HOME BANCSHARES INC
Form 10-Q
August 09, 2006

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

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2006

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from __________ to __________

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes o No þ

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

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

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

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

Common Stock Issued and Outstanding: 17,193,711 shares as of August 2, 2006.

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

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

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

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PART I: FINANCIAL INFORMATION
Item 1: Financial Statements

Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	June 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Cash and due from banks	$ 50,516	$ 39,248
Interest-bearing deposits with other banks	1,406	5,431
Cash and cash equivalents	51,922	44,679
Federal funds sold	11,102	7,055
Investment securities available for sale	515,063	530,302
Loans receivable	1,328,351	1,204,589
Allowance for loan losses	(25,245)	(24,175)
Loans receivable, net	1,303,106	1,180,414
Bank premises and equipment, net	52,556	51,762
Foreclosed assets held for sale	611	758
Cash value of life insurance	6,954	6,850
Investments in unconsolidated affiliates	12,634	9,813
Accrued interest receivable	12,587	11,158
Deferred tax asset, net	11,903	8,821
Goodwill	37,527	37,527
Core deposit and intangibles	10,336	11,200
Other assets	17,186	11,152
Total assets	$ 2,043,487	$ 1,911,491
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 230,818	$ 209,974
Savings and interest-bearing transaction accounts	531,319	512,184
Time deposits	757,070	704,950
Total deposits	1,519,207	1,427,108
Federal funds purchased	10,005	44,495
Securities sold under agreements to repurchase	121,826	103,718
FHLB and other borrowed funds	126,319	117,054
Accrued interest payable and other liabilities	11,069	8,504
Subordinated debentures	44,708	44,755
Total liabilities	1,833,134	1,745,634
Stockholders equity:		
	21	21

Preferred stock A, par value $0.01 in 2006 and 2005; 2,500,000 shares authorized in 2006 and 2005; 2,090,812 and 2,076,195 shares issued and outstanding in 2006 and 2005, respectively		
Preferred stock B, par value $0.01 in 2006 and 2005; 3,000,000 shares authorized in 2006 and 2005; 169,760 and 169,079 shares issued and outstanding in 2006 and 2005, respectively	2	2
Common stock, par value $0.01 in 2006 and 2005; 25,000,000 shares authorized in 2006 and 2005; shares issued and outstanding 14,646,969 in 2006 and 12,113,865 in 2005	146	121
Capital surplus	187,847	146,285
Retained earnings	33,687	27,331
Accumulated other comprehensive loss	(11,350)	(7,903)
Total stockholders equity	210,353	165,857
Total liabilities and stockholders equity	$ 2,043,487	$ 1,911,491

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Interest income:				
Loans	$ 24,003	$ 14,149	$ 45,845	$ 25,734
Investment securities				
Taxable	4,711	4,114	9,436	8,355
Tax-exempt	965	513	1,932	1,034
Deposits other banks	24	21	65	29
Federal funds sold	183	27	342	33
Total interest income	29,886	18,824	57,620	35,185
Interest expense:				
Interest on deposits	11,144	5,693	20,673	10,388
Federal funds purchased	154	104	458	226
FHLB and other borrowed funds	1,486	823	2,962	1,504
Securities sold under agreements to repurchase	994	552	1,864	1,010
Subordinated debentures	745	456	1,494	855
Total interest expense	14,523	7,628	27,451	13,983
Net interest income	15,363	11,196	30,169	21,202
Provision for loan losses	590	863	1,074	1,914
Net interest income after provision for loan losses	14,773	10,333	29,095	19,288
Non-interest income:				
Service charges on deposit accounts	2,263	2,062	4,315	3,754
Other services charges and fees	584	517	1,195	955
Trust fees	169	121	321	239
Data processing fees	215	156	408	262
Mortgage banking income	439	369	850	661
Insurance commissions	205	142	489	383
Income from title services	282	214	519	358
Increase in cash value of life insurance	55	66	106	130
Equity in loss of unconsolidated affiliates	(32)	(509)	(148)	(509)
Gain on sale of SBA loans		216	34	446
Gain (loss) on securities, net	1	(110)	1	(153)
Other income	418	98	910	629

Total non-interest income	4,599	3,342	9,000	7,155
Non-interest expense:				
Salaries and employee benefits	7,399	5,764	14,747	11,024
Occupancy and equipment	2,123	1,467	4,128	2,959
Data processing expense	670	443	1,237	876
Other operating expenses	3,951	2,700	7,650	5,151
Total non-interest expense	14,143	10,374	27,762	20,010
Income before income taxes	5,229	3,301	10,333	6,433
Income tax expense	1,593	929	3,181	1,872
Net income available to all shareholders	3,636	2,372	7,152	4,561
Less: Preferred stock dividends	155	130	310	260
Income available to common shareholders	$ 3,481	$ 2,242	$ 6,842	$ 4,301
Basic earnings per share	$ 0.28	$ 0.19	$ 0.56	$ 0.37
Diluted earnings per share	$ 0.25	$ 0.17	$ 0.49	$ 0.33

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity
Six Months Ended June 30, 2006 and 2005

(In thousands, except share data (1))	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at December 31, 2004	$ 21	$	$ 266	$ 90,455	$ 17,295	$ (858)	$ (569)	$ 106,610
Comprehensive income (loss):								
Net income					4,561			4,561
Other comprehensive income (loss):								
Unrealized loss on investment securities available for sale, net of tax effect of $1,649						(2,327)		(2,327)
Reclassification adjustment for gains included in income, net of tax effect of $108						153		153
Comprehensive income								2,387
Three for one stock split			78	(78)				
Reclassification for change in par value from $0.10 to $0.01 per share			(352)	352				
Issuance of 3,750,813 common shares pursuant to acquisition of TC Bancorp			125	45,186				45,311
Issuance of 161,696 Preferred B shares pursuant to acquisition of Marine Bancorp, Inc.		2		6,258				6,260
Net issuance of 6,810 shares of common stock from exercise of stock options			1	56				57
Cash dividends Preferred Stock A, $0.13 per share					(260)			(260)
Cash dividends Common Stock, $0.03 per share					(354)			(354)
Balances at June 30, 2005 (unaudited)	21	2	118	142,229	21,242	(3,032)	(569)	160,011
Comprehensive income (loss):								
Net income					6,885			6,885
Other comprehensive income (loss):								
Unrealized loss on investment securities available for sale, net of tax effect of $3,714						(5,239)		(5,239)
Reclassification adjustment for gains included in income, net of tax effect of $274						386		386
Unconsolidated affiliates unrecognized loss on investment securities available for						(18)		(18)

sale, net of taxes recorded by the unconsolidated affiliate								
Comprehensive income								2,014
Net issuance of 33,231 shares of common stock from exercise of stock options				400				400
Issuance of 343 Preferred B shares pursuant to acquisition of Marine Bancorp, Inc.				9				9
Issuance of 335,526 common shares pursuant to acquisition of Mountain View Bancshares, Inc.			3	4,247				4,250
Issuance of 15,366 shares of preferred stock A from exercise of stock options				2				2
Issuance of 7,040 shares of preferred stock B from exercise of stock options				130				130
Purchase of 16,289 shares of preferred stock A				(163)				(163)
Retirement of treasury stock				(569)			569	
Cash dividends Preferred Stock A, $0.12 per share					(260)			(260)
Cash dividends Preferred Stock B, $0.33 per share					(54)			(54)
Cash dividends Common Stock, $0.04 per share					(482)			(482)
Balances at December 31, 2005	21	2	121	146,285	27,331	(7,903)		165,857

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity Continued
Six Months Ended June 30, 2006 and 2005

(In thousands, except share data (1))	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Comprehensive income (loss):								
Net income					7,152			7,152
Other comprehensive income (loss):								
Unrealized loss on investment securities available for sale, net of tax effect of $2,207						(3,418)		(3,418)
Unconsolidated affiliates unrecognized loss on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						(29)		(29)
Comprehensive income								3,705
Net issuance of 33,788 shares of common stock from exercise of stock options				309				309
Issuance of 2,500,000 shares of common stock from Initial Public Offering, net of offering costs of $4,068			25	40,907				40,932
Issuance of 14,617 shares of preferred stock A from exercise of stock options				2				2
Issuance of 948 shares of preferred stock B from exercise of stock options				8				8
Tax benefit from stock options exercised				131				131
Share-based compensation				205				205
Cash dividends Preferred Stock A, $0.125 per share					(262)			(262)
Cash dividends Preferred Stock B, $0.28 per share					(48)			(48)
Cash dividends Common Stock, $0.04 per share					(486)			(486)
Balances at June 30, 2006 (unaudited)	$ 21	$ 2	$ 146	$ 187,847	$ 33,687	$ (11,350)	$	$ 210,353

(1) All share and per share amounts have been restated to reflect the effect of the 2005

three for one
stock split.

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Period Ended June 30, 2006	2005
	(Unaudited)	
Operating Activities		
Net income	$ 7,152	$ 4,561
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,282	1,274
Amortization/Accretion	1,281	1,137
Share-based compensation	205	
Tax benefits from stock options exercised	131	
Gain on sale of assets	(282)	(490)
Provision for loan losses	1,074	1,914
Deferred income tax benefit	(852)	(879)
Equity in loss of unconsolidated affiliates	148	509
Increase in cash value of life insurance	(106)	(130)
Originations of mortgage loans held for sale	(45,305)	(34,379)
Proceeds from sales of mortgage loans held for sale	43,721	27,006
Changes in assets and liabilities:		
Accrued interest receivable	(1,429)	6
Other assets	(6,032)	4,347
Accrued interest payable and other liabilities	2,696	8,271
Net cash provided by operating activities	4,684	13,147
Investing Activities		
Net (increase) decrease in federal funds sold	(4,047)	(1,907)
Net (increase) decrease in loans	(123,604)	(80,925)
Purchases of investment securities available for sale	(66,268)	(61,218)
Proceeds from maturities of investment securities available for sale	74,397	80,241
Proceeds from sales of investment securities available for sale	1,000	29,939
Proceeds from sale of loans	540	4,990
Proceeds from foreclosed assets held for sale	1,283	623
Purchases of premises and equipment, net	(3,048)	(2,577)
Acquisition of financial institution, net funds disbursed		5,532
Investments in unconsolidated affiliates	(3,000)	(9,091)
Net cash used in investing activities	(122,747)	(34,393)
Financing Activities		
Net increase (decrease) in deposits	92,099	44,902
Net increase (decrease) in securities sold under agreements to repurchase	18,108	13,490
Net increase (decrease) in federal funds purchased	(34,490)	1,990
Net increase (decrease) in FHLB and other borrowed funds	23,265	(8,990)

Repayment of line of credit	(14,000)	
Proceeds from initial public offering, net	40,932	
Proceeds from exercise of stock options	319	57
Tax benefits from stock options exercised	(131)	
Dividends paid	(796)	(614)
Net cash provided by financing activities	125,306	50,835
Net change in cash and due from banks	7,243	29,589
Cash and cash equivalents beginning of year	44,679	19,813
Cash and cash equivalents end of period	$ 51,922	$ 49,402

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 five wholly owned community bank subsidiaries. Three of our bank subsidiaries are located in the central Arkansas market area, a fourth serves Stone County in north central Arkansas, and a fifth serves the Florida Keys and southwestern Florida. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Investments in Unconsolidated Affiliates

The Company has a 20.0% investment in White River Bancshares, Inc. (WRBI), which at June 30, 2006 totaled $11.3 million. The investment in WRBI is accounted for on the equity method. The Company s share of WRBI operating loss included in non-interest income in the three and six months ended June 30, 2006 totaled $32,000 and $148,000, respectively. The Company s share of WRBI unrealized loss on investment securities available for sale at June 30, 2006 amounted to $47,000. Although the Company purchased 20% of the common stock of WRBI on January 3, 2005, WRBI did not begin operations until May 1, 2005. See the Acquisitions footnote related to the Company s acquisition of WRBI during 2005.

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The Company has invested funds representing 100% ownership in four statutory trusts which issue trust preferred securities. The Company s investment in these trusts was $1.3 million at June 30, 2006 and December 31, 2005, 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 June 30, 2006 and 2005, and for the three-month and six-month periods then ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Assets	311,262	127,399	311,262	127,399
Liabilities	253,579	84,341	253,579	84,341
Equity	57,683	43,058	57,683	43,058
Net income (loss)	(161)	(1,638)	(673)	(1,638)

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2006 and 2005 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form S-1, as amended, filed with the Securities and Exchange Commission.

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three-month and six-month periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Net income available to all shareholders	$ 3,636	$ 2,372	$ 7,152	$ 4,561
Less: Preferred stock dividends	(155)	(130)	(310)	(260)
Income available to common shareholders	$ 3,481	$ 2,242	$ 6,842	$ 4,301
Average shares outstanding	12,224	11,745	12,174	11,745
Effect of common stock options	117	81	104	81
Effect of preferred stock options	29	75	29	75
Effect of preferred stock conversions	2,160	1,800	2,156	1,722
Diluted shares outstanding	14,530	13,701	14,463	13,623
Basic earnings per share	$ 0.28	$ 0.19	$ 0.56	$ 0.37

Diluted earnings per share	$ 0.25	$ 0.17	$ 0.49	$ 0.33

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2. Acquisitions

On September 1, 2005, HBI acquired Mountain View Bancshares, Inc., an Arkansas bank holding company. Mountain View Bancshares owned Bank of Mountain View, located in Mountain View, Arkansas which had consolidated assets, loans and deposits of approximately $202.5 million, $68.8 million and $158.0 million, respectively, as of the acquisition date. The consideration for the merger was $44.1 million, which was paid approximately 90% in cash and 10% in shares of HBI common stock. As a result of this transaction, the Company recorded goodwill and a core deposit intangible of $13.2 million and $3.0 million, respectively.

On June 1, 2005, HBI acquired Marine Bancorp, Inc., a Florida bank holding company. Marine Bancorp owned Marine Bank of the Florida Keys (subsequently renamed Marine Bank), located in Marathon, Florida, which had consolidated assets, loans and deposits of approximately $257.6 million, $215.2 million and $200.7 million, respectively, as of the acquisition date. The Company also assumed debt obligations with carrying values of $39.7 million, which approximated their fair market values as a result of the rates being paid on the obligations were at or near estimated current market rates. The consideration for the merger was $15.6 million, which was paid approximately 60.5% in cash and 39.5% in shares of HBI Class B preferred stock. As a result of this transaction, the Company recorded goodwill and a core deposit intangible of $4.6 million and $2.0 million, respectively.

On January 3, 2005, HBI purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in the northwest Arkansas area. At June 30, 2006 and December 31, 2005, White River Bancshares had approximately $266.9 million and $184.7 million in total assets, $208.3 million and $131.3 million in total loans and $194.0 million and $130.3 million in total deposits, respectively. 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.

Effective January 1, 2005, HBI purchased the remaining 67.8% of TCBancorp and its subsidiary Twin City Bank with branch locations in the Little Rock/North Little Rock metropolitan area. The purchase brought our ownership of TCBancorp to 100%. HBI acquired, as of the effective date of this transaction, approximately $633.4 million in total assets, $261.9 million in loans and approximately $500.1 million in deposits. The Company also assumed debt obligations with carrying values of $20.9 million, which approximated their fair market values as a result of the rates being paid on the obligations were at or near estimated current market rates. The purchase price for the TCBancorp acquisition was $43.9 million, which consisted of the issuance of 3,750,000 shares (split adjusted) of HBI common stock and cash of approximately $110,000. As a result of this transaction, the Company recorded goodwill and a core deposit intangible of $1.1 million and $3.3 million, respectively. This transaction also increased to 100% HBI ownership of CB Bancorp and FirsTrust, both of which the Company had previously co-owned with TCBancorp.

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3. Investment Securities

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

	June 30, 2006 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 171,947	$ 1	$ (6,843)	$ 165,105
Mortgage-backed securities	248,097	3	(11,046)	237,054
State and political subdivisions	101,097	959	(1,430)	100,626
Other securities	12,631		(353)	12,278
Total	$ 533,772	$ 963	$ (19,672)	$ 515,063

	December 31, 2005 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 162,165	$ 27	$ (4,723)	$ 157,469
Mortgage-backed securities	264,666	16	(8,209)	256,473
State and political subdivisions	102,928	1,279	(746)	103,461
Other securities	13,571		(672)	12,899
Total	$ 543,330	$ 1,322	$ (14,350)	$ 530,302

Assets, principally investment securities, having a carrying value of approximately $393.0 million and $276.1 million at June 30, 2006 and December 31, 2005, 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 $121.8 million and $103.7 million at June 30, 2006 and December 31, 2005, respectively.

During the three and six months ended June 30, 2006, $1.0 million in available for sale securities were sold. The gross realized gains on such sales totaled $1,000. During the three-month and six-month periods ended June 30, 2005, investment securities available for sale with a fair value at the date of sale of approximately $13.9 million and $30.0 million were sold, respectively. The gross realized gains on such sales totaled $10,000 and $48,000 for the three-month and six-month periods ended June 30, 2005, respectively. The gross realized loss on such sales totaled $120,000 and $201,000 for the three-month and six-month periods ended June 30, 2005, respectively. The income tax expense related to net security gains was $1,000 and $16,000 for the three-month and six-month periods ended June 30, 2005. The income tax benefit related to net security losses was $47,000 and $79,000 for the three-month and six-month periods ended June 30, 2005, respectively.

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4: Loans receivable and Allowance for Loan Losses

The various categories of loans are summarized as follows:

	June 30, 2006	December 31, 2005
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 424,645	$ 411,839
Construction/land development	379,820	291,515
Agricultural	12,805	13,112
Residential real estate loans		
Residential 1-4 family	226,129	221,831
Multifamily residential	35,017	34,939
Total real estate	1,078,416	973,236
Consumer	41,920	39,447
Commercial and industrial	173,715	175,396
Agricultural	22,665	8,466
Other	11,635	8,044
Total loans receivable before allowance for loan losses	1,328,351	1,204,589
Allowance for loan losses	25,245	24,175
Total loans receivable, net	$ 1,303,106	$ 1,180,414

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

	2006	2005
	(Dollars in thousands)	
Balance, beginning of year	$ 24,175	$ 16,345
Additions		
Provision charged to expense	1,074	1,914
Twin City Bank and Marine Bank allowance for loan losses		7,104
Deductions		
Losses charged to allowance, net of recoveries of $771 and $247 for the first six months of 2006 and 2005, respectively	4	536
Balance, June 30	$ 25,245	24,827
Additions		
Provision charged to expense		1,913
Bank of Mountain View allowance for loan losses for loan losses		660
Deductions		

Losses charged to allowance, net of recoveries of $603 for the last six months of 2005	3,225
Balance, end of year	$ 24,175

At June 30, 2006 and December 31, 2005, accruing loans delinquent 90 days or more totaled $1.2 million and $426,000, respectively. Non-accruing loans at June 30, 2006 and December 31, 2005 were $6.7 million and $7.9 million, respectively.

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During the three-month period ended June 30, 2006, the Company did not sell any of the guaranteed portion of SBA loans. During the three-month period ended June 30, 2005, the Company sold $2.6 million of the guaranteed portion of certain SBA loans, which resulted in gains of $216,000. During the six-month periods ended June 30, 2006 and 2005, the Company sold $506,000 and $5.0 million, respectively, of the guaranteed portion of certain SBA loans, which resulted in gains of $34,000 and $446,000 during 2006 and 2005, respectively.

Mortgage loans held for resale of approximately $4.3 million and $3.0 million at June 30, 2006 and December 31, 2005, 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 June 30, 2006 and December 31, 2005, impaired loans totaled $4.7 million and $5.1 million, respectively. As of June 30, 2006 and 2005, average impaired loans were $5.4 million and $9.9 million, respectively. All impaired loans had designated reserves for possible loan losses. Interest recognized on impaired loans during 2006 and 2005 was immaterial.

5: Goodwill and Core Deposit Intangibles

Changes in the carrying amount and accumulated amortization of the Company s core deposit intangibles at June 30, 2006 and December 31, 2005, were as follows:

	June 30, 2006	December 31, 2005
	(In thousands)	
Gross carrying amount	$ 13,457	$ 13,457
Accumulated amortization	3,121	2,257
Net carrying amount	$ 10,336	$ 11,200

Core deposit intangible amortization for the three months ended June 30, 2006 and 2005 was approximately $439,000 and $327,000, respectively. Core deposit intangible amortization for the six months ended June 30, 2006 was approximately $864,000 and $636,000, respectively. Including all of the mergers completed, HBI s estimated amortization expense of core deposit for each of the years 2006 through 2010 is $1.7 million.

The carrying amount of the Company s goodwill was $37.5 million at June 30, 2006 and December 31, 2005. 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 $432.4 million and $403.0 million at June 30, 2006 and December 31, 2005, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $8.6 million and $4.4 million at June 30, 2006 and 2005, respectively.

Deposits totaling approximately $202.6 million and $236.1 million at June 30, 2006 and December 31, 2005, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

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7: FHLB and Other Borrowed Funds

The Company s FHLB and other borrowed funds were $126.3 million and $117.1 million at June 30, 2006 and December 31, 2005, respectively. The outstanding balance for June 30, 2006 includes $8.3 million of short-term advances and $118.0 million of long-term advances. The outstanding balance for December 31, 2005 includes $4.0 million of short-term advances and $113.1 million of long-term advances. Short-term borrowings consist of U.S. TT&L notes and short-term FHLB borrowings. Long-term borrowings consist of long-term FHLB borrowings and a line of credit with another financial institution.

Long-term borrowings at June 30, 2006 and December 31, 2005 consisted of the following components:

	June 30, 2006	December 31, 2005
	(In thousands)	
Line of Credit, due 2009, at a floating rate of 0.75% below Prime, secured by bank stock	$	$ 14,000
FHLB advances, due 2006 to 2020, 1.98% to 5.96% secured by residential real estate loans	117,976	99,118
Total long-term borrowings	$ 117,976	$ 113,118

8: Subordinated Debentures

Subordinated Debentures at June 30, 2006 and December 31, 2005 consisted of guaranteed payments on trust preferred securities with the following components:

	June 30, 2006	December 31, 2005
	(In thousands)	
Subordinated debentures, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, 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	3,469	3,516
Subordinated debentures, due 2033, floating rate of 3.15% above the three- month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total subordinated debt	$ 44,708	$ 44,755

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

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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 and six-month periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
Current:				
Federal	$ 1,690	$ 1,641	$ 3,366	$ 2,295
State	336	326	668	456
Total current	2,026	1,967	4,034	2,751
Deferred:				
Federal	(361)	(866)	(712)	(733)
State	(72)	(172)	(141)	(146)
Total deferred	(433)	(1,038)	(853)	(879)
Provision for income taxes	$ 1,593	$ 929	$ 3,181	$ 1,872

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three-month and six-month periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(5.95)	(5.46)	(6.06)	(5.62)
Cash surrender value of life insurance	(0.36)	(0.70)	(0.36)	(0.72)
State taxes	1.97	2.00	1.96	2.13
Other	(0.20)	(2.70)	0.24	(1.69)
Effective income tax rate	30.46%	28.14%	30.78%	29.10%

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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:

	June 30, 2006	December 31, 2005
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 9,710	$ 9,229
Deferred compensation	245	249
Defined benefit pension plan	109	109
Stock options	117	
Non-accrual interest income	478	466
Investment in unconsolidated subsidiary	395	336
Unrealized loss on securities	7,334	5,105
Other	187	349
Gross deferred tax assets	18,575	15,843
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,095	2,237
Core deposit intangibles	3,884	4,211
Market value of cash flow hedge	47	25
FHLB dividends	473	393
Other	173	156
Gross deferred tax liabilities	6,672	7,022
Net deferred tax assets	$ 11,903	$ 8,821

10: Common Stock and Stock Compensation Plans

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

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

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

As of March 13, 2006, options for a total of 613,604 shares of common stock outstanding under the prior plans became subject to the Plan. Also, on that date, the Company s board of directors replaced 341,000 outstanding stock

appreciation rights with 354,640 options, each with an exercise price of $13.18. During 2005, the Company had issued 341,000 stock appreciation rights at $12.67 for certain executive employees throughout the Company. The appreciation rights were on a five-year cliff-vesting schedule with all appreciation rights vesting on December 31, 2009. The vesting was also subject to various financial performance goals of the Company and the subsidiary banks over the five-year period ending January 1, 2010. The options issued in replacement of the stock appreciation rights are subject to achievement of the same financial goals by the Company and the bank subsidiaries over the five-year period ending January 1, 2010.

On January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (R), Share-Based Payment (SFAS123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost is recognized beginning in 2006 includes: (a) the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, and (b) the compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results for prior periods have not been restated. Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the next 3.5 years, was $750,000 as of June 30, 2006.

The following table presents the required pro forma disclosures related to net income for the three months and six months ended June 30, 2005 for the options granted:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(In thousands except per share data)	
Basic pro forma		
Net income available to common shareholders as reported	$ 2,242	$ 4,301
Less: Total stock-based employee compensation cost determined under the fair value based method, net of tax	18	36
Net income available to common shareholders pro forma	$ 2,224	$ 4,265
Basic earnings per share as reported	$ 0.19	$ 0.37
Basic earnings per share pro forma	0.19	0.36
Diluted pro forma		
Net income as reported	$ 2,372	$ 4,561
Less: Total stock-based employee compensation cost determined under the fair value based method, net of tax	18	36
Net income pro forma	$ 2,354	$ 4,525
Diluted earnings per share as reported	$ 0.17	$ 0.33
Diluted earnings per share pro forma	0.17	0.33

As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the three months ended June 30, 2006, are $89,000 and $54,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the six months ended June 30, 2006, are $205,000 and $127,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. Basic and diluted earnings per share for the three months ended June 30, 2006, would have been $0.29 and $0.25, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.28 and $0.25, respectively. Basic and diluted earnings per share for the six months ended June 30, 2006, would have been $0.57 and $0.50, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.56 and $0.49, respectively. For purposes of pro forma disclosures as required by SFAS No. 123(R), the estimated fair value of stock options is amortized over the

options vesting period.

The table below summarized the transactions under the Company s stock option plans (split adjusted) at June 30, 2006 and December 31, 2005 and changes during the six-month period and year then ended, respectively:

	For Six Months Ended June 30, 2006		For the Year Ended December 31, 2005	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	630	$ 9.50	453	$ 9.46
Granted	357	13.18	75	12.67
Options of acquired institution			168	10.80
Forfeited			(23)	8.78
Exercised	(34)	9.37	(43)	11.48
Outstanding, end of period	953	11.26	630	10.07
Exercisable, end of period	490	$ 9.67	497	$ 9.50

The weighted-average fair value of options granted during the six months ended June 30, 2006 and year-ended December 31, 2005, was $3.08 and $3.90, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For Six Months Ended June 30, 2006	For the Year Ended December 31, 2005
Expected dividend yield	0.61%	0.63%
Expected stock price volatility	8.95%	10.00%
Risk-free interest rate	4.78%	4.39%
Expected life of options	6.3 years	10.0 years

The following is a summary of currently outstanding and exercisable options at June 30, 2006:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$ 7.33 to $ 8.33	214	5.9	$ 7.42	212	$ 7.42
$ 9.33 to $10.31	120	7.4	10.13	105	10.17
$ 11.34 to $11.67	78	10.4	11.40	69	11.37
$ 12.67 to $12.67	184	11.4	12.67	101	12.67
$ 13.18 to $13.18	357	9.7	13.18	3	13.18

953 490

During 2005, the Company completed a three for one stock split. This resulted in issuing two additional shares of stock to the common shareholders. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the $78,000 transfer of the par value of these additional shares from surplus. All share and per share amounts have been restated to reflect the retroactive effect of the stock split, except for the capitalization of the Company.

11. Non-Interest Expense

The table below shows the components of non-interest expense for three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Salaries and employee benefits	$ 7,399	$ 5,764	$ 14,747	$ 11,024
Occupancy and equipment	2,123	1,467	4,128	2,959
Data processing expense	670	443	1,237	876
Other operating expenses:				
Advertising	612	529	1,170	995
Amortization of intangibles	439	327	864	636
ATM expense	160	109	278	209
Directors fees	202	101	406	187
Due from bank service charges	84	72	154	146
FDIC and state assessment	127	123	252	245
Insurance	233	107	456	243
Legal and accounting	274	265	556	441
Other professional fees	149	117	283	223
Operating supplies	253	163	482	313
Postage	166	146	329	267
Telephone	284	148	504	271
Other expense	968	493	1,916	975
Total other operating expenses	3,951	2,700	7,650	5,151
Total non-interest expense	$ 14,143	$ 10,374	$ 27,762	$ 20,010

12: Concentration of Credit Risks

The Company s primary market area is in central Arkansas, north central Arkansas, northwest Arkanasas 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 Sates 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.

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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 June 30, 2006 and December 31, 2005, commitments to extend credit of $257.8 million and $266.5 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 June 30, 2006 and December 31, 2005, is $20.8 million and $21.0 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.

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. As the result of special dividends paid by the Company s subsidiary banks during to 2005 to help provide cash for the Marine Bancorp, Inc. and Mountain View Bancshares, Inc. acquisitions, the Company s subsidiary banks did not have any significant undivided profits available for payment of dividends to the Company, without prior approval of the regulatory agencies at June 30, 2006.

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 June 30, 2006, each of the five 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 11.33%, 14.37%, and 15.63%, respectively, as of June 30, 2006.

16: Additional Cash Flow Information

In connection with the Twin City Bancorp acquisition accounted for using the purchase method, the Company acquired approximately $633 million in assets, assumed $569 million in liabilities, issued $45 million of equity and received net funds of $9 million during the three months ended March 31, 2005. In connection with the Marine Bancorp acquisition accounted for using the purchase method, the Company acquired approximately $258 million in assets, assumed $252 million in liabilities, issued $6 million of equity and paid net funds of $3 million during the three months ended June 30, 2005. The Company paid interest and taxes during the three and six months ended as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Interest paid	$13,923	$7,035	$26,826	$13,133
Income taxes paid	3,420	2,100	3,420	3,450

17: Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standard Board (FASB) issued Statement of Accounting Standards No. 155 (SFAS 155) *Accounting for Certain Hybrid Financial Instruments*, an amendment of FASB Statements No. 133 and 140. It establishes, among other things, the accounting for certain derivatives embedded in other financial instruments. The primary objective of this Statement with respect to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is to simplify accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. The primary objective of this Statement with respect to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, is to eliminate a restriction on the passive derivative instruments that a qualifying special-purpose entity (QSPE) may hold. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this accounting standard is not expected to have a material impact on the Company s financial statements.

In March 2006, the FASB issued Statement of Accounting Standards No. 156 (SFAS 156) *Accounting for Servicing of Financial Assets*, an amendment of FASB Statement No. 140. It establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This statement is effective for fiscal years beginning after September 15, 2006. The adoption of this accounting standard is not expected to have a material impact on the Company s financial statements.

18: Subsequent Event

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

On August 1, 2006, the Company redeemed and converted the issued and outstanding shares of Home BancShares s Class A Preferred Stock and Class B Preferred Stock into Home BancShares Common Stock. Upon conversion of the preferred stock, the Company s outstanding common stock will increase approximately 2,160,000 shares.

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

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

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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 June 30, 2006 and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and 2005 and statements of changes in stockholders equity and cash flows for the six-month periods ended June 30, 2006 and 2005. 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, 2005 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 February 20, 2006, 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, 2005 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
August 3, 2006

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Item 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company s Form S-1, as amended, filed with the Securities and Exchange Commission on March 14, 2006, which includes the audited financial statements for the year ended December 31, 2005. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

Forward-Looking Information

Certain statements contained in this document, including, without limitation, statements containing the words believes , anticipates , intends , expects , should and words of similar import, constitute forward-looking statemen within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which we operate, demographic changes, competition, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business, and other factors referenced in this Report. Except as required by law, we disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

General

We are a financial holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our five wholly owned bank subsidiaries. As of June 30, 2006, we had, on a consolidated basis, total assets of $2.04 billion, loans receivable of $1.33 billion, total deposits of $1.52 billion, and shareholders equity of $210.4 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

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in thousands, except per share data)			
Total assets	$2,043,487	$1,719,670	$2,043,487	$1,719,670
Loans receivable	1,328,351	1,076,619	1,328,351	1,076,619
Total deposits	1,519,207	1,298,671	1,519,207	1,298,671
Net income	3,636	2,372	7,152	4,561
Basic earnings per share	0.28	0.19	0.56	0.37
Diluted earnings per share	0.25	0.17	0.49	0.33
Diluted cash earnings per share (1)	0.27	0.18	0.53	0.36
Annualized net interest margin	3.52%	3.35%	3.53%	3.29%
Efficiency ratio	66.74	67.29	66.70	66.59
Annualized return on average assets	0.73	0.63	0.74	0.63
Annualized return on average equity	8.56	6.24	8.53	6.07

(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 $1.3 million, or 53.3%, to $3.6 million for the three-month period ended June 30, 2006, from $2.4 million for the same period in 2005. For the six months ended June 30, 2006, net income increased 56.8% to $7.2 million compared to $4.6 million for the same period in 2005. On a diluted earnings per share basis, our net earnings increased 47.1% to $0.25 for the three-month period ended June 30, 2006, as compared to $0.17 for the same period in 2005. Diluted earnings per share increased to $0.49 per share for the six months ended June 30, 2006 compared to $0.33 for the same period in 2005. The increase in earnings is primarily associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares during the second and third quarters of 2005, respectively, combined with organic growth of our bank subsidiaries.

Our return on average equity was 8.56% and 8.53% for the three and six months ended June 30, 2006, compared to 6.24% and 6.07% for the same periods in 2005, respectively. The increase was primarily due to the $1.3 million and $2.6 million increase in net income for the three and six months ended June 30, 2006, respectively, compared to the same period in 2005.

Our return on average assets was 0.73% and 0.74% for the three and six months ended June 30, 2006, compared to 0.63% for the same periods in 2005, respectively. The increase was primarily due to the $1.3 million and $2.6 million increase in net income for the three and six months ended June 30, 2006, respectively, compared to the same period in 2005.

Our net interest margin was 3.52% and 3.53% for the three and six months ended June 30, 2006, compared to 3.35% and 3.29% for the same periods in 2005, respectively. The increases were primarily due to organic loan growth combined with the acquisitions of Marine Bancorp and Mountain View Bancshares.

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 66.74% and 66.70% for three and six months ended June 30, 2006, compared to 67.29% and 66.59% for the same periods in 2005, respectively.

Our total assets increased $132.0 million, an annualized growth of 13.9%, to $2.04 billion as of June 30, 2006, from $1.91 billion as of December 31, 2005. Our loan portfolio increased $123.8 million, an annualized growth of 20.8%, to $1.33 billion as of June 30, 2006, from December 31, 2005. Shareholders equity increased $44.5 million, an annualized growth of 54.0%, to $210.4 million as of June 30, 2006, compared to $165.9 million as of December 31, 2005. Asset and loan increases are primarily associated with organic growth of our bank subsidiaries. The increase in stockholders equity was primarily the result of the $40.9 million proceeds from the Company s initial public offering, which took place on June 23, 2006, and retained earnings during 2006.

As of June 30, 2006, our asset quality improved as non-performing loans declined to $7.9 million, or 0.60%, of total loans from $8.3 million, or 0.69%, of total loans as of December 31, 2005. The allowance for loan losses as a percent of non-performing loans increased to 319.35% as of June 30, 2006, compared to 291.62% from December 31, 2005. These ratios reflect the continuing commitment of our management to improve and maintain sound asset quality.

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 the Company s Form S-1, as amended, 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, intangible assets and income taxes.

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.

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. 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 collectibility, 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 collectibility 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 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 September 1, 2005, we acquired Mountain View Bancshares, Inc., an Arkansas bank holding company. Mountain View Bancshares owned The Bank of Mountain View, located in Mountain View, Arkansas which had total assets of $202.5 million, loans of $68.8 million and total deposits of $158.0 million on the date of the acquisition. The consideration for the merger was $44.1 million, which was paid approximately 90%, or $39.8 million, in cash and 10%, or $4.3 million, in shares of our common stock. As a result of this transaction, we recorded goodwill of $13.2 million and a core deposit intangible of $3.0 million.

On June 1, 2005, we acquired Marine Bancorp, Inc., a Florida bank holding company. Marine Bancorp owned Marine Bank of the Florida Keys (subsequently renamed Marine Bank), located in Marathon, Florida, which had total assets of $257.6 million, loans of $215.2 million and total deposits of $200.7 million on the date of the acquisition. We also assumed debt obligations with carrying values of $39.7 million, which approximated their fair market values because the rates being paid on the obligations were at or near estimated current market rates. The consideration for the merger was $15.6 million comprised of approximately 60.5%, or $9.4 million, in cash and 39.5%, or $6.2 million, in shares of our Class B preferred stock. As a result of this transaction, we recorded goodwill of $4.6 million and a core deposit intangible of $2.0 million.

On January 3, 2005, we purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in northwest Arkansas. As of December 31, 2005, White River Bancshares had total assets of $184.7 million, loans of $131.3 million, and total deposits of $130.3 million. In January 2006, White River Bancshares issued an additional $15.0 million of common stock. To maintain our 20% ownership, we invested an additional $3.0 million in White River Bancshares at that time.

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Effective January 1, 2005, we purchased the remaining 67.8% of TCBancorp that we did not previously own. TCBancorp owned Twin City Bank, with branch locations in the Little Rock/North Little Rock metropolitan area. The purchase brought our ownership of TCBancorp to 100%. TCBancorp had total assets of $633.4 million, loans of $261.9 million and total deposits of $500.1 million at the effective date of the acquisition. We also assumed debt obligations with carrying values of $20.9 million, which approximated their fair market values because the rates being paid on the obligations were at or near estimated current market rates. The purchase price for the TCBancorp acquisition was $43.9 million, which consisted of approximately $110,000 of cash and the issuance of 3,750,813 shares (split adjusted) of our common stock. As a result of this transaction, we recorded goodwill of $1.1 million and a core deposit intangible of $3.3 million. This transaction also increased our ownership of CB Bancorp and FirsTrust Financial Services to 100%, both of which we had previously co-owned with TCBancorp.

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 the first six months of 2006, the Company opened three de novo branch locations plus Arkansas s only mobile branch. These branch locations are located in the Arkansas communities of Searcy and Beebe plus Port Charlotte, Florida. Presently, the Company has four pending Florida de novo branch locations in Key West, Key Largo, Punta Gorda and Marco Island. Three of these four locations are scheduled to open during 2006.

Results of Operations

Our net income increased $1.3 million, or 53.3%, to $3.6 million for the three-month period ended June 30, 2006, from $2.4 million for the same period in 2005. For the six months ended June 30, 2006, net income increased 56.8% to $7.2 million compared to $4.6 million for the same period in 2005. On a diluted earnings per share basis, our net earnings increased 47.1% to $0.25 for the three-month period ended June 30, 2006, as compared to $0.17 for the same period in 2005. Diluted earnings per share increased to $0.49 per share for the six months ended June 30, 2006 compared to $0.33 for the same period in 2005. The increase in earnings is primarily associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares during the second and third quarters of 2005, respectively, combined with organic growth of our bank subsidiaries.

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.

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Net interest income on a fully taxable equivalent basis increased $4.3 million, or 37.5%, to $15.9 million for the three-month period ended June 30, 2006, from $11.6 million for the same period in 2005. This increase in net interest income was the result of an $11.2 million increase in interest income offset by $6.9 million increase in interest expense. The $11.2 million increase in interest income was primarily the result of a $389.5 million increase in average earning assets associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during the second and third quarter of 2005, respectively, combined with higher short-term interest rates as a result of the rising rate environment. The higher level of earning assets resulted in an improvement in interest income of $7.5 million, and the rising rate environment resulted in a $3.7 million increase in interest income for the three-month period ended June 30, 2006. The $6.9 million increase in interest expense for the three-month period ended June 30, 2006, is primarily the result of a $304.1 million increase in average interest-bearing liabilities associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during the second and third quarter of 2005, respectively, combined with higher interest rates during 2005 as a result of the rising rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of $3.2 million. The rising rate environment resulted in a $3.7 million increase in interest expense for the three-month period ended June 30, 2006.

Net interest income on a fully taxable equivalent basis increased $9.4 million, or 42.8%, to $31.3 million for the six-month period ended June 30, 2006, from $21.9 million for the same period in 2005. This increase in net interest income was the result of a $22.9 million increase in interest income offset by $13.5 million increase in interest expense. The $22.9 million increase in interest income was primarily the result of a $386.6 million increase in average earning assets associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during the second and third quarter of 2005, respectively, combined with higher short-term interest rates as a result of the rising rate environment. The higher level of earning assets resulted in an improvement in interest income of $15.5 million, and the rising rate environment resulted in a $7.4 million increase in interest income for the six-month period ended June 30, 2006. The $13.5 million increase in interest expense for the six-month period ended June 30, 2006, is primarily the result of a $319.7 million increase in average interest-bearing liabilities associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during the second and third quarter of 2005, respectively, combined with higher interest rates during 2005 as a result of the rising rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of $6.3 million. The rising rate environment resulted in a $7.2 million increase in interest expense for the six-month period ended June 30, 2006.

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Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and six-month periods ended June 30, 2006 and 2005, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2006, compared to the same period in 2005.

Table 1: Analysis of Net Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
Interest income	$ 29,886	$ 18,824	$ 57,620	$ 35,185
Fully taxable equivalent adjustment	572	394	1,155	737
Interest income fully taxable equivalent	30,458	19,218	58,775	35,922
Interest expense	14,523	7,628	27,451	13,983
Net interest income fully taxable equivalent	$ 15,935	$ 11,590	$ 31,324	$ 21,939
Yield on earning assets fully taxable equivalent	6.72%	5.55%	6.61%	5.38%
Cost of interest-bearing liabilities	3.67	2.58	3.53	2.45
Net interest spread fully taxable equivalent	3.05	2.97	3.08	2.93
Net interest margin fully taxable equivalent	3.52	3.35	3.53	3.29

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended June 30, 2006 vs. 2005	Six Months Ended June 30, 2006 vs. 2005
	(In thousands)	
Increase in interest income due to change in earning assets	$ 7,511	$ 15,504
Increase in interest income due to change in earning asset yields	3,729	7,349
Increase in interest expense due to change in interest-bearing liabilities	3,199	6,241
Increase in interest expense due to change in interest rates paid on interest-bearing liabilities	3,696	7,227
Increase in net interest income	$ 4,345	$ 9,385

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 and six-month periods ended June 30, 2006 and 2005. 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