         | (439)                            |
| Balance, March 31                          | \$ 7,934                      | 9,019                            |
| Amortization expense                       |                               | (1,317)                          |
| Balance, end of year                       |                               | \$ 7,702                         |

The carrying basis and accumulated amortization of core deposits and other intangibles at March 31, 2008 and December 31, 2007 were:

|                          | <b>March<br/>31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--------------------------|-------------------------------|----------------------------------|
|                          | <b>(In thousands)</b>         |                                  |
| Gross carrying amount    | \$ 14,151                     | \$ 13,457                        |
| Accumulated amortization | 6,217                         | 5,755                            |
| Net carrying amount      | \$ 7,934                      | \$ 7,702                         |

Core deposit and other intangible amortization for the three months ended March 31, 2008 and 2007 was approximately \$462,000 and \$439,000, respectively. Including all of the mergers completed, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2008 through 2012 is: 2008 \$1.8 million; 2009 \$1.8 million; 2010 \$1.8 million; 2011 - \$1.1 million; and 2012 \$619,000.

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 \$532.2 million and \$435.5 million at March 31, 2008 and December 31, 2007, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$5.7 million and \$5.8 million for the three months ended March 31, 2008 and 2007, respectively.

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Deposits totaling approximately \$228.5 million and \$185.6 million at March 31, 2008 and December 31, 2007, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

**7: FHLB Borrowed Funds**

The Company's FHLB borrowed funds were \$249.8 million and \$251.8 million at March 31, 2008 and December 31, 2007, respectively. The outstanding balance for March 31, 2008 includes \$10.0 million of short-term advances and \$239.8 million of long-term advances. The outstanding balance for December 31, 2007 includes \$116.0 million of short-term advances and \$135.8 million of long-term advances. The long-term FHLB advances mature from the current year to 2025 with interest rates ranging from 1.955% to 5.416% and are secured by loans and investments securities.

**8: Subordinated Debentures**

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

|  | <b>March<br/>31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|-------------------------------|----------------------------------|
|  | <b>(In thousands)</b>         |                                  |
| 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, currently callable without penalty   | \$ 20,619                     | \$ 20,619                        |
| Subordinated debentures, issued 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                              | 3,311                         | 3,333                            |
| Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable 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                           |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2011 without penalty | 3,093                         |                                  |
| Total subordinated debt  | \$ 47,643                     | \$ 44,572                        |



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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.

**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:

|                            | <b>2008</b>           | <b>2007</b> |
|----------------------------|-----------------------|-------------|
|                            | <b>(In thousands)</b> |             |
| Current:                   |                       |             |
| Federal                    | \$ 4,345              | \$ 2,252    |
| State                      | 725                   | 290         |
| Total current              | 5,070                 | 2,542       |
| Deferred:                  |                       |             |
| Federal                    | (1,245)               | (501)       |
| State                      | (230)                 | (96)        |
| Total deferred             | (1,475)               | (597)       |
| Provision for income taxes | \$ 3,595              | \$ 1,945    |

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:

|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| Statutory federal income tax rate          | 35.00%      | 35.00%      |
| Effect of nontaxable interest income       | (4.62)      | (4.94)      |
| Cash value of life insurance               | (1.89)      | (3.12)      |
| State income taxes, net of federal benefit | 2.96        | 1.88        |
| Other                                      | 1.61        | 0.18        |
| Effective income tax rate                  | 33.06%      | 29.00%      |

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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:

|  | <b>March<br/>31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|-------------------------------|----------------------------------|
|  | <b>(In thousands)</b>         |                                  |
| Deferred tax assets:                               |                               |                                  |
| Allowance for loan losses                          | \$ 14,421                     | \$ 11,512                        |
| Deferred compensation                              | 449                           | 397                              |
| Stock options                                      | 374                           | 328                              |
| Non-accrual interest income                        | 603                           | 562                              |
| Investment in unconsolidated subsidiary            | 104                           | 519                              |
| Unrealized (gain) loss on securities               | (373)                         | 1,519                            |
| Net operating loss carryforward                    | 491                           |                                  |
| Other  | 658                           | 148                              |
| Gross deferred tax assets                          | 16,727                        | 14,985                           |
| Deferred tax liabilities:                          |                               |                                  |
| Accelerated depreciation on premises and equipment | 2,032                         | 1,997                            |
| Core deposit intangibles                           | 3,003                         | 2,897                            |
| Market value of cash flow hedge                    |                               | 4                                |
| FHLB dividends                                     | 762                           | 681                              |
| Other  | 347                           | 243                              |
| Gross deferred tax liabilities                     | 6,144                         | 5,822                            |
| Net deferred tax assets                            | \$ 10,583                     | \$ 9,163                         |

**10: Common Stock and Stock Compensation Plans**

The Company has a stock option and performance incentive plan. 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. This plan provides for the granting of incentive nonqualified options to purchase up to 1.5 million shares of common stock in the Company.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, is approximately \$582,000 as of March 31, 2008. The intrinsic value of the stock options outstanding and stock options vested at March 31, 2008 was \$9.1 million and \$6.1 million, respectively. The intrinsic value of the stock options exercised during the three-month period ended March 31, 2008 was \$46,000.

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The table below summarized the transactions under the Company's stock option plans at March 31, 2008 and December 31, 2007 and changes during the three-month period and year then ended, respectively:

|                                | <b>For the Three Months<br/>Ended<br/>March 31, 2008</b> |   | <b>For the Year Ended<br/>December 31, 2007</b> |   |
|--------------------------------|--|---|---|---|
|                                | <b>Shares<br/>(000)</b>                                  | <b>Weighted<br/>Average<br/>Exercisable<br/>Price</b> | <b>Shares<br/>(000)</b>                         | <b>Weighted<br/>Average<br/>Exercisable<br/>Price</b> |
| Outstanding, beginning of year | 1,014  | \$ 12.01  | 1,032   | \$ 11.39  |
| Granted                        | 42   | 20.37   | 41  | 23.02   |
| Forfeited                      | (1)  | 13.18   | (14)  | 12.27   |
| Exercised                      | (3)  | 6.87  | (45)  | 7.99  |
| Outstanding, end of period     | 1,052  | 12.36   | 1,014   | 12.01   |
| Exercisable, end of period     | 567  | \$ 10.11  | 558   | \$ 9.80   |

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, 2008 and year-ended December 31, 2007, was \$2.69 and \$5.34, 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:

|                                 | <b>For the Three Months<br/>Ended<br/>March 31, 2008</b> | <b>For the Year<br/>Ended<br/>December 31,<br/>2007</b> |
|---------------------------------|--|---|
| Expected dividend yield         | 0.98%  | 0.46%   |
| Expected stock price volatility | 2.70%  | 9.44%   |
| Risk-free interest rate         | 3.36%  | 4.65%   |
| Expected life of options        | 6.4 years  | 6.1 years   |

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The following is a summary of currently outstanding and exercisable options at March 31, 2008:

| Exercise Prices    | Options Outstanding              |  |                                 | Options Exercisable              |                                 |
|--------------------|----------------------------------|--|---------------------------------|----------------------------------|---------------------------------|
|                    | 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 | 46                               | 4.2  | \$ 6.39                         | 46                               | \$ 6.39                         |
| \$ 7.33 to \$ 8.66 | 203                              | 4.1  | 7.43                            | 203                              | 7.43                            |
| \$ 9.33 to \$10.31 | 103                              | 5.4  | 10.18                           | 102                              | 10.18                           |
| \$11.34 to \$11.67 | 63                               | 7.2  | 11.41                           | 60                               | 11.40                           |
| \$12.67 to \$12.67 | 184                              | 8.7  | 12.67                           | 131                              | 12.67                           |
| \$13.18 to \$13.18 | 317                              | 8.0  | 13.18                           | 3                                | 13.18                           |
| \$19.79 to \$21.17 | 95                               | 9.0  | 20.80                           | 10                               | 21.17                           |
| \$21.89 to \$22.12 | 20                               | 9.1  | 22.05                           | 2                                | 22.01                           |
| \$23.27 to \$24.15 | 21                               | 8.8  | 24.11                           | 10                               | 24.13                           |
|                    | 1,052                            |  |                                 | 567                              |                                 |

**11. Non-Interest Expense**

The table below shows the components of non-interest expense for three months ended March 31, 2008 and 2007:

|   | 2008           | 2007     |
|---|----------------|----------|
|   | (In thousands) |          |
| Salaries and employee benefits            | \$ 9,278       | \$ 7,440 |
| Occupancy and equipment                   | 2,702          | 2,210    |
| Data processing expense                   | 786            | 644      |
| Other operating expenses:                 |                |          |
| Advertising                               | 614            | 629      |
| Amortization of intangibles               | 462            | 439      |
| Amortization of mortgage servicing rights | 147            |          |
| Electronic banking expense                | 752            | 530      |
| Directors' fees                           | 231            | 174      |
| Due from bank service charges             | 62             | 56       |
| FDIC and state assessment                 | 315            | 260      |
| Insurance                                 | 228            | 244      |
| Legal and accounting                      | 280            | 319      |
| Mortgage servicing expense                | 87             |          |
| Other professional fees                   | 833            | 170      |
| Operating supplies                        | 244            | 226      |
| Postage                                   | 180            | 164      |
| Telephone                                 | 231            | 228      |
| Other expense                             | 1,251          | 1,008    |
| Total other operating expenses            | 5,917          | 4,447    |

|                            |           |           |
|----------------------------|-----------|-----------|
| Total non-interest expense | \$ 18,683 | \$ 14,741 |
|----------------------------|-----------|-----------|

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At its April 20, 2007 meeting, our Board of Directors approved a Chairman's Retirement Plan for John Allison, our Chairman and CEO. Beginning on Mr. Allison's 65th birthday, he will receive a \$250,000 annual benefit to be paid for 10 consecutive years or until his death, whichever shall occur later. This will result in an expense of approximately \$388,000 and \$535,000 to non-interest expense for 2007 and 2008, respectively. An expense of \$130,000 was accrued for the three months ended March 31, 2008. This expense was accrued using an 8 percent discount factor.

**12: Concentration of Credit Risks**

The Company's primary market area is in central Arkansas, north central Arkansas, northwest Arkansas, southern Arkansas, southwest Florida and the Florida Keys (Monroe County). The Company primarily grants loans to customers located within these geographical areas unless the borrower has an established relationship with the Company.

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

**13: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 4, while deposit concentrations are reflected in Note 6.

**14: Commitments and Contingencies**

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of their customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as they do in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At March 31, 2008 and December 31, 2007, commitments to extend credit of \$307.7 million and \$315.4 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The maximum amount of future payments the Company could be required to make under these guarantees at March 31, 2008 and December 31, 2007, is \$17.8 million and \$15.8 million, respectively.

The Company and/or its subsidiary banks have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries.

**Table of Contents****15: Regulatory Matters**

The Company's subsidiaries are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since, the Company's Arkansas bank subsidiaries are also under supervision of the Federal Reserve, they are further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. Under Florida state banking law, regulatory approval will be required if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. A financial holding company is required to maintain risk based capital ratios for its subsidiary banks at or above well capitalized. As the result of leveraged capital positions, the Company's subsidiary banks do not have any significant undivided profits available for payment of dividends to the Company as of March 31, 2008.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) and undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of March 31, 2008, each of the six subsidiary banks met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio was 11.09%, 13.05%, and 14.31%, respectively, as of March 31, 2008.

**16: Additional Cash Flow Information**

In connection with the Centennial Bancshares, Inc. acquisition accounting for using the purchase method, the Company acquired approximately \$241.5 million in assets, assumed \$218.9 million in liabilities, issued \$24.3 million of equity and received net funds of \$1.7 million during the three months ended March 31, 2008. The Company paid interest and taxes during the three months ended as follows:

|                   | <b>Three Months Ended March</b> |             |
|-------------------|---------------------------------|-------------|
|                   | <b>31,</b>                      |             |
|                   | <b>2008</b>                     | <b>2007</b> |
|                   | <b>(In thousands)</b>           |             |
| Interest paid     | \$ 18,440                       | \$ 18,739   |
| Income taxes paid | 650                             | 350         |

**17: Adoption of Recent Accounting Pronouncements****FAS 157**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the period.

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FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. Level 3 securities were immaterial.

Impaired loans are the only material instruments valued on a non-recurring basis which are held by the Company at fair value. Impaired loans are considered a Level 3 valuation.

Compared to prior years, the adoption of SFAS 157 did not have any impact on our 2008 consolidated financial statements.

**FAS 159**

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) became effective for the Company on January 1, 2008. FAS 159 allows companies an option to report selected financial assets and liabilities at fair value. Because we did not elect the fair value measurement provision for any of our financial assets or liabilities, the adoption of SFAS 159 did not have any impact on our 2008 consolidated financial statements. Presently, we have not determined whether we will elect the fair value measurement provisions for future transactions.

**EITF 06-4 and 06-10**

Effective January 1, 2008, the Company adopted EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. As a result of the adoption of EITF 06-4, the Company recognized the effect of applying the EITF with a change in accounting principle through a cumulative-effect adjustment to retained earnings for \$276,000. Additionally, this change will result in an increase of approximately \$100,000 in annual non-interest expense as a result of the mortality cost for 2008 and beyond. The adoption of EITF 06-10 did not have any impact on our 2008 consolidated financial statements.



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**18: Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (the FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141(revised 2007), Business Combinations, ( SFAS 141(R) ). SFAS 141(R), which replaces SFAS 141, Business Combinations, establishes accounting standards for all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree) including mergers and combinations achieved without the transfer of consideration. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Goodwill is measured as the excess of consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the identifiable net assets acquired. In the event that the fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest (referred to as a bargain purchase ), SFAS 141(R) requires the acquirer to recognize that excess in earnings as a gain attributable to the acquirer. In addition, SFAS 141(R) requires costs incurred to effect an acquisition to be recognized separately from the acquisition and requires the recognition of assets or liabilities arising from noncontractual contingencies as of the acquisition date only if it is more likely than not that they meet the definition of an asset or liability in FASB Concepts Statement No. 6, Elements of Financial Statements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for us is the fiscal year beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company s financial position or results of operation.

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. as of March 31, 2008 and the related condensed consolidated statements of income for the three-month periods ended March 31, 2008 and 2007 and statements of stockholders' equity and cash flows for the three-month periods ended March 31, 2008 and 2007. These interim financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 4, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP

Little Rock, Arkansas

May 5, 2008

**Table of Contents****Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on March 5, 2008, which includes the audited financial statements for the year ended December 31, 2007. *Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Home BancShares, Inc. on a consolidated basis.*

**General**

We are a financial holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our six wholly owned bank subsidiaries. As of March 31, 2008, we had, on a consolidated basis, total assets of \$2.57 billion, loans receivable of \$1.87 billion, total deposits of \$1.85 billion, and shareholders' equity of \$286.4 million.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits are our primary source of funding. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance by calculating our return on average equity, return on average assets, and net interest margin. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

**Key Financial Measures**

|                                      | <b>As of or for the Three Months<br/>Ended March 31,</b> |              |
|--------------------------------------|--|--------------|
|                                      | <b>2008</b>  | <b>2007</b>  |
|                                      | <b>(Dollars in thousands, except per share<br/>data)</b> |              |
| Total assets                         | \$ 2,571,145   | \$ 2,203,576 |
| Loans receivable                     | 1,866,969  | 1,475,376    |
| Total deposits                       | 1,854,738  | 1,628,260    |
| Net income                           | 7,278  | 4,761        |
| Basic earnings per share             | 0.40   | 0.28         |
| Diluted earnings per share           | 0.39   | 0.27         |
| Diluted cash earnings per share (1)  | 0.40   | 0.29         |
| Annualized net interest margin - FTE | 3.78%  | 3.42%        |
| Efficiency ratio                     | 51.94  | 62.52        |
| Annualized return on average assets  | 1.15   | 0.88         |
| Annualized return on average equity  | 10.35  | 8.30         |

(1) See Table 16  
Diluted Cash  
Earnings Per  
Share for a  
reconciliation to  
GAAP for  
diluted cash  
earnings per  
share.

**Overview**

Our net income increased 52.9% to \$7.3 million for the three-month period ended March 31, 2008, from \$4.8 million for the same period in 2007. On a diluted earnings per share basis, our net earnings increased 44.4% to \$0.39 for the three-month period ended March 31, 2008, as compared to \$0.27 for the same period in 2007. The

increase in earnings is associated with our acquisition of Centennial Bancshares, Inc., a \$6.1 million gain on the sale of our investment in White River Bancshares, Inc. and organic growth of our bank subsidiaries offset by the additional provision for loan loss associated with the unfavorable economic conditions, particularly in the Florida market and a \$380,000 loss on a foreclosed owner occupied strip center in Florida and \$660,000 of costs associated with an efficiency study.

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Our annualized return on average assets was 1.15% and 0.88% for the three months ended March 31, 2008 and 2007, respectively. Our annualized return on average equity was 10.35% and 8.30% for the three and months ended March 31, 2008 and 2007, respectively. The increases were primarily due to the previously discussed improvements in net income for the three months ended March 31, 2008, compared to the same period in 2007.

Our annualized net interest margin, on a fully taxable equivalent basis, was 3.78% and 3.42% for the three months ended March 31, 2008 and 2007, respectively. Our strong loan growth which was partially funded by run off in the investment portfolio combined with improved pricing on our deposit growth allowed the Company to improve net interest margin.

Our efficiency ratio (calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income) was 51.94% and 62.52% for three months ended March 31, 2008 and 2007, respectively. The improvement in our efficiency ratio is primarily due to the \$6.1 million gain on the sale of our investment in White River Bancshares, Inc. combined with the continued improvement of our operations.

Our total assets increased \$279.5 million, an annualized growth of 49.1%, to \$2.57 billion as of March 31, 2008, from \$2.29 billion as of December 31, 2007. Our loan portfolio increased \$260.0 million, an annualized growth of 65.1%, to \$1.87 billion as of March 31, 2008, from \$1.61 billion as of December 31, 2007. Shareholders' equity increased \$33.3 million, an annualized growth of 53.0%, to \$286.4 million as of March 31, 2008, compared to \$253.1 million as of December 31, 2007. Asset and loan increases are primarily associated with our acquisition of Centennial Bancshares and organic growth of our bank subsidiaries. During the first quarter of 2008 we experienced \$67.2 million of organic loan growth. The increase in stockholders' equity was primarily the result of the \$24.3 million in additional capital that was issued upon our acquisition of Centennial Bancshares, Inc. combined with the retained earnings for the three months.

As of March 31, 2008, our non-performing loans increased to \$12.0 million, or 0.64%, of total loans from \$3.3 million, or 0.20%, of total loans as of December 31, 2007. The allowance for loan losses as a percent of non-performing loans decreased to 308.1% as of March 31, 2008, compared to 904.0% from December 31, 2007. The increase in non-performing loans is associated with the unfavorable economic conditions in the Florida market combined with our acquisition of Centennial Bancshares, Inc.

**Critical Accounting Policies**

*Overview.* We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

We consider a policy critical if (i) the accounting estimate requires assumptions about matters that are highly uncertain at the time of the accounting estimate; and (ii) different estimates that could reasonably have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial statements. Using these criteria, we believe that the accounting policies most critical to us are those associated with our lending practices, including the accounting for the allowance for loan losses, investments, intangible assets, income taxes and stock options.

*Investments.* Securities available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of shareholders' equity and other comprehensive income (loss). Securities that are held as available for sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale.

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*Loans Receivable and Allowance for Loan Losses.* Substantially all of our loans receivable are reported at their outstanding principal balance adjusted for any charge-offs, as it is management's intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management's judgment, will be adequate to absorb probable credit losses on identifiable loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions for loan losses are based on management's analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

We consider a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms thereof. We apply this policy even if delays or shortfalls in payments are expected to be insignificant. All non-accrual loans and all loans that have been restructured from their original contractual terms are considered impaired loans. The aggregate amount of impaired loans is used in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that losses will be realized. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

*Intangible Assets.* Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 84 to 114 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by SFAS No. 142, *Goodwill and Other Intangible Assets*, in the fourth quarter.

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*Income Taxes.* We use the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Any estimated tax exposure items identified would be considered in a tax contingency reserve. Changes in any tax contingency reserve would be based on specific development, events, or transactions.

We and our subsidiaries file consolidated tax returns. Our subsidiaries provide for income taxes on a separate return basis, and remit to us amounts determined to be currently payable.

*Stock Options.* Prior to 2006, we elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations in accounting for employee stock options using the fair value method. Under APB 25, because the exercise price of the options equals the estimated market price of the stock on the issuance date, no compensation expense is recorded. On January 1, 2006, we adopted SFAS No. 123, *Share-Based Payment* (Revised 2004) which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

**Acquisitions and Equity Investments**

On January 1, 2008, we acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of \$234.1 million, loans of \$192.8 million and total deposits of \$178.8 million on the date of acquisition. The consideration for the merger was \$25.4 million, which was paid approximately 4.6%, or \$1.2 million in cash and 95.4%, or \$24.3 million, in shares of our common stock. In connection with the acquisition, \$3.0 million of the purchase price, consisting of \$139,000 in cash and 130,052 shares of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in \$1.0 million of the escrow proceeds being released. The merger further provides for an earn out based upon 2008 earnings of up to a maximum of \$4,000,000 which can be paid in cash or our stock at the election of the accredited shareholders. As a result of this transaction, we recorded goodwill of \$12.3 million and a core deposit intangible of \$694,000.

In January 2005, we purchased 20% of the common stock during the formation of White River Bancshares, Inc. of Fayetteville, Arkansas for \$9.1 million. White River Bancshares owns all of the stock of Signature Bank of Arkansas, with branch locations in northwest Arkansas. In January 2006, White River Bancshares issued an additional \$15.0 million of common stock. To maintain our 20% ownership, we made an additional investment of \$3.0 million in January 2006. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. in Brinkley, Arkansas. As a result, we made a \$2.6 million additional investment in White River Bancshares on June 29, 2007 to maintain our 20% ownership. On March 3, 2008, White River Bancshares repurchased our 20% investment in their company which resulted in a one-time gain of \$6.1 million.

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In our continuing evaluation of our growth plans for the Company, we believe properly priced bank acquisitions can complement our organic growth and de novo branching growth strategies. The Company's acquisition focus will be to expand in its primary market areas of Arkansas and Florida. However, management was familiar with the Texas market with a prior institution and, if opportunities arise, would look to expand through a banking acquisition in the Texas market. We are continually evaluating potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

**De Novo Branching**

We intend to continue to open new (commonly referred to de novo) branches in our current markets and in other attractive market areas if opportunities arise. During 2008, we opened branch locations in the Arkansas communities of Morrilton and Cabot. Presently, we are evaluating additional opportunities but have no firm commitments for any additional de novo branch locations.

**Results of Operations**

Our net income increased 52.9% to \$7.3 million for the three-month period ended March 31, 2008, from \$4.8 million for the same period in 2007. On a diluted earnings per share basis, our net earnings increased 44.4% to \$0.39 for the three-month period ended March 31, 2008, as compared to \$0.27 for the same period in 2007. The increase in earnings is associated with our acquisition of Centennial Bancshares, Inc., a \$6.1 million gain on the sale of our investment in White River Bancshares, Inc. and organic growth of our bank subsidiaries offset by the additional provision for loan loss associated with the unfavorable economic conditions, particularly in the Florida market and a \$380,000 loss on a foreclosed owner occupied strip center in Florida and \$660,000 of costs associated with an efficiency study.

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. During 2007, the federal funds rate remained constant until September 18, 2007, when the Federal Funds rate was lowered by 50 basis points to 4.75%. The Federal Funds rate decreased another 25 basis points on October 31, 2007 and December 11, 2007. Due to these reductions occurring late in 2007, the impact for the year was minimal. Average interest rates for 2007 reflect the higher interest rate environment that existed until September 18, 2007 when the Federal Funds rate was lowered. Going forward, we will begin to see more of an impact of the decrease in the Federal Funds rate as our earning assets and interest-bearing liabilities begin to reprice. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008 and 75 basis points on March 18, 2008.



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Net interest income on a fully taxable equivalent basis increased \$4.9 million, or 29.2%, to \$21.5 million for the three-month period ended March 31, 2008, from \$16.7 million for the same period in 2007. This increase in net interest income was the result of a \$4.3 million increase in interest income combined with a \$557,000 decrease in interest expense. The \$4.3 million increase in interest income was primarily the result of our acquisition of Centennial Bancshares, Inc. and organic growth of our bank subsidiaries offset by the repricing of our earning assets in the declining interest rate environment. The higher level of earning assets resulted in an improvement in interest income of \$6.3 million, and our earning assets repricing in the declining interest rate environment resulted in a \$2.0 million decrease in interest income for the three-month period ended March 31, 2008. The \$557,000 decrease in interest expense for the three-month period ended March 31, 2008, is primarily the result of organic growth of our bank subsidiaries offset by our interest bearing liabilities repricing in the declining interest rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of \$2.7 million. The repricing of our interest bearing liabilities in the declining interest rate environment resulted in a \$3.3 million decrease in interest expense for the three-month period ended March 31, 2008.

Net interest margin, on a fully taxable equivalent basis, was 3.78% for the three months ended March 31, 2008 compared to 3.42% for the same period in 2007. Our strong loan growth which was partially funded by run off in the investment portfolio combined with improved pricing on our deposit growth allowed the Company to improve net interest margin.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month periods ended March 31, 2008 and 2007, as well as changes in fully taxable equivalent net interest margin for the three-month period ended March 31, 2008, compared to the same period in 2007.

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

|  | <b>Three Months Ended March<br/>31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
|  | <b>(Dollars in thousands)</b>           |             |
| Interest income                                  | \$ 38,396                               | \$ 34,184   |
| Fully taxable equivalent adjustment              | 716                                     | 610         |
| Interest income fully taxable equivalent         | 39,112                                  | 34,794      |
| Interest expense                                 | 17,565                                  | 18,122      |
| Net interest income fully taxable equivalent     | \$ 21,547                               | \$ 16,672   |
| Yield on earning assets fully taxable equivalent | 6.86%                                   | 7.13%       |
| Cost of interest-bearing liabilities             | 3.50                                    | 4.23        |
| Net interest spread fully taxable equivalent     | 3.36                                    | 2.90        |
| Net interest margin fully taxable equivalent     | 3.78                                    | 3.42        |

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

|   | <b>March 31,<br/>2008 vs. 2007<br/>(In<br/>thousands)</b> |
|---|---|
| Increase in interest income due to change in earning assets                                       | \$ 6,326  |
| Decrease in interest income due to change in earning asset yields                                 | 2,008   |
| Increase in interest expense due to change in interest-bearing liabilities                        | 2,728   |
| Decrease in interest expense due to change in interest rates paid on interest-bearing liabilities | 3,285   |

|                                 |    |       |
|---------------------------------|----|-------|
| Increase in net interest income | \$ | 4,875 |
|---------------------------------|----|-------|

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Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three-month periods ended March 31, 2008 and 2007. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

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

|   | Three Months Ended March 31, |          |       |              |          |       |
|---|------------------------------|----------|-------|--------------|----------|-------|
|   | 2008                         |          |       | 2007         |          |       |
|   | Average                      | Income   | Yield | Average      | Income   | Yield |
|   | Balance                      | /        | /     | Balance      | /        | /     |
|   |                              | Expense  | Rate  |              | Expense  | Rate  |
| (Dollars in thousands)                            |                              |          |       |              |          |       |
| <b>ASSETS</b>                                     |                              |          |       |              |          |       |
| Earnings assets                                   |                              |          |       |              |          |       |
| Interest-bearing balances due from                |                              |          |       |              |          |       |
| banks   | \$ 5,397                     | \$ 55    | 4.10% | \$ 3,793     | \$ 49    | 5.24% |
| Federal funds sold                                | 22,701                       | 166      | 2.94  | 18,031       | 235      | 5.29  |
| Investment securities taxable                     | 324,101                      | 3,762    | 4.67  | 407,373      | 4,586    | 4.57  |
| Investment securities non-taxable                 | 109,314                      | 1,826    | 6.72  | 97,785       | 1,581    | 6.56  |
| Loans receivable                                  | 1,831,338                    | 33,303   | 7.31  | 1,450,789    | 28,343   | 7.92  |
| Total interest-earning assets                     | 2,292,851                    | 39,112   | 6.86  | 1,977,771    | 34,794   | 7.13  |
| Non-earning assets                                | 257,680                      |          |       | 219,924      |          |       |
| Total assets                                      | \$ 2,550,531                 |          |       | \$ 2,197,695 |          |       |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                              |          |       |              |          |       |
| Liabilities                                       |                              |          |       |              |          |       |
| Interest-bearing liabilities                      |                              |          |       |              |          |       |
| Interest-bearing transaction and savings deposits | \$ 650,235                   | \$ 3,405 | 2.11% | \$ 592,101   | \$ 4,335 | 2.97% |
| Time deposits                                     | 917,348                      | 10,117   | 4.44  | 820,942      | 9,798    | 4.84  |
| Total interest-bearing deposits                   | 1,567,583                    | 13,522   | 3.47  | 1,413,043    | 14,133   | 4.06  |
| Federal funds purchased                           | 6,578                        | 69       | 4.22  | 15,397       | 205      | 5.40  |
| Securities sold under agreement to repurchase     | 117,426                      | 588      | 2.01  | 115,754      | 1,224    | 4.29  |
| FHLB borrowed funds                               | 276,357                      | 2,575    | 3.75  | 148,897      | 1,811    | 4.93  |
| Subordinated debentures                           | 47,656                       | 811      | 6.84  | 44,654       | 749      | 6.80  |
| Total interest-bearing liabilities                | 2,015,600                    | 17,565   | 3.50  | 1,737,745    | 18,122   | 4.23  |
| Non-interest bearing liabilities                  |                              |          |       |              |          |       |

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|                               |           |           |
|-------------------------------|-----------|-----------|
| Non-interest-bearing deposits | 237,028   | 214,461   |
| Other liabilities             | 15,155    | 12,718    |
| Total liabilities             | 2,267,783 | 1,964,924 |
| Shareholders' equity          | 282,748   | 232,771   |

|   |              |              |
|---|--------------|--------------|
| Total liabilities and shareholders equity | \$ 2,550,531 | \$ 2,197,695 |
|---|--------------|--------------|

|                                |           |       |           |       |
|--------------------------------|-----------|-------|-----------|-------|
| Net interest spread            |           | 3.36% |           | 2.90% |
| Net interest income and margin | \$ 21,547 | 3.78% | \$ 16,672 | 3.42% |

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month period ended March 31, 2008 compared to the same period in 2007, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

**Table 4: Volume/Rate Analysis**

|   | <b>Three Months Ended March 31,<br/>2008 over 2007</b> |  |                 |
|---|--|--|-----------------|
|   | <b>Volume</b>  | <b>Yield/Rate<br/>(In<br/>thousands)</b> | <b>Total</b>    |
| Increase (decrease) in:                           |  |  |                 |
| Interest income:                                  |  |  |                 |
| Interest-bearing balances due from banks          | \$ 18  | \$ (12)                                  | \$ 6            |
| Federal funds sold                                | 51   | (120)                                    | (69)            |
| Investment securities taxable                     | (963)  | 139                                      | (824)           |
| Investment securities non-taxable                 | 192  | 53                                       | 245             |
| Loans receivable                                  | 7,028  | (2,068)                                  | 4,960           |
| <b>Total interest income</b>                      | <b>6,326</b>   | <b>(2,008)</b>                           | <b>4,318</b>    |
| Interest expense:                                 |  |  |                 |
| Interest-bearing transaction and savings deposits | 395  | (1,325)                                  | (930)           |
| Time deposits                                     | 1,098  | (779)                                    | 319             |
| Federal funds purchased                           | (100)  | (36)                                     | (136)           |
| Securities sold under agreement to repurchase     | 18   | (654)                                    | (636)           |
| FHLB borrowed funds                               | 1,266  | (502)                                    | 764             |
| Subordinated debentures                           | 51   | 11                                       | 62              |
| <b>Total interest expense</b>                     | <b>2,728</b>   | <b>(3,285)</b>                           | <b>(557)</b>    |
| <b>Increase (decrease) in net interest income</b> | <b>\$ 3,598</b>  | <b>\$ 1,277</b>                          | <b>\$ 4,875</b> |

*Provision for Loan Losses.* Our management assesses the adequacy of the allowance for loan losses by applying the provisions of Statement of Financial Accounting Standards No. 5 and No. 114. Specific allocations are determined for loans considered to be impaired and loss factors are assigned to the remainder of the loan portfolio to determine an appropriate level in the allowance for loan losses. The allowance is increased, as necessary, by making a provision for loan losses. The specific allocations for impaired loans are assigned based on an estimated net realizable value after a thorough review of the credit relationship. The potential loss factors associated with the remainder of the loan portfolio are based on an internal net loss experience, as well as management's review of trends within the portfolio and related industries.

Generally, commercial, commercial real estate, and residential real estate loans are assigned a level of risk at origination. Thereafter, these loans are reviewed on a regular basis. The periodic reviews generally include loan payment and collateral status, the borrower's financial data, and key ratios such as cash flows, operating income, liquidity, and leverage. A material change in the borrower's credit analysis can result in an increase or decrease in the loan's assigned risk grade. Aggregate dollar volume by risk grade is monitored on an ongoing basis.



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Our management reviews certain key loan quality indicators on a monthly basis, including current economic conditions, delinquency trends and ratios, portfolio mix changes, and other information management deems necessary. This review process provides a degree of objective measurement that is used in conjunction with periodic internal evaluations. To the extent that this review process yields differences between estimated and actual observed losses, adjustments are made to the loss factors used to determine the appropriate level of the allowance for loan losses.

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. Our provision for loan losses increased \$4.0 million, or 486.5%, to \$4.8 million for the three-month period ended March 31, 2008, from \$820,000 for the same period in 2007. The increase in the provision is primarily associated with a decline in asset quality, particularly in our Florida market combined with growth in the loan portfolio. The decrease in our asset quality is primarily related to the unfavorable economic conditions that are impacting our Florida market. During the first quarter of 2008, we recorded a provision for loan loss in our Florida subsidiary of \$3.4 million.

*Non-Interest Income.* Total non-interest income was \$13.5 million for the three-month period ended March 31, 2008 compared to \$6.2 million for the same period in 2007. Our non-interest income includes service charges on deposit accounts, other service charges and fees, data processing fees, mortgage banking income, insurance commissions, income from title services, increases in cash value of life insurance, dividends, equity in earnings of unconsolidated affiliates and other income.

Table 5 measures the various components of our non-interest income for the three-month periods ended March 31, 2008 and 2007, respectively, as well as changes for the three-month period ended March 31, 2008 compared to the same period in 2007.

**Table 5: Non-Interest Income**

|  | <b>Three Months Ended</b>     |                 |                  |               |
|--|-------------------------------|-----------------|------------------|---------------|
|  | <b>March 31,</b>              | <b>2007</b>     |                  |               |
|  | <b>2008</b>                   |                 | <b>from 2007</b> |               |
|  | <b>(Dollars in thousands)</b> |                 |                  |               |
| Service charges on deposit accounts                  | \$ 3,097                      | \$ 2,588        | \$ 509           | 19.7%         |
| Other service charges and fees                       | 1,763                         | 1,500           | 263              | 17.5          |
| Data processing fees                                 | 210                           | 218             | (8)              | (3.7)         |
| Mortgage lending income                              | 632                           | 348             | 284              | 81.6          |
| Mortgage servicing income                            | 231                           |                 | 231              | 100.0         |
| Insurance commissions                                | 272                           | 289             | (17)             | (5.9)         |
| Income from title services                           | 168                           | 156             | 12               | 7.7           |
| Increase in cash value of life insurance             | 585                           | 598             | (13)             | (2.2)         |
| Dividends from FHLB, FRB & bankers bank              | 281                           | 227             | 54               | 23.8          |
| Equity in income (loss) of unconsolidated affiliates | 102                           | (114)           | 216              | 189.5         |
| Gain on sale of equity investment                    | 6,102                         |                 | 6,102            | 100.0         |
| Gain on sale of SBA                                  | 101                           |                 | 101              | 100.0         |
| Gain (loss) on sale of premises and equipment, net   | (2)                           | 14              | (16)             | (114.3)       |
| Gain (loss) on OREO                                  | (380)                         | 37              | (417)            | (1,127.0)     |
| Other income   | 372                           | 344             | 28               | 8.1           |
| <b>Total non-interest income</b>                     | <b>\$ 13,534</b>              | <b>\$ 6,205</b> | <b>\$ 7,329</b>  | <b>118.1%</b> |

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Non-interest income increased \$7.3 million, or 118.1%, to \$13.5 million for the three-month period ended March 31, 2008 from \$6.2 million for the same period in 2007. The primary factors that resulted in the increase include:

Of the \$509,000 aggregate increase in service charges on deposit accounts, our acquisition of Centennial Bancshares, Inc. accounted for \$130,000 of the increase. The remaining increase is related to organic growth of our bank subsidiaries and an improved fee process.

Of the \$263,000 aggregate increase in other service charges and fees, our acquisition of Centennial Bancshares, Inc. accounted for \$145,000 of the increase. The remaining increases are a result of increased retention of interchange fees and organic growth of our bank subsidiaries

Of the \$284,000 aggregate increase in mortgage lending income, our acquisition of Centennial Bancshares, Inc. accounted for \$84,000 of the increase. The remaining increase is related to organic growth of our bank subsidiaries.

The new revenue source, mortgage servicing income was related to our acquisition of Centennial Bancshares, Inc. As a result of this acquisition, we now have a mortgage loan servicing portfolio of approximately \$290 million and purchased mortgage servicing rights of \$2.3 million.

The equity in earnings of unconsolidated affiliate is related to the 20% interest in White River Bancshares that we purchased during 2005. Because the investment in White River Bancshares is accounted for on the equity method, we recorded our share of White River Bancshares' operating earnings. White River Bancshares had been operating at a loss as a result of their status as a start up company until late in 2007. White River Bancshares repurchased our interest in them on March 3, 2008. This resulted in a one time gain on the sale of the equity investment of \$6.1 million.

The \$380,000 loss on OREO is related to a foreclosure on an owner occupied strip center in the Florida market. Due to the unfavorable economic conditions in the Florida market, the current fair market value estimate required for this write down be taken on the property.



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*Non-Interest Expense.* Non-interest expense consists of salary and employee benefits, occupancy and equipment, data processing, and other expenses such as advertising, amortization of intangibles, electronic banking expense, FDIC and state assessment, and legal and accounting fees.

Table 6 below sets forth a summary of non-interest expense for the three-month periods ended March 31, 2008 and 2007, as well as changes for the three-month period ended March 31, 2008 compared to the same period in 2007.

**Table 6: Non-Interest Expense**

|   | <b>Three Months Ended</b>     |                  | <b>2008 Change<br/>from 2007</b> |              |
|---|-------------------------------|------------------|----------------------------------|--------------|
|   | <b>2008</b>                   | <b>2007</b>      |                                  |              |
|   | <b>(Dollars in thousands)</b> |                  |                                  |              |
| Salaries and employee benefits                      | \$ 9,278                      | \$ 7,440         | \$ 1,838                         | 24.7%        |
| Occupancy and equipment                             | 2,702                         | 2,210            | 492                              | 22.3         |
| Data processing expense                             | 786                           | 644              | 142                              | 22.0         |
| Other operating expenses:                           |                               |                  |                                  |              |
| Advertising   | 614                           | 629              | (15)                             | (2.4)        |
| Amortization of intangibles                         | 462                           | 439              | 23                               | 5.2          |
| Amortization of purchased mortgage servicing rights | 147                           |                  | 147                              | 100.0        |
| Electronic banking expense                          | 752                           | 530              | 222                              | 41.9         |
| Directors fees                                      | 231                           | 174              | 57                               | 32.8         |
| Due from bank service charges                       | 62                            | 56               | 6                                | 10.7         |
| FDIC and state assessment                           | 315                           | 260              | 55                               | 21.2         |
| Insurance   | 228                           | 244              | (16)                             | (6.6)        |
| Legal and accounting                                | 280                           | 319              | (39)                             | (12.2)       |
| Mortgage servicing expense                          | 87                            |                  | 87                               | 100.0        |
| Other professional fees                             | 833                           | 170              | 663                              | 390.0        |
| Operating supplies                                  | 244                           | 226              | 18                               | 8.0          |
| Postage   | 180                           | 164              | 16                               | 9.8          |
| Telephone   | 231                           | 228              | 3                                | 1.3          |
| Other expense                                       | 1,251                         | 1,008            | 243                              | 24.1         |
| <b>Total non-interest expense</b>                   | <b>\$ 18,683</b>              | <b>\$ 14,741</b> | <b>\$ 3,942</b>                  | <b>26.7%</b> |

Non-interest expense increased \$3.9 million, or 26.7%, to \$18.7 million for the three-month period ended March 31, 2008, from \$14.7 million for the same period in 2007. The increase is the result of our acquisition of Centennial Bancshares, Inc. during the first quarter of 2008, the continued expansion of the Company and additional costs associated with an efficiency study performed during the first quarter of 2008 combined with the normal increased cost of doing business. The most significant component of the increase was related to our acquisition of Centennial Bancshares. Another component was the \$660,000 of costs associated with an efficiency study performed by a third party in the first quarter of 2008. The remaining increases are primarily the result of the continued expansion of the Company combined with the normal increased cost of doing business. During 2008 and 2007, we have opened two de novo branch locations in Florida and six in Arkansas.

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At its April 20, 2007 meeting, our Board of Directors approved a Chairman's Retirement Plan for John Allison, our Chairman and CEO. Beginning on Mr. Allison's 65th birthday, he will receive a \$250,000 annual benefit to be paid for 10 consecutive years or until his death, whichever shall occur later. This will result in an increase of approximately \$535,000 to non-interest expense for 2008. An expense of \$130,000 was accrued for the three months ended March 31, 2008. During April 2007, we purchased \$3.5 million of additional bank-owned life insurance to help offset a portion of the costs related to this retirement benefit.

*Income Taxes.* The provision for income taxes increased \$1.7 million, or 84.8%, to \$3.6 million for the three-month period ended March 31, 2008, from \$1.9 million as of March 31, 2007. The effective income tax rate was 33.1% for the three-month period ended March 31, 2008, compared to 29.0% for the same period in 2007. The primary cause of this increase is the result of our increased earnings which is tax-effected at a marginal tax rate of 39.225%.

**Financial Conditions as of and for the Quarter Ended March 31, 2008 and 2007**

Our total assets increased \$279.5 million, an annualized growth of 49.1%, to \$2.57 billion as of March 31, 2008, from \$2.29 billion as of December 31, 2007. Our loan portfolio increased \$260.0 million, an annualized growth of 65.1%, to \$1.87 billion as of March 31, 2008, from \$1.61 billion as of December 31, 2007. Shareholders' equity increased \$33.3 million, an annualized growth of 53.0%, to \$286.4 million as of March 31, 2008, compared to \$253.1 million as of December 31, 2007. Asset and loan increases are primarily associated with our acquisition of Centennial Bancshares, Inc. and organic growth of our bank subsidiaries. On January 1, 2008, as a result of our acquisition of Centennial Bancshares, assets and loans increased by \$234.1 million and \$192.8 million, respectively. The increase in stockholders' equity was primarily the result of the issuance of \$24.3 million in stock as a result of our acquisition of Centennial Bancshares and retained earnings for the three months.

***Loan Portfolio***

Our loan portfolio averaged \$1.83 billion during the three-month period ended March 31, 2008. Net loans were \$1.83 billion as of March 31, 2008, compared to \$1.58 billion as of December 31, 2007. The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These loans are primarily originated within our market areas of central Arkansas, north central Arkansas, northwest Arkansas, southern Arkansas, southwest Florida and the Florida Keys and are generally secured by residential or commercial real estate or business or personal property within our market areas.

Certain credit markets have experienced difficult conditions and volatility during 2007 and 2008, particularly Florida. These markets continue to experience pressure including the well publicized sub-prime mortgage market. The Company does not actively market or originate subprime mortgage loans.

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Table 7 presents our loan balances by category as of the dates indicated.

**Table 7: Loan Portfolio**

|   | As of<br>March 31,<br>2008 | As of<br>December<br>31,<br>2007 |
|---|----------------------------|----------------------------------|
|   | (In thousands)             |                                  |
| Real estate:  |                            |                                  |
| Commercial real estate loans:                           |                            |                                  |
| Non-farm/non-residential                                | \$ 765,881                 | \$ 607,638                       |
| Construction/land development                           | 341,442                    | 367,422                          |
| Agricultural  | 24,739                     | 22,605                           |
| Residential real estate loans:                          |                            |                                  |
| Residential 1-4 family                                  | 343,475                    | 259,975                          |
| Multifamily residential                                 | 73,220                     | 45,428                           |
| Total real estate                                       | 1,548,757                  | 1,303,068                        |
| Consumer  | 55,251                     | 46,275                           |
| Commercial and industrial                               | 224,756                    | 219,062                          |
| Agricultural  | 17,559                     | 20,429                           |
| Other   | 20,646                     | 18,160                           |
| Total loans receivable before allowance for loan losses | 1,866,969                  | 1,606,994                        |
| Allowance for loan losses                               | 37,075                     | 29,406                           |
| Total loans receivable, net                             | \$ 1,829,894               | \$ 1,577,588                     |

*Commercial Real Estate Loans.* We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 10 to 20 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of March 31, 2008, commercial real estate loans totaled \$1.13 billion, or 60.6% of our loan portfolio, compared to \$997.7 million, or 62.1% of our loan portfolio, as of December 31, 2007. Our acquisition of Centennial Bancshares resulted in an increase of \$91.5 million of commercial real estate. The remaining increase is primarily the result of strong demand for this type of loan product which resulted in organic growth of our loan portfolio.

*Residential Real Estate Loans.* We originate one to four family, owner occupied residential mortgage loans generally secured by property located in our primary market area. The majority of our residential mortgage loans consist of loans secured by owner occupied, single family residences. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

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As of March 31, 2008, we had \$416.7 million, or 22.3% of our loan portfolio, in residential real estate loans, compared to the \$305.4 million, or 19.0% of our loan portfolio, as of December 31, 2007. Our acquisition of Centennial Bancshares resulted in an increase of \$65.4 million of residential real estate loans. The changing market conditions have given our community banks the opportunity to retain more residential real estate loans. These loans have normal maturities of less than five years.

*Consumer Loans.* Our consumer loan portfolio is composed of secured and unsecured loans originated by our banks. The performance of consumer loans will be affected by the local and regional economy as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of March 31, 2008, our installment consumer loan portfolio totaled \$55.3 million, or 3.0% of our total loan portfolio, compared to the \$46.3 million, or 2.9% of our loan portfolio as of December 31, 2007. The primary cause for the increase is related to our acquisition of Centennial Bancshares which resulted in an increase of \$8.3 million to consumer loans.

*Commercial and Industrial Loans.* Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to five years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% to 80% of accounts receivable less than 90 days past due. Inventory financing will range between 50% and 60% depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of March 31, 2008, commercial and industrial loans outstanding totaled \$224.8 million, or 12.0% of our loan portfolio, compared to \$219.1 million, or 13.6% of our loan portfolio, as of December 31, 2007. Our acquisition of Centennial Bancshares resulted in an increase of \$31.5 million of commercial and industrial loans. The offsetting decrease is related to the payoff of a couple of large credits during the first quarter of 2008.

***Non-Performing Assets***

We classify our problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on non-accrual status. Generally, non-accrual loans that are 120 days past due without assurance of repayment are charged off against the allowance for loan losses.

Table 8 sets forth information with respect to our non-performing assets as of March 31, 2008 and December 31, 2007. As of these dates, we did not have any restructured loans within the meaning of Statement of Financial Accounting Standards No. 15.

**Table of Contents****Table 8: Non-performing Assets**

|   | <b>As of<br/>March<br/>31,<br/>2008</b> | <b>As of<br/>December<br/>31,<br/>2007</b> |
|---|---|--|
|   | <b>(Dollars in thousands)</b>           |  |
| Non-accrual loans   | \$ 12,033                               | \$ 2,952                                   |
| Loans past due 90 days or more (principal or interest payments) |   | 301  |
| <b>Total non-performing loans</b>                               | <b>12,033</b>                           | <b>3,253</b>                               |
| Other non-performing assets                                     |   |  |
| Foreclosed assets held for sale                                 | 5,097                                   | 5,083                                      |
| Other non-performing assets                                     | 27                                      | 15   |
| <b>Total other non-performing assets</b>                        | <b>5,124</b>                            | <b>5,098</b>                               |
| <b>Total non-performing assets</b>                              | <b>\$ 17,157</b>                        | <b>\$ 8,351</b>                            |
| <br>  |   |  |
| Allowance for loan losses to non-performing loans               | 308.11%                                 | 903.97%                                    |
| Non-performing loans to total loans                             | 0.64                                    | 0.20                                       |
| Non-performing assets to total assets                           | 0.67                                    | 0.36                                       |

Our non-performing loans are comprised of non-accrual loans and loans that are contractually past due 90 days. Our bank subsidiaries recognize income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improves. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Total non-performing loans were \$12.0 million as of March 31, 2008, compared to \$3.3 million as of December 31, 2007 for an increase of \$8.7 million. Part of this increase is related to our acquisition of Centennial Bancshares on January 1, 2008 which reported \$2.4 million of non-performing loans as of March 31, 2008. As anticipated, we saw an increase in non-performing loans from our Florida market. As a result of the slowdown in housing sales in our Florida markets, our non-performing loans increased by \$5.6 million. The weakening real estate market has and may continue to raise our level of non-performing loans going forward. When we reported our year-end results, we provided a projection for non-performing loans to total loans in the range of 0.60% to 2.0%. This continues to be our expected range for non-performing loans to total loans. While we believe our allowance for loan losses is adequate at March 31, 2008, as additional facts become known about relevant internal and external factors that effect loan collectability and our assumptions, it may result in us making additions to the provision for loan loss during 2008.

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$136,000 and \$88,000 for the three-month periods ended March 31, 2008 and 2007, respectively, would have been recorded. Interest income recognized on the non-accrual loans for the three-month periods ended March 31, 2008 and 2007 was considered immaterial.

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. As of March 31, 2008, average impaired loans were \$22.5 million compared to \$10.0 million as of March 31, 2007. At March 31, 2008, impaired loans were \$33.2 million compared to \$11.9 million at March 31, 2007 for an increase of \$21.3 million. The

unfavorable economic conditions that are impacting our Florida market accounted for \$17.4 million of the \$21.3 million increase, while the acquisition of Centennial Bancshares, increased our impaired loans by \$2.4 million.

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The balance in foreclosed assets held for sale is primarily the result of one credit located in the Florida Keys. This foreclosure is an owner occupied strip center. The space the proprietor occupied has subsequently been leased and the rest of the center is occupied. In the first quarter of 2008, we took a \$380,000 write down of the property to reflect the current fair market value estimate. We are cautiously optimistic that this property can be disposed of during the second or third quarter of 2008.

Due to the unfavorable economic conditions in the Florida market, current fair market value estimates required that this write down to be taken on this property.

***Allowance for Loan Losses***

*Overview.* The allowance for loan losses is maintained at a level which our management believes is adequate to absorb all probable losses on loans in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for our management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of allowance for loan losses, our earnings could be adversely affected.

As we evaluate the allowance for loan losses, we categorize it as follows: (i) specific allocations; (ii) allocations for classified assets with no specific allocation; (iii) general allocations for each major loan category; and (iv) miscellaneous allocations.

*Specific Allocations.* As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Our evaluation process in specific allocations includes a review of appraisals or other collateral analysis. These values are compared to the remaining outstanding principal balance. If a loss is determined to be reasonably possible, the possible loss is identified as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the expected future cash flows of the loan.

*Allocations for Classified Assets with No Specific Allocation.* We establish allocations for loans rated special mention through loss in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each loan category to determine the level of dollar allocation.

*General Allocations.* We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

*Miscellaneous Allocations.* Allowance allocations other than specific, classified, and general are included in our miscellaneous section.

*Charge-offs and Recoveries.* Total charge-offs increased \$523,000, or 523.0%, to \$623,000 for the three months ended March 31, 2008, compared to the same period in 2007. Total recoveries decreased \$2,000, or 1.9%, to \$101,000 for the three months ended March 31, 2008, compared to the same period in 2007. The changes in net charge-offs are due to our proactive stance on asset quality. The acquisition completed in the first quarter of 2008 has a minimal impact on net charge-offs.

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Table 9 shows the allowance for loan losses, charge-offs and recoveries as of and for the three-month periods ended March 31, 2008 and 2007.

**Table 9: Analysis of Allowance for Loan Losses**

|  | <b>As of March 31,</b>        |             |
|--|-------------------------------|-------------|
|  | <b>2008</b>                   | <b>2007</b> |
|  | <b>(Dollars in thousands)</b> |             |
| Balance, beginning of period                           | \$ 29,406                     | \$ 26,111   |
| Loans charged off                                      |                               |             |
| Real estate:   |                               |             |
| Commercial real estate loans:                          |                               |             |
| Non-farm/non-residential                               | 16                            |             |
| Construction/land development                          | 44                            |             |
| Agricultural   |                               |             |
| Residential real estate loans:                         |                               |             |
| Residential 1-4 family                                 | 357                           | 10          |
| Multifamily residential                                |                               |             |
| Total real estate                                      | 417                           | 10          |
| Consumer   | 100                           | 59          |
| Commercial and industrial                              | 106                           | 31          |
| Agricultural   |                               |             |
| Other  |                               |             |
| Total loans charged off                                | 623                           | 100         |
| Recoveries of loans previously charged off             |                               |             |
| Real estate:   |                               |             |
| Commercial real estate loans:                          |                               |             |
| Non-farm/non-residential                               | 4                             | 16          |
| Construction/land development                          | 2                             | 1           |
| Agricultural   |                               |             |
| Residential real estate loans:                         |                               |             |
| Residential 1-4 family                                 | 29                            | 24          |
| Multifamily residential                                |                               |             |
| Total real estate                                      | 35                            | 41          |
| Consumer   | 34                            | 36          |
| Commercial and industrial                              | 31                            | 19          |
| Agricultural   |                               |             |
| Other  | 1                             | 7           |
| Total recoveries                                       | 101                           | 103         |
| Net (recoveries) loans charged off                     | 522                           | (3)         |
| Allowance for loan loss of Centennial Bancshares, Inc. | 3,382                         |             |
| Provision for loan losses                              | 4,809                         | 820         |
| Balance, March 31                                      | \$ 37,075                     | \$ 26,934   |



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|   |       |           |
|---|-------|-----------|
| Net (recoveries) charge-offs to average loans             | 0.11% | %         |
| Allowance for loan losses to period end loans             | 1.99  | 1.83      |
| Allowance for loan losses to net (recoveries) charge-offs | 1,766 | (221,375) |

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*Allocated Allowance for Loan Losses.* We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses. While the allowance is allocated to various loan categories in assessing and evaluating the level of the allowance, the allowance is available to cover charge-offs incurred in all loan categories. Because a portion of our portfolio has not matured to the degree necessary to obtain reliable loss data from which to calculate estimated future losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the period ended March 31, 2008 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with the decline in asset quality, particularly in our Florida market, our acquisition of Centennial Bancshares, Inc. on January 1, 2008 and normal changes in the outstanding loan portfolio for those products from December 31, 2007.

Table 10 presents the allocation of allowance for loan losses as of March 31, 2008 and December 31, 2007.

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

|                                | As of March 31, 2008 |  | As of December 31, 2007 |                  |
|--------------------------------|----------------------|--|-------------------------|------------------|
|                                | Allowance<br>Amount  | % of<br>loans(1)<br>(Dollars in thousands) | Allowance<br>Amount     | % of<br>loans(1) |
| Real estate:                   |                      |  |                         |                  |
| Commercial real estate loans:  |                      |  |                         |                  |
| Non-farm/non-residential       | \$ 14,355            | 41.0%                                      | \$ 11,475               | 37.8%            |
| Construction/land development  | 9,363                | 18.3                                       | 7,332                   | 22.9             |
| Agricultural                   | 367                  | 1.3  | 311                     | 1.4              |
| Residential real estate loans: |                      |  |                         |                  |
| Residential 1-4 family         | 6,291                | 18.4                                       | 3,968                   | 16.2             |
| Multifamily residential        | 1,190                | 4.0  | 727                     | 2.8              |
| Total real estate              | 31,566               | 83.0                                       | 23,813                  | 81.1             |
| Consumer                       | 956                  | 3.0  | 905                     | 2.9              |
| Commercial and industrial      | 3,652                | 12.0                                       | 3,243                   | 13.6             |
| Agricultural                   | 532                  | 0.9  | 599                     | 1.3              |
| Other                          | 14                   | 1.1  | 14                      | 1.1              |
| Unallocated                    | 355                  |  | 832                     |                  |
| Total                          | \$ 37,075            | 100.0%                                     | \$ 29,406               | 100.0%           |

(1) Percentage of loans in each category to loans receivable.

**Investments and Securities**

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. As of March 31, 2008, we had no held-to-maturity or trading securities.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of shareholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale. Available-for-sale securities were \$403.8 million as

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of March 31, 2008, compared to \$430.4 million as of December 31, 2007. The estimated duration of our securities portfolio was 2.5 years as of March 31, 2008.

As of March 31, 2008, \$194.1 million, or 48.1%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$181.6 million, or 42.2%, of our available-for-sale securities as of December 31, 2007. To reduce our income tax burden, \$112.3 million, or 27.8%, of our available-for-sale securities portfolio as of March 31, 2008, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$111.3 million, or 25.9%, of our available-for-sale securities as of December 31, 2007. Also, we had approximately \$86.4 million, or 21.4%, invested in obligations of U.S. Government-sponsored enterprises as of March 31, 2008, compared to \$126.3 million, or 29.3%, of our available-for-sale securities as of December 31, 2007.

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from recent increases in market interest rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our 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.

Table 11 presents the carrying value and fair value of investment securities as of March 31, 2008 and December 31, 2007.

**Table 11: Investment Securities**

|                                       | Amortized<br>Cost | As of March 31, 2008         |                                 | Estimated<br>Fair<br>Value |
|---------------------------------------|-------------------|------------------------------|---------------------------------|----------------------------|
|                                       |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) |                            |
| (In thousands)                        |                   |                              |                                 |                            |
| <b>Available-for-Sale</b>             |                   |                              |                                 |                            |
| U.S. Government-sponsored enterprises | \$ 85,367         | \$ 1,042                     | \$ (8)                          | \$ 86,401                  |
| Mortgage-backed securities            | 194,077           | 1,555                        | (1,517)                         | 194,115                    |
| State and political subdivisions      | 111,915           | 1,520                        | (1,106)                         | 112,329                    |
| Other securities                      | 11,266            |                              | (356)                           | 10,910                     |
| Total                                 | \$ 402,625        | \$ 4,117                     | \$ (2,987)                      | \$ 403,755                 |
|                                       |                   |                              |                                 |                            |
|                                       | Amortized<br>Cost | As of December 31, 2007      |                                 | Estimated<br>Fair<br>Value |
|                                       |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) |                            |
| (In thousands)                        |                   |                              |                                 |                            |
| <b>Available-for-Sale</b>             |                   |                              |                                 |                            |
| U.S. Government-sponsored enterprises | \$ 126,898        | \$ 268                       | \$ (872)                        | \$ 126,294                 |
| Mortgage-backed securities            | 184,949           | 179                          | (3,554)                         | 181,574                    |
| State and political subdivisions      | 111,014           | 1,105                        | (812)                           | 111,307                    |
| Other securities                      | 11,411            |                              | (187)                           | 11,224                     |
| Total                                 | \$ 434,272        | \$ 1,552                     | \$ (5,425)                      | \$ 430,399                 |

**Table of Contents****Deposits**

Our deposits averaged \$1.80 billion for the three-month period ended March 31, 2008. Total deposits increased \$262.5 million, or an annualized increase of 66.3%, to \$1.85 billion as of March 31, 2008, from \$1.59 billion as of December 31, 2007. On January 1, 2008, as a result of our acquisition of Centennial Bancshares, deposits increased by \$178.8 million. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions. Our policy also permits the acceptance of brokered deposits. As of March 31, 2008 and December 31, 2007 brokered deposits were \$47.5 million and \$39.3 million, respectively.

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing and do not anticipate a significant change in total deposits unless our liquidity position changes. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if we experience increased loan demand or other liquidity needs. During 2007, the federal funds rate remained constant until September 18, 2007, when the Federal Funds rate was lowered by 50 basis points to 4.75%. The Federal Funds rate decreased another 25 basis points on October 31, 2007 and December 11, 2007. Due to these reductions occurring late in 2007, the impact for the year was minimal. Average interest rates for 2007 reflect the higher interest rate environment that existed until September 18, 2007 when the Federal Funds rate was lowered. Going forward, we will begin to see more of an impact of the decrease in the Federal Funds rate as our interest-bearing liabilities begin to reprice. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008 and 75 basis points on March 18, 2008.

Table 12 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month periods ended March 31, 2008 and 2007.

**Table 12: Average Deposit Balances and Rates**

|   | Three Months Ended March 31, |   |                   |                         |
|---|------------------------------|---|-------------------|-------------------------|
|   | 2008                         |   | 2007              |                         |
|   | Average<br>Amount            | Average<br>Rate<br>Paid<br>(Dollars in thousands) | Average<br>Amount | Average<br>Rate<br>Paid |
| Non-interest-bearing transaction accounts | \$ 237,028                   | %   | \$ 214,461        | %                       |
| Interest-bearing transaction accounts     | 596,526                      | 2.21  | 534,610           | 3.14                    |
| Savings deposits                          | 53,709                       | 1.00  | 57,491            | 1.42                    |
| Time deposits:                            |                              |   |                   |                         |
| \$100,000 or more                         | 525,770                      | 4.39  | 472,219           | 5.00                    |
| Other time deposits                       | 391,578                      | 4.50  | 348,723           | 4.62                    |
| Total                                     | \$ 1,804,611                 | 3.01%   | \$ 1,627,504      | 3.52%                   |

**FHLB Borrowed Funds**

Our FHLB borrowed funds were \$249.8 million as of March 31, 2008. The outstanding balance for March 31, 2008 consists of \$10.0 million of short-term FHLB advances and \$239.8 million of FHLB long-term advances. Our FHLB borrowings were \$251.8 million as of December 31, 2007. The outstanding balance for December 31, 2007, includes \$116.0 million of short-term advances and \$135.8 million of long-term advances. Our remaining FHLB borrowing capacity was \$223.6 million and \$186.6 million as of March 31, 2008 and December 31, 2007, respectively.



**Table of Contents*****Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$47.6 million and \$44.6 million as of March 31, 2008 and December 31, 2007, respectively. As a result of the acquisition of Centennial Bancshares we acquired \$3.1 million of additional trust preferred securities.

Table 13 reflects subordinated debentures as of March 31, 2008 and December 31, 2007, which consisted of guaranteed payments on trust preferred securities with the following components:

**Table 13: Subordinated Debentures**

|  | <b>As of<br/>March<br/>31,<br/>2008</b> | <b>As of<br/>December<br/>31,<br/>2007</b> |
|--|---|--|
|  | <b>(In thousands)</b>                   |  |
| 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, currently callable without penalty   | \$ 20,619                               | \$ 20,619                                  |
| Subordinated debentures, issued 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                              | 3,311                                   | 3,333                                      |
| Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable 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                                     |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2011 without penalty | 3,093                                   |  |
| <b>Total</b>   | <b>\$ 47,643</b>                        | <b>\$ 44,572</b>                           |

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 in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.

Presently, the funds raised from the trust preferred offerings will qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital.

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***Shareholders Equity***

Stockholders equity was \$286.4 million at March 31, 2008 compared to \$253.1 million at December 31, 2007, an annualized increase of 53.0%. As of March 31, 2008 our equity to asset ratio was 11.1%, compared to 11.0% as of December 31, 2007. Book value per common share was \$15.62 at March 31, 2008 compared to \$14.67 at December 31, 2007, a 26.0% annualized increase. The increases in stockholders equity and book value per share were primarily the result of our acquisition of Centennial Bancshares and retained earnings during the prior three months.

*Cash Dividends.* We declared cash dividends on our common stock of \$0.05 and \$0.025 per share for the three-month periods ended March 31, 2008 and 2007, respectively.

On January 18, 2008, we announced the adoption by our Board of Directors of a stock repurchase program. The program authorizes us to repurchase up to one million shares of our common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that we intend to repurchase. The repurchase program may be suspended or discontinued at any time without prior notices. The timing and amount of any repurchases will be determined by management, based on its evaluation of current market conditions and other factors. The stock repurchase program will be funded using our cash balances, which we believe are adequate to support the stock repurchase program and our normal operations.

***Liquidity and Capital Adequacy Requirements***

*Risk-Based Capital.* We as well as our bank subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of March 31, 2008 and December 31, 2007, we met all regulatory capital adequacy requirements to which we were subject.



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Table 14 presents our risk-based capital ratios as of March 31, 2008 and December 31, 2007.

**Table 14: Risk-Based Capital**

|   | <b>As of<br/>March 31,<br/>2008<br/>(Dollars in thousands)</b> | <b>As of<br/>December<br/>31,<br/>2007</b> |
|---|--|--|
| Tier 1 capital  |  |  |
| Shareholders' equity                                    | \$ 286,391   | \$ 253,056                                 |
| Qualifying trust preferred securities                   | 46,000   | 43,000                                     |
| Goodwill and core deposit intangibles, net              | (54,780)   | (42,332)                                   |
| Unrealized (gain) loss on available-for-sale securities | (581)  | 2,255                                      |
| Other   | (233)  |  |
| <b>Total Tier 1 capital</b>                             | <b>276,797</b>   | <b>255,979</b>                             |
| <br>Tier 2 capital                                      |  |  |
| Qualifying allowance for loan losses                    | 26,642   | 23,861                                     |
| <b>Total Tier 2 capital</b>                             | <b>26,642</b>  | <b>23,861</b>                              |
| <br><b>Total risk-based capital</b>                     | <b>\$ 303,439</b>  | <b>\$ 279,840</b>                          |
| <br>Average total assets for leverage ratio             | \$ 2,495,518   | \$ 2,236,776                               |
| <br>Risk weighted assets                                | \$ 2,120,915   | \$ 1,903,364                               |
| <br>Ratios at end of period                             |  |  |
| Leverage ratio  | 11.09%   | 11.44%                                     |
| Tier 1 risk-based capital                               | 13.05  | 13.45                                      |
| Total risk-based capital                                | 14.31  | 14.70                                      |
| Minimum guidelines                                      |  |  |
| Leverage ratio  | 4.00%  | 4.00%                                      |
| Tier 1 risk-based capital                               | 4.00   | 4.00                                       |
| Total risk-based capital                                | 8.00   | 8.00                                       |

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

Table 15 presents actual capital amounts and ratios as of March 31, 2008 and December 31, 2007, for our bank subsidiaries and us.

**Table of Contents****Table 15: Capital and Ratios**

|                                  | Actual    |        | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provision |       |
|----------------------------------|-----------|--------|-------------------------------|-------|---|-------|
|                                  | Amount    | Ratio  | Amount                        | Ratio | Amount  | Ratio |
| As of March 31, 2008             |           |        |                               |       |   |       |
| Leverage ratios:                 |           |        |                               |       |   |       |
| Home BancShares                  | \$276,797 | 11.09% | \$ 99,837                     | 4.00% | \$ N/A  | N/A%  |
| First State Bank                 | 56,835    | 9.27   | 24,524                        | 4.00  | 30,655  | 5.00  |
| Community Bank                   | 34,835    | 8.89   | 15,674                        | 4.00  | 19,592  | 5.00  |
| Twin City Bank                   | 62,940    | 9.10   | 27,666                        | 4.00  | 34,582  | 5.00  |
| Marine Bank                      | 33,554    | 8.71   | 15,409                        | 4.00  | 19,262  | 5.00  |
| Bank of Mountain View            | 16,440    | 9.05   | 7,266                         | 4.00  | 9,083   | 5.00  |
| Centennial Bank                  | 19,975    | 8.23   | 9,708                         | 4.00  | 12,135  | 5.00  |
| Tier 1 capital ratios:           |           |        |                               |       |   |       |
| Home BancShares                  | \$276,797 | 13.05% | \$ 84,842                     | 4.00% | \$ N/A  | N/A%  |
| First State Bank                 | 56,835    | 10.53  | 21,590                        | 4.00  | 32,385  | 6.00  |
| Community Bank                   | 34,835    | 10.91  | 12,772                        | 4.00  | 19,158  | 6.00  |
| Twin City Bank                   | 62,940    | 10.17  | 24,755                        | 4.00  | 37,133  | 6.00  |
| Marine Bank                      | 33,554    | 10.06  | 13,342                        | 4.00  | 20,012  | 6.00  |
| Bank of Mountain View            | 16,440    | 14.70  | 4,473                         | 4.00  | 6,710   | 6.00  |
| Centennial Bank                  | 19,975    | 10.48  | 7,624                         | 4.00  | 11,436  | 6.00  |
| Total risk-based capital ratios: |           |        |                               |       |   |       |
| Home BancShares                  | \$303,439 | 14.31% | \$169,637                     | 8.00% | \$ N/A  | N/A%  |
| First State Bank                 | 63,605    | 11.79  | 43,159                        | 8.00  | 53,948  | 10.00 |
| Community Bank                   | 38,864    | 12.17  | 25,547                        | 8.00  | 31,934  | 10.00 |
| Twin City Bank                   | 70,681    | 11.42  | 49,514                        | 8.00  | 61,892  | 10.00 |
| Marine Bank                      | 37,771    | 11.33  | 26,670                        | 8.00  | 33,337  | 10.00 |
| Bank of Mountain View            | 17,710    | 15.83  | 8,950                         | 8.00  | 11,188  | 10.00 |
| Centennial Bank                  | 22,372    | 11.74  | 15,245                        | 8.00  | 19,056  | 10.00 |
| As of December 31, 2007          |           |        |                               |       |   |       |
| Leverage ratios:                 |           |        |                               |       |   |       |
| Home BancShares                  | \$255,979 | 11.44% | \$ 89,503                     | 4.00% | \$ N/A  | N/A%  |
| First State Bank                 | 54,537    | 9.18   | 23,763                        | 4.00  | 29,704  | 5.00  |
| Community Bank                   | 34,189    | 8.90   | 15,366                        | 4.00  | 19,207  | 5.00  |
| Twin City Bank                   | 61,178    | 8.87   | 27,589                        | 4.00  | 34,486  | 5.00  |
| Marine Bank                      | 33,332    | 8.91   | 14,964                        | 4.00  | 18,705  | 5.00  |
| Bank of Mountain View            | 16,174    | 8.26   | 7,832                         | 4.00  | 9,791   | 5.00  |
| Tier 1 capital ratios:           |           |        |                               |       |   |       |

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|                                  |           |        |           |       |        |       |
|----------------------------------|-----------|--------|-----------|-------|--------|-------|
| Home BancShares                  | \$255,979 | 13.45% | \$ 76,128 | 4.00% | \$ N/A | N/A%  |
| First State Bank                 | 54,537    | 10.29  | 21,200    | 4.00  | 31,800 | 6.00  |
| Community Bank                   | 34,189    | 11.21  | 12,199    | 4.00  | 18,299 | 6.00  |
| Twin City Bank                   | 61,178    | 10.10  | 24,229    | 4.00  | 36,343 | 6.00  |
| Marine Bank                      | 33,332    | 10.20  | 13,071    | 4.00  | 19,607 | 6.00  |
| Bank of Mountain View            | 16,174    | 13.84  | 4,675     | 4.00  | 7,012  | 6.00  |
| Total risk-based capital ratios: |           |        |           |       |        |       |
| Home BancShares                  | \$279,840 | 14.70% | \$152,294 | 8.00% | \$ N/A | N/A%  |
| First State Bank                 | 61,188    | 11.54  | 42,418    | 8.00  | 53,023 | 10.00 |
| Community Bank                   | 38,036    | 12.47  | 24,402    | 8.00  | 30,502 | 10.00 |
| Twin City Bank                   | 68,754    | 11.35  | 48,461    | 8.00  | 60,576 | 10.00 |
| Marine Bank                      | 37,429    | 11.45  | 26,151    | 8.00  | 32,689 | 10.00 |
| Bank of Mountain View            | 17,442    | 14.92  | 9,352     | 8.00  | 11,690 | 10.00 |

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**Table of Contents****Non-GAAP Financial Measurements**

We had \$57.8 million, \$45.2 million, and \$46.5 million total goodwill, core deposit intangibles and other intangible assets as of March 31, 2008, December 31, 2007 and March 31, 2007, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted cash earnings per share, tangible book value per common share, cash return on average assets, cash return on average tangible equity and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average shareholders' equity, and equity to assets, are presented in Tables 16 through 20, respectively.

**Table 16: Diluted Cash Earnings Per Share**

|                                   | <b>Three Months Ended March 31,</b>          |             |
|-----------------------------------|--|-------------|
|                                   | <b>2008</b>                                  | <b>2007</b> |
|                                   | <b>(In thousands, except per share data)</b> |             |
| GAAP net income                   | \$ 7,278                                     | \$ 4,761    |
| Intangible amortization after-tax | 282  | 267         |
| Cash earnings                     | \$ 7,560                                     | \$ 5,028    |
| GAAP diluted earnings per share   | \$ 0.39                                      | \$ 0.27     |
| Intangible amortization after-tax | 0.01   | 0.02        |
| Diluted cash earnings per share   | \$ 0.40                                      | \$ 0.29     |

**Table 17: Tangible Book Value Per Share**

|   | <b>As of</b>   | <b>As of</b>        |
|---|--|---------------------|
|   | <b>March 31,</b>                                     | <b>December 31,</b> |
|   | <b>2008</b>  | <b>2007</b>         |
|   | <b>(Dollars in thousands, except per share data)</b> |                     |
| Book value per common share: (A/B)              | \$ 15.62   | \$ 14.67            |
| Tangible book value per common share: (A-C-D)/B | 12.47  | 12.05               |
| (A) Total shareholders' equity                  | \$ 286,391   | \$ 253,056          |
| (B) Common shares outstanding                   | 18,337   | 17,250              |
| (C) Goodwill                                    | 49,849   | 37,527              |
| (D) Core deposit and other intangibles          | 7,934  | 7,702               |

**Table 18: Cash Return on Average Assets**

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2008</b>                         | <b>2007</b> |
|  | <b>(Dollars in thousands)</b>       |             |
| Return on average assets: A/C          | 1.15%                               | 0.88%       |
| Cash return on average assets: B/(C-D) | 1.22                                | 0.95        |
| (A) Net Income                         | \$ 7,278                            | \$ 4,761    |
| (B) Cash earnings                      | 7,560                               | 5,028       |

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|   |           |           |
|---|-----------|-----------|
| (C) Average assets  | 2,550,531 | 2,197,695 |
| (D) Average goodwill, core deposits and other intangible assets | 58,098    | 46,765    |
|   | 50        |           |

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**Table of Contents****Table 19: Cash Return on Average Tangible Equity**

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2008</b>                         | <b>2007</b> |
|   | <b>(Dollars in thousands)</b>       |             |
| Return on average shareholders' equity: A/C                     | 10.35%                              | 8.30%       |
| Return on average tangible equity: B/(C-D)                      | 13.53                               | 10.96       |
| (A) Net Income  | \$ 7,278                            | \$ 4,761    |
| (B) Cash earnings   | 7,560                               | 5,028       |
| (C) Average equity  | 282,748                             | 232,771     |
| (D) Average goodwill, core deposits and other intangible assets | 58,098                              | 46,765      |

**Table 20: Tangible Equity to Tangible Assets**

|   | <b>As of</b>                  | <b>As of</b>        |
|---|-------------------------------|---------------------|
|   | <b>March 31,</b>              | <b>December 31,</b> |
|   | <b>2008</b>                   | <b>2007</b>         |
|   | <b>(Dollars in thousands)</b> |                     |
| Equity to assets: B/A                               | 11.14%                        | 11.04%              |
| Tangible equity to tangible assets: (B-C-D)/(A-C-D) | 9.10                          | 9.25                |
| (A) Total assets                                    | \$2,571,145                   | \$2,291,630         |
| (B) Total shareholders' equity                      | 286,391                       | 253,056             |
| (C) Goodwill  | 49,849                        | 37,527              |
| (D) Core deposit and other intangibles              | 7,934                         | 7,702               |

**Adoption of Recent Accounting Pronouncements****FAS 157**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the period.

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FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. Level 3 securities were immaterial.

Impaired loans are the only material instruments valued on a non-recurring basis which are held by the Company at fair value. Impaired loans are considered a Level 3 valuation.

Compared to prior years, the adoption of SFAS 157 did not have any impact on our 2008 consolidated financial statements.

**FAS 159**

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) became effective for the Company on January 1, 2008. FAS 159 allows companies an option to report selected financial assets and liabilities at fair value. Because we did not elect the fair value measurement provision for any of our financial assets or liabilities, the adoption of SFAS 159 did not have any impact on our 2008 consolidated financial statements. Presently, we have not determined whether we will elect the fair value measurement provisions for future transactions.

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**EITF 06-4 and 06-10**

Effective January 1, 2008, the Company adopted EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. As a result of the adoption of EITF 06-4, the Company recognized the effect of applying the EITF with a change in accounting principle through a cumulative-effect adjustment to retained earnings for \$276,000. Additionally, this change will result in an increase of approximately \$100,000 in annual non-interest expense as a result of the mortality cost for 2008 and beyond. The adoption of EITF 06-10 did not have any impact on our 2008 consolidated financial statements.

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(revised 2007), Business Combinations, (SFAS 141(R)). SFAS 141(R), which replaces SFAS 141, Business Combinations, establishes accounting standards for all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree) including mergers and combinations achieved without the transfer of consideration. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Goodwill is measured as the excess of consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the identifiable net assets acquired. In the event that the fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest (referred to as a bargain purchase), SFAS 141(R) requires the acquirer to recognize that excess in earnings as a gain attributable to the acquirer. In addition, SFAS 141(R) requires costs incurred to effect an acquisition to be recognized separately from the acquisition and requires the recognition of assets or liabilities arising from noncontractual contingencies as of the acquisition date only if it is more likely than not that they meet the definition of an asset or liability in FASB Concepts Statement No. 6, Elements of Financial Statements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for us is the fiscal year beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operation.



**Table of Contents****Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Liquidity and Market Risk Management***

*Liquidity Management.* Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank subsidiaries. Applicable statutes and regulations impose restrictions on the amount of dividends that may be declared by our bank subsidiaries. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a well-capitalized institution.

Each of our bank subsidiaries has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loan customers are expected to expire without being drawn upon, therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of March 31, 2008, our cash and cash equivalents were \$59.7 million, or 2.3% of total assets, compared to \$55.0 million, or 2.4% of total assets, as of December 31, 2007. Our investment securities and federal funds sold were \$441.1 million, or 17.2% of total assets, as of March 31, 2008 and \$430.5 million, or 18.8% of total assets, as of December 31, 2007.

We may occasionally use our federal funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have federal funds lines with three other financial institutions pursuant to which we could have borrowed up to \$99.7 million and \$88.2 million on an unsecured basis as of March 31, 2008 and December 31, 2007, respectively. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowings were \$249.9 million as of March 31, 2008 and \$251.8 million as of December 31, 2007. The outstanding balance for March 31, 2008 included \$10.0 million of short-term advances and \$239.9 million of FHLB long-term advances. The outstanding balance for December 31, 2007, included \$116.0 million of short-term advances and \$135.8 million of FHLB long-term advances. Our FHLB borrowing capacity was \$223.6 million and \$186.6 million as of March 31, 2008 and December 31, 2007.

We believe that we have sufficient liquidity to satisfy our current operations.

*Market Risk Management.* Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes. The information provided should be read in connection with our audited consolidated financial statements.

*Asset/Liability Management.* Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiaries are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

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One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

*Interest Rate Sensitivity.* Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management's goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of March 31, 2008, our gap position was relatively neutral with a one-year cumulative repricing gap of 1.4%, compared to -5.2% as of December 31, 2007. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rates is approximately that of the liability base.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their final maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Table 21 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of March 31, 2008.

**Table 21: Interest Rate Sensitivity**

|   | Interest Rate Sensitivity Period |               |                |                 |              |              |                 | Total      |
|---|----------------------------------|---------------|----------------|-----------------|--------------|--------------|-----------------|------------|
|   | 0-30<br>Days                     | 31-90<br>Days | 91-180<br>Days | 181-365<br>Days | 1-2<br>Years | 2-5<br>Years | Over 5<br>Years |            |
| (Dollars in thousands)                            |                                  |               |                |                 |              |              |                 |            |
| Earning assets                                    |                                  |               |                |                 |              |              |                 |            |
| Interest-bearing deposits due from banks          | \$ 5,828                         | \$            | \$             | \$              | \$           | \$           | \$              | \$ 5,828   |
| Federal funds sold                                | 37,331                           |               |                |                 |              |              |                 | 37,331     |
| Investment securities                             | 41,468                           | 28,458        | 32,895         | 60,928          | 49,551       | 94,640       | 95,815          | 403,755    |
| Loans receivable                                  | 737,776                          | 133,449       | 147,767        | 224,324         | 291,694      | 306,723      | 25,236          | 1,866,969  |
| Total earning assets                              | 822,403                          | 161,907       | 180,662        | 285,252         | 341,245      | 401,363      | 121,051         | 2,313,883  |
| Interest-bearing liabilities                      |                                  |               |                |                 |              |              |                 |            |
| Interest-bearing transaction and savings deposits | 30,637                           | 61,274        | 91,911         | 183,823         | 43,885       | 116,493      | 159,229         | 687,252    |
| Time deposits                                     | 137,229                          | 164,365       | 228,731        | 286,420         | 58,581       | 36,270       | 358             | 911,954    |
| Federal funds purchased                           |                                  |               |                |                 |              |              |                 |            |
| Securities sold under repurchase agreements       | 91,370                           |               |                |                 | 3,225        | 9,675        | 10,319          | 114,589    |
| FHLB borrowed funds                               | 93,598                           | 6,092         | 5,299          | 10,392          | 38,042       | 84,996       | 11,429          | 249,848    |
| Subordinated debentures                           | 25,775                           | 2             | 4              | 8               | 16           | 61           | 21,777          | 47,643     |
| Total interest-bearing liabilities                | 378,609                          | 231,733       | 325,945        | 480,643         | 143,749      | 247,495      | 203,112         | 2,011,286  |
| Interest rate sensitivity gap                     | \$443,794                        | \$ (69,826)   | \$ (145,283)   | \$ (195,391)    | \$ 197,496   | \$ 153,868   | \$ (82,061)     | \$ 302,597 |
|   | \$443,794                        | \$373,968     | \$ 228,685     | \$ 33,294       | \$ 230,790   | \$ 384,658   | \$ 302,597      |            |

|  |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|
| Cumulative<br>interest rate<br>sensitivity gap                             |        |        |        |        |        |        |        |
| Cumulative<br>rate sensitive<br>assets to rate<br>sensitive<br>liabilities | 217.2% | 161.3% | 124.4% | 102.3% | 114.8% | 121.3% | 115.0% |
| Cumulative<br>gap as a % of<br>total earning<br>assets                     | 19.2   | 16.2   | 9.9    | 1.4    | 10.0   | 16.6   | 13.1   |
|  |        |        |        | 56     |        |        |        |

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**Item 4: CONTROLS AND PROCEDURES**

**Article I. Evaluation of Disclosure Controls**

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed in our Exchange Act report is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosures.

**Article II. Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2008, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II: OTHER INFORMATION**

**Item 1. Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Home BancShares, Inc. or any of its subsidiaries is a party or of which any of their property is the subject.

**Item 1A. Risk Factors**

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2007. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Not applicable.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

15 Awareness of Independent Registered Public Accounting Firm

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

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

32.1 CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002

32.2 CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002

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**(i) SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HOME BANCSHARES, INC.**

(Registrant)

Date: April 29, 2008

/s/ John W. Allison

John W. Allison, Chief Executive Officer

Date: April 29, 2008

/s/ Randy E. Mayor

Randy E. Mayor, Chief Financial Officer