

HOME BANCSHARES INC  
Form 10-Q  
May 07, 2013  
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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, 2013

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)

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**Arkansas**  
(State or other jurisdiction of  
incorporation or organization)

**71-0682831**  
(I.R.S. Employer  
Identification No.)

**719 Harkrider, Suite 100, Conway, Arkansas**  
(Address of principal executive offices)

**72032**  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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: 28,115,248 shares as of May 1, 2013.

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**March 31, 2013**

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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, could, expect, project, predict, estimate, could, should, would, and similar 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 continued decrease in commercial real estate and residential housing values;

governmental monetary and fiscal policies, as well as legislative and regulatory changes;

the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;

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;

the failure of assumptions underlying the establishment of our allowance for loan losses; and

the failure of assumptions underlying the estimates of the fair values for our covered assets, FDIC indemnification asset and FDIC claims receivable.

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 4, 2013.



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

(In thousands, except share data)	March 31, 2013 (Unaudited)	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 95,604	\$ 101,972
Interest-bearing deposits with other banks	206,753	129,883
Cash and cash equivalents	302,357	231,855
Federal funds sold	2,850	17,148
Investment securities available-for-sale	724,929	726,223
Loans receivable not covered by loss share	2,309,146	2,331,199
Loans receivable covered by FDIC loss share	358,669	384,884
Allowance for loan losses	(45,935)	(50,632)
Loans receivable, net	2,621,880	2,665,451
Bank premises and equipment, net	117,534	113,883
Foreclosed assets held for sale not covered by loss share	18,861	20,393
Foreclosed assets held for sale covered by FDIC loss share	29,928	31,526
FDIC indemnification asset	126,275	139,646
Cash value of life insurance	59,185	59,219
Accrued interest receivable	14,367	16,305
Deferred tax asset, net	40,907	46,998
Goodwill	85,681	85,681
Core deposit and other intangibles	11,259	12,061
Other assets	69,494	75,741
<b>Total assets</b>	<b>\$ 4,225,507</b>	<b>\$ 4,242,130</b>
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Demand and non-interest-bearing	\$ 717,830	\$ 666,414
Savings and interest-bearing transaction accounts	1,810,957	1,784,047
Time deposits	936,649	1,032,991
Total deposits	3,465,436	3,483,452
Securities sold under agreements to repurchase	77,194	66,278
FHLB borrowed funds	130,369	130,388
Accrued interest payable and other liabilities	21,020	17,672
Subordinated debentures	3,093	28,867
<b>Total liabilities</b>	<b>3,697,112</b>	<b>3,726,657</b>
<b>Stockholders equity:</b>		
Common stock, par value \$0.01; shares authorized 50,000,000; shares issued and outstanding 28,114,297 in 2013 and 28,106,527 in 2012	281	281
Capital surplus	416,741	416,354
Retained earnings	100,730	86,837

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Accumulated other comprehensive income	10,643	12,001
<b>Total stockholders' equity</b>	528,395	515,473
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,225,507</b>	<b>\$ 4,242,130</b>

See Condensed Notes to Consolidated Financial Statements.



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

(In thousands, except per share data)	Three Months Ended	
	March 31,	
	2013	2012
	(Unaudited)	
<b>Interest income:</b>		
Loans	\$ 44,159	\$ 38,506
Investment securities		
Taxable	2,403	2,860
Tax-exempt	1,481	1,535
Deposits - other banks	98	85
Federal funds sold	7	2
 Total interest income	 48,148	 42,988
<b>Interest expense:</b>		
Interest on deposits	2,485	4,660
FHLB borrowed funds	1,004	1,160
Securities sold under agreements to repurchase	80	110
Subordinated debentures	230	524
 Total interest expense	 3,799	 6,454
 <b>Net interest income</b>	 44,349	 36,534
Provision for loan losses		
 <b>Net interest income after provision for loan losses</b>	 44,349	 36,534
 <b>Non-interest income:</b>		
Service charges on deposit accounts	3,709	3,505
Other service charges and fees	3,437	3,024
Mortgage lending income	1,372	904
Insurance commissions	679	551
Income from title services	109	88
Increase in cash value of life insurance	180	257
Dividends from FHLB, FRB, Bankers' bank & other	175	175
Gain on sale of SBA loans	56	
Gain (loss) on sale of premises and equipment, net	15	
Gain (loss) on OREO, net	86	(107)
Gain (loss) on securities, net		19
FDIC indemnification accretion	(1,992)	670
Other income	1,199	1,017
 Total non-interest income	 9,025	 10,103
 <b>Non-interest expense:</b>		
Salaries and employee benefits	12,952	11,386
Occupancy and equipment	3,594	3,431
Data processing expense	1,510	1,091
Other operating expenses	7,807	8,478

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Total non-interest expense	25,863	24,386
<b>Income before income taxes</b>	<b>27,511</b>	<b>22,251</b>
Income tax expense	9,963	7,753
<b>Net income</b>	<b>\$ 17,548</b>	<b>\$ 14,498</b>
<b>Basic earnings per common share</b>	<b>\$ 0.62</b>	<b>\$ 0.51</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.62</b>	<b>\$ 0.51</b>

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****Home BancShares, Inc.****Consolidated Statements of Comprehensive Income**

(In thousands, except per share data)	Three Months Ended March 31,	
	2013	2012 (unaudited)
Net income	\$ 17,548	\$ 14,498
Net unrealized gain (loss) on available-for-sale securities	(2,235)	(896)
Less: reclassification adjustment for realized (gains) losses included in income		(19)
Other comprehensive income (loss), before tax effect	(2,235)	(915)
Tax effect	877	359
Other comprehensive income (loss)	(1,358)	(556)
Comprehensive income	\$ 16,190	\$ 13,942

**Home BancShares, Inc.****Consolidated Statements of Stockholders' Equity****Three Months Ended March 31, 2013 and 2012**

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance at January 1, 2012</b>	\$	\$ 283	\$ 425,649	\$ 40,130	\$ 8,004	\$ 474,066
Comprehensive income:						
Net income				14,498		14,498
Other comprehensive income (loss)					(556)	(556)
Net issuance of 16,291 shares of common stock from exercise of stock options plus issuance of 4,761 bonus shares of unrestricted common stock			394			394
Repurchase of 205,600 shares of common stock		(2)	(5,204)			(5,206)
Tax benefit from stock options exercised			51			51
Share-based compensation			116			116
Cash dividends - Common Stock, \$0.10 per share				(2,828)		(2,828)
<b>Balances at March 31, 2012 (unaudited)</b>		281	421,006	51,800	7,448	480,535
Comprehensive income:						
Net income				48,524		48,524
Other comprehensive income (loss)					4,553	4,553
Net issuance of 161,416 shares of common stock from exercise of stock options		2	1,562			1,564
Repurchase of 249,848 shares of common stock		(3)	(8,340)			(8,343)
Tax benefit from stock options exercised			1,326			1,326
Share-based compensation		1	800			801
Cash dividends - Common Stock, \$0.48 per share				(13,487)		(13,487)

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<b>Balances at December 31, 2012</b>	281	416,354	86,837	12,001	515,473
Comprehensive income:					
Net income			17,548		17,548
Other comprehensive income (loss)				(1,358)	(1,358)
Net issuance of 3,603 shares of common stock from exercise of stock options		126			126
Tax benefit from stock options exercised		24			24
Share-based compensation		237			237
Cash dividends - Common Stock, \$0.13 per share			(3,655)		(3,655)
<b>Balances at March 31, 2013 (unaudited)</b>	\$	\$ 281	\$ 416,741	\$ 100,730	\$ 528,395

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
<b>Operating Activities</b>		
Net income	\$ 17,548	\$ 14,498
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,610	1,453
Amortization/(accretion)	365	1,172
Share-based compensation	237	116
Tax benefits from stock options exercised	(24)	(51)
(Gain) loss on assets	(483)	88
Provision for loan losses		
Deferred income tax effect	6,968	(224)
Increase in cash value of life insurance	(180)	(257)
Originations of mortgage loans held for sale	(46,476)	(28,232)
Proceeds from sales of mortgage loans held for sale	46,307	29,530
Changes in assets and liabilities:		
Accrued interest receivable	1,938	(294)
Indemnification and other assets	20,836	20,344
Accrued interest payable and other liabilities	3,372	(210)
Net cash provided by (used in) operating activities	52,018	37,933
<b>Investing Activities</b>		
Net (increase) decrease in federal funds sold	14,298	(275)
Net (increase) decrease in loans net, excluding loans acquired	37,440	72,037
Purchases of investment securities available-for-sale	(76,991)	(162,878)
Proceeds from maturities of investment securities available-for-sale	74,495	70,981
Proceeds from sale of investment securities available-for-sale		1,051
Proceeds from foreclosed assets held for sale	8,980	3,482
Proceeds from sale of SBA loans	592	
Purchases of premises and equipment, net	(5,246)	(1,166)
Death benefits received	540	
Net cash proceeds received in market acquisitions		140,234
Net cash provided by (used in) investing activities	54,108	123,466
<b>Financing Activities</b>		
Net increase (decrease) in deposits net, excluding deposits acquired	(18,016)	(2,064)
Net increase (decrease) in securities sold under agreements to repurchase	10,916	10,212
Net increase (decrease) in FHLB and other borrowed funds	(19)	(24)
Retirement of subordinated debentures	(25,000)	
Repurchase of common stock		(5,206)
Proceeds from exercise of stock options	126	394
Tax benefits from stock options exercised	24	51
Dividends paid on common stock	(3,655)	(2,828)
Net cash provided by (used in) financing activities	(35,624)	535

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Net change in cash and cash equivalents		70,502	161,934
Cash and cash equivalents	beginning of year	231,855	184,304
Cash and cash equivalents	end of period	\$ 302,357	\$ 346,238

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 bank 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 wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has locations in Central Arkansas, North Central Arkansas, Southern Arkansas, the Florida Keys, Central Florida, Southwestern Florida, the Florida Panhandle and South Alabama. 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***

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar community banking services, including such products and services as commercial, real estate and consumer loans, time deposits, checking and savings accounts. The individual bank branches have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services and branch locations, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

***Use of Estimates***

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of investment securities, the valuation of foreclosed assets, the valuations of assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. 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.

***Reclassifications***

Various items within the accompanying consolidated financial statements for previous periods have been reclassified to provide more comparative information. These reclassifications had no effect on net earnings or stockholders' equity.

**Table of Contents*****Interim financial information***

The accompanying unaudited consolidated financial statements as of March 31, 2013 and 2012 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 2012 Form 10-K, filed with the Securities and Exchange Commission.

***Earnings per Share***

Basic earnings per common share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per common 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 common share (EPS) for the following periods:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
Net income available to common stockholders	\$ 17,548	\$ 14,498
Average shares outstanding	28,111	28,230
Effect of common stock options	156	181
Diluted shares outstanding	28,267	28,411