HOME BANCSHARES INC
Form 10-Q
August 05, 2009

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

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2009

or

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

Commission File Number: 000-51904
HOME BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)
Not Applicable

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

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

Indicate by check mark whether the registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller Reporting Company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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: 19,939,741 shares as of July 31, 2009.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on March 6, 2009.

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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, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 41,531	$ 46,765
Interest-bearing deposits with other banks	4,553	7,403
Cash and cash equivalents	46,084	54,168
Federal funds sold	31,805	7,865
Investment securities available for sale	309,989	355,244
Loans receivable	1,972,704	1,956,232
Allowance for loan losses	(41,804)	(40,385)
Loans receivable, net	1,930,900	1,915,847
Bank premises and equipment, net	71,914	73,610
Foreclosed assets held for sale	17,606	6,763
Cash value of life insurance	51,249	50,201
Investments in unconsolidated affiliates	1,424	1,424
Accrued interest receivable	12,840	13,115
Deferred tax asset, net	14,669	16,267
Goodwill	53,039	50,038
Core deposit and other intangibles	5,622	6,547
Mortgage servicing rights	1,526	1,891
Other assets	31,259	27,113
Total assets	$ 2,579,926	$ 2,580,093
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 294,339	$ 249,349
Savings and interest-bearing transaction accounts	661,387	656,758
Time deposits	876,339	941,801
Total deposits	1,832,065	1,847,908
Federal funds purchased		
Securities sold under agreements to repurchase	65,232	113,389
FHLB borrowed funds	277,640	282,975
Accrued interest payable and other liabilities	14,105	5,202
Subordinated debentures	47,530	47,575
Total liabilities	2,236,572	2,297,049

Stockholders equity:		
Preferred stock; $0.01 par value; 5,500,000 shares authorized:		
Series A fixed rate cumulative perpetual; liquidation preference of $1,000 per share; 50,000 shares issued and outstanding at June 30, 2009; no shares issued and outstanding at December 31, 2008.	49,185	
Common stock, par value $0.01; shares authorized 50,000,000; shares issued and outstanding 19,902,713 in 2009 and 19,859,582 in 2008	199	199
Capital surplus	255,009	253,581
Retained earnings	40,704	32,639
Accumulated other comprehensive loss	(1,743)	(3,375)
Total stockholders equity	343,354	283,044
Total liabilities and stockholders equity	$ 2,579,926	$ 2,580,093

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data(1))	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
			(Unaudited)	
Interest income:				
Loans	$ 29,389	$ 32,209	$ 58,527	$ 65,454
Investment securities				
Taxable	2,252	2,996	4,905	6,758
Tax-exempt	1,343	1,199	2,641	2,367
Deposits other banks	8	37	20	92
Federal funds sold	4	99	11	265
Total interest income	32,996	36,540	66,104	74,936
Interest expense:				
Interest on deposits	7,131	11,619	15,249	25,141
Federal funds purchased	2	20	4	89
FHLB borrowed funds	2,359	2,059	4,749	4,634
Securities sold under agreements to repurchase	124	367	235	955
Subordinated debentures	659	734	1,335	1,545
Total interest expense	10,275	14,799	21,572	32,364
Net interest income	22,721	21,741	44,532	42,572
Provision for loan losses	2,750	704	3,750	5,513
Net interest income after provision for loan losses	19,971	21,037	40,782	37,059
Non-interest income:				
Service charges on deposit accounts	3,633	3,352	7,007	6,449
Other service charges and fees	1,841	1,699	3,625	3,462
Data processing fees	134	225	320	435
Mortgage lending income	815	706	1,695	1,338
Mortgage servicing income	191	217	391	448
Insurance commissions	198	184	455	456
Income from title services	151	189	291	357
Increase in cash value of life insurance	574	513	1,051	1,098
Dividends from FHLB, FRB & bankers bank	99	227	206	508
Equity in earnings (loss) of unconsolidated affiliates				102
Gain on sale of equity investment				6,102
Gain on sale of SBA loans				101
Gain (loss) on sale of premises and equipment, net	(19)		(12)	(2)
Gain (loss) on OREO, net	(28)	(50)	(145)	(430)
Gain (loss) on securities, net	(3)	(2,067)	(3)	(2,067)
Other income	404	472	724	844

Total non-interest income	7,990	5,667	15,605	19,201
Non-interest expense:				
Salaries and employee benefits	8,432	8,931	17,376	18,209
Occupancy and equipment	2,667	2,726	5,344	5,428
Data processing expense	844	833	1,651	1,619
Other operating expenses	8,355	6,007	15,219	11,924
Total non-interest expense	20,298	18,497	39,590	37,180
Income before income taxes	7,663	8,207	16,797	19,080
Income tax expense	2,222	2,553	5,111	6,148
Net income	5,441	5,654	11,686	12,932
Preferred stock dividends and accretion of discount on preferred stock	670		1,236	
Net income available to common stockholders	$ 4,771	$ 5,654	$ 10,450	$ 12,932
Basic earnings per share	$ 0.24	$ 0.29	$ 0.53	$ 0.66
Diluted earnings per share	$ 0.24	$ 0.28	$ 0.52	$ 0.64

(1) Per share data as of June 30, 2008 is adjusted for the 8% stock dividend from August 2008

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity
Six Months Ended June 30, 2009 and 2008

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2008	$	$173	$195,649	$ 59,489	$ (2,255)	$253,056
Cumulative effect of adoption of EITF 06-4				(276)		(276)
Comprehensive income (loss):						
Net income				12,932		12,932
Other comprehensive income (loss):						
Unrealized loss on investment securities available for sale, net of tax effect of ($334)					(633)	(633)
Unconsolidated affiliates unrecognized loss on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate					92	92
Comprehensive income						12,391
Issuance of 1,170,506 (stock dividend adjusted) common shares pursuant to acquisition of Centennial Bancshares, Inc.		10	24,245			24,255
Net issuance of 10,096 shares (stock dividend adjusted) of common stock from exercise of stock options			68			68
Tax benefit from stock options exercised			50			50
Share-based compensation			236			236
Cash dividends Common Stock, $0.097 per share (stock dividend adjusted)				(1,925)		(1,925)
Balances at June 30, 2008 (unaudited)		183	220,248	70,220	(2,796)	287,855
Comprehensive income (loss):						
Net income				(2,816)		(2,816)
Other comprehensive income (loss):						
Unrealized loss on investment securities available for sale, net of tax effect of $997					(579)	(579)

Comprehensive income					(3,395)
Net issuance of 49,508 shares of common stock from exercise of stock options		378			378
Disgorgement of profits	1	89			90
Tax benefit from stock options exercised		366			366
Share-based compensation		242			242
Cash dividends Common Stock, $0.125 per share			(2,479)		(2,479)
8% Stock dividend Common Stock	15	32,258	(32,286)		(13)
Balances at December 31, 2008	199	253,581	32,639	(3,375)	283,044

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, 2009 and 2008

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Comprehensive income (loss):						
Net income				11,686		11,686
Other comprehensive income (loss):						
Unrealized gain on investment securities available for sale, net of tax effect of $1,053					1,632	1,632
Comprehensive income						13,318
Issuance of 50,000 shares of preferred stock and a warrant for 288,129 shares of common stock	49,094		906			50,000
Accretion of discount on preferred stock	91			(91)		
Net issuance of 43,131 shares of common stock from exercise of stock options			301			301
Tax benefit from stock options exercised			237			237
Share-based compensation			(16)			(16)
Cash dividend Preferred Stock - 5%				(1,145)		(1,145)
Cash dividends Common Stock, $0.120 per share				(2,385)		(2,385)
Balances at June 30, 2009 (unaudited)	$ 49,185	$ 199	$ 255,009	$ 40,704	$ (1,743)	$ 343,354

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Period Ended June 30, 2009	2008
	(Unaudited)	
Operating Activities		
Net income	$ 11,686	$ 12,932
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,653	2,753
Amortization/accretion	1,421	1,314
Share-based compensation	(16)	236
Tax benefits from stock options exercised	(237)	(50)
Loss on assets	160	2,398
Gain on sale of equity investment		(6,102)
Provision for loan loss	3,750	5,513
Deferred income tax benefit	545	(1,117)
Equity in income of unconsolidated affiliates		(102)
Increase in cash value of life insurance	(1,051)	(1,098)
Originations of mortgage loans held for sale	(113,130)	(73,730)
Proceeds from sales of mortgage loans held for sale	105,492	72,684
Changes in assets and liabilities:		
Accrued interest receivable	275	1,524
Other assets	(4,044)	(2,082)
Accrued interest payable and other liabilities	9,140	(3,990)
Net cash provided by operating activities	16,644	11,083
Investing Activities		
Net (increase) decrease in federal funds sold	(23,940)	(4,570)
Net (increase) decrease in loans	(23,559)	(155,154)
Purchases of investment securities available for sale	(35,765)	(55,164)
Proceeds from maturities of investment securities available for sale	60,554	124,522
Proceeds from sale of investment securities available for sale	22,972	
Proceeds from sale of loans		1,904
Proceeds from foreclosed assets held for sale	1,406	697
Purchases of premises and equipment, net	(969)	(2,384)
Acquisition of Centennial Bancshares, Inc., net funds received	(3,100)	1,663
Proceeds from sale of investment in unconsolidated affiliate		19,862
Net cash used in investing activities	(2,401)	(68,624)
Financing Activities		
Net increase (decrease) in deposits	(15,843)	130,460
Net increase (decrease) in securities sold under agreements to repurchase	(48,157)	(3,707)
Net increase (decrease) in federal funds purchased		(7,922)
Net increase (decrease) in FHLB and other borrowed funds	(5,335)	(48,744)
Proceeds from exercise of stock options	301	68

Proceeds from issuance of preferred stock and common stock warrant	50,000	
Tax benefits from stock options exercised	237	50
Dividends paid preferred stock	(1,145)	
Dividends paid common stock	(2,385)	(1,925)
Net cash (used in) provided by financing activities	(22,327)	68,280
Net change in cash and cash equivalents	(8,084)	10,739
Cash and cash equivalents beginning of year	54,168	55,021
Cash and cash equivalents end of period	$ 46,084	$ 65,760

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). During 2009, the Company completed the combination of its former bank charters into a single charter, adopting Centennial Bank as the common name. The Bank has locations in central Arkansas, north central Arkansas, southern Arkansas, 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

Community banking is the Company s only operating segment. No revenues are derived from foreign countries and no single external customer comprises more than 10% of the Company s revenues.

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 invested funds representing 100% ownership in five statutory trusts which issue trust preferred securities. The Company s investment in these trusts was $1.4 million at June 30, 2009 and December 31, 2008. Under accounting principles generally accepted in the United States of America, these trusts are not consolidated.

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The summarized financial information below represents an aggregation of the Company s unconsolidated affiliates as of June 30, 2009 and 2008, and for the three-month and six-month periods then ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Assets	$47,424	$47,424	$47,424	$47,424
Liabilities	46,000	46,000	46,000	46,000
Equity	1,424	1,424	1,424	1,424
Net income (loss)				163

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2009 and 2008 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 2008 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. Prior year per share amounts have been adjusted for the stock dividend which occurred in August of 2008. The following table sets forth the computation of basic and diluted earnings per common share (EPS) for the three-month and six-month periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net income available to common stockholders	$ 4,771	$ 5,654	$ 10,450	$ 12,932
Average shares outstanding	19,888	19,810	19,875	19,806
Effect of potential share issuance for acquisition earn out		196		196
Effect of common stock options	234	292	246	298
Diluted shares outstanding	20,122	20,298	20,121	20,300
Basic earnings per common share	$ 0.24	$ 0.29	$ 0.53	$ 0.66
Diluted earnings per common share	$ 0.24	$ 0.28	$ 0.52	$ 0.64

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2. Acquisitions

On January 1, 2008, the Company acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of $234.1 million, loans of $192.8 million and total deposits of $178.8 million on the date of acquisition. The consideration for the merger was $25.4 million, which was paid approximately 4.6%, or $1.2 million in cash and 95.4%, or $24.3 million, in shares of our common stock. In connection with the acquisition, $3.0 million of the purchase price, consisting of $139,000 in cash and 140,456 shares (stock dividend adjusted) of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in $1.0 million of the escrow proceeds being released. In addition to the consideration given at the time of the merger, the merger agreement provided for additional contingent consideration to Centennial s stockholders of up to a maximum of $4 million, which could be paid in cash or our common stock at the election of the former Centennial accredited stockholders, based upon the 2008 earnings performance. The final contingent consideration was computed and agreed upon in the amount of $3.1 million on March 11, 2009. The Company paid this amount to the former Centennial stockholders on a pro rata basis on March 12, 2009. All of the former Centennial stockholders elected to receive the contingent consideration in cash. As a result of this transaction, the Company recorded total goodwill of $15.4 million and a core deposit intangible of $694,000.

3. Investment Securities

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

	June 30, 2009 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 23,446	$ 209	$ (49)	$ 23,606
Mortgage-backed securities	143,627	2,313	(2,494)	143,446
State and political subdivisions	139,889	1,540	(3,097)	138,332
Other securities	5,845		(1,240)	4,605
Total	$ 312,807	$ 4,062	$ (6,880)	$ 309,989

	December 31, 2008 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 49,632	$ 810	$ (7)	$ 50,435
Mortgage-backed securities	183,808	1,673	(3,517)	181,964
State and political subdivisions	123,119	990	(4,279)	119,830
Other securities	4,238		(1,223)	3,015
Total	$ 360,797	$ 3,473	$ (9,026)	$ 355,244

Assets, principally investment securities, having a carrying value of approximately $183.3 million and $187.5 million at June 30, 2009 and December 31, 2008, 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 $65.2 million and $113.4 million at June 30, 2009 and December 31, 2008, respectively.

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During the three-month and six-month period ended June 30, 2009, $23.0 million in available for sale securities were sold. The gross realized gains and losses on these sales totaled $890,000 and $893,000, respectively. The income tax expense/benefit related to net security gains and losses was 39.225% of the gross amounts.

During the three-month and six-month period ended June 30, 2008 no available for sale securities were sold.

The amortized cost and estimated fair value of securities at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 116,247	$ 115,633
Due after one year through five years	133,319	132,947
Due after five years through ten years	41,083	39,137
Due after ten years	22,158	22,272
Total	$ 312,807	$ 309,989

For purposes of the maturity tables, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on anticipated maturities. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of paragraph 16 of SFAS No. 115, Staff Accounting Bulletin 59 and FASB Staff Position No. 115-1. Certain investment securities are valued less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. The Company does not intend to sell or believe it will be required to sell these investments before recovery of their amortized cost bases, which may be maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

No securities were deemed by management to have other-than-temporary impairment for the six month periods ended June 30, 2009, besides securities for which impairment was taken in prior periods. During the second quarter of 2008, the Company became aware that one of its investment securities in the other securities category had become other than temporarily impaired. As a result of this impairment, the security was written-down by $2.1 million or $0.06 diluted earnings per share (stock dividend adjusted) for the second quarter of 2008. In the last half of 2008, it became known that this security as well as another investment security in the other securities category had become worthless. The total charge-off on these securities totaled $3.8 million or $0.12 diluted earnings per share for the second half of 2008. These investment securities were a pool of other financial holding companies subordinated debentures throughout the country. These investments were deemed worthless as a result of the current banking crisis. Several of the financial holding companies in these pools defaulted due to their closure by the federal government. Additionally, several other financial holding companies in these pools began deferring their quarterly payments as a result of stressed capital levels. These were the only two securities of this type owned by the Company.

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For the period ended June 30, 2009, the Company had $5.7 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Included in the $5.7 million in unrealized losses are $3.3 million in unrealized losses, which were associated with government-sponsored securities and government-sponsored mortgage-back securities. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 79.8% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities available for sale, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of the periods ended June 30, 2009 and December 31, 2008:

	June 30, 2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government-sponsored enterprises	$ 2,764	$ 47	$ 284	$ 2	$ 3,048	$ 49
Mortgage-backed securities	24,602	381	17,385	2,113	41,987	2,494
State and political subdivisions	31,525	742	23,514	2,355	55,039	3,097
Other securities			1,674	1,240	1,674	1,240
Total	$ 58,891	$ 1,170	$ 42,857	$ 5,710	$ 101,748	$ 6,880

	December 31, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government-sponsored enterprises	$ 2,385	$ 7	$	$	$ 2,385	$ 7
Mortgage-backed securities	32,915	906	52,000	2,611	84,915	3,517
State and political subdivisions	55,162	3,091	6,605	1,188	61,767	4,279
Other securities	1,152	157	1,721	1,066	2,873	1,223
Total	$ 91,614	$ 4,161	$ 60,326	$ 4,865	$ 151,940	$ 9,026

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4: Loans Receivable and Allowance for Loan Losses

The various categories of loans are summarized as follows:

	June 30, 2009	December 31, 2008
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 794,675	$ 816,603
Construction/land development	347,028	320,398
Agricultural	38,379	23,603
Residential real estate loans		
Residential 1-4 family	407,642	391,255
Multifamily residential	72,673	56,440
Total real estate	1,660,397	1,608,299
Consumer	41,814	46,615
Commercial and industrial	224,043	255,153
Agricultural	21,566	23,625
Other	24,884	22,540
Total loans receivable before allowance for loan losses	1,972,704	1,956,232
Allowance for loan losses	41,804	40,385
Total loans receivable, net	$ 1,930,900	$ 1,915,847

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

	2009	2008
	(In thousands)	
Balance, beginning of year	$ 40,385	$ 29,406
Additions		
Provision charged to expense	3,750	5,513
Allowance for loan loss of Centennial Bancshares, Inc.		3,382
Net (recoveries) loans charged off		
Losses charged to allowance, net of recoveries of $1,008 and $1,368 for the first six months of 2009 and 2008, respectively	2,331	1,738
Balance, June 30	$ 41,804	36,563
Additions		
Provision charged to expense		21,503
Net (recoveries) loans charged off		
Losses charged to allowance, net of recoveries of $133 for the last six months of 2008		17,681

Balance, end of year	$ 40,385

At June 30, 2009 and December 31, 2008, accruing loans delinquent 90 days or more totaled $5.3 million and $1.4 million, respectively. Non-accruing loans at June 30, 2009 and December 31, 2008 were $30.0 million and $28.5 million, respectively.

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The Company did not sell any of the guaranteed portions of SBA loans during 2009 or the second quarter of 2008. During the first quarter of 2008, the Company sold $1.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of $101,000.

Mortgage loans held for sale of approximately $14.0 million and $6.4 million at June 30, 2009 and December 31, 2008, 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, 2009 and December 31, 2008, impaired loans totaled $43.0 million and $31.5 million, respectively. As of June 30, 2009 and 2008, average impaired loans were $38.3 million and $24.5 million, respectively. All impaired loans had designated reserves for possible loan losses. Reserves relative to impaired loans were $12.7 million and $10.9 million at June 30, 2009 and December 31, 2008, respectively. Interest recognized on impaired loans during the six months ended June 30, 2009 and 2008 was $910,000 and $806,000, respectively.

5: Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company s goodwill and core deposits and other intangibles for the six-month period ended June 30, 2009 and for the year ended December 31, 2008, were as follows:

	June 30, 2009	December 31, 2008
	(In thousands)	
Goodwill		
Balance, beginning of period	$ 50,038	$ 37,527
Acquisition of Centennial Bancshares, Inc.	3,100	12,322
Prior Acquisition (deferred taxes)		189
Charter consolidation	(99)	
Balance, end of period	$ 53,039	$ 50,038

	2009	2008
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 6,547	$ 7,702
Acquisition of Centennial Bancshares, Inc.		694
Amortization expense	(925)	(925)
Balance, June 30	$ 5,622	7,471
Amortization expense		(924)
Balance, end of year		$ 6,547

The carrying basis and accumulated amortization of core deposits and other intangibles at June 30, 2009 and December 31, 2008 were:

	June 30, 2009	December 31, 2008
	(In thousands)	

Gross carrying amount	$ 14,151	$ 14,151
Accumulated amortization	8,529	7,604
Net carrying amount	$ 5,622	$ 6,547

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Core deposit and other intangible amortization for the six months ended June 30, 2009 and 2008 was approximately $925,000. Including all of the mergers completed, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2009 through 2013 is: 2009 $1.8 million; 2010 $1.8 million; 2011 $1.1 million; 2012 $619,000; and 2013 $619,000.

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

6: Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $506.9 million and $500.7 million at June 30, 2009 and December 31, 2008, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $3.5 million and $5.0 million for the three months ended June 30, 2009 and 2008, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $7.1 million and $10.7 million for the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009 and December 31, 2008, brokered deposits were $77.6 million and $111.0 million, respectively.

Deposits totaling approximately $223.6 million and $278.2 million at June 30, 2009 and December 31, 2008, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

7: Securities Sold Under Agreements to Repurchase

From time to time, primarily as a short-term financing arrangement for investment or liquidity purposes, the Company has entered into repurchase agreements with certain business customers. This involves the selling of one or more of the securities in the Company s investment portfolio and by entering into an agreement to repurchase that same security at an agreed upon later date. A rate of interest is paid by the Company for the subject period of time. At June 30, 2009 and December 31, 2008, securities sold under agreements to repurchase totaled $65.2 million and $113.4 million, respectively.

8: FHLB Borrowed Funds

The Company s FHLB borrowed funds were $277.6 million and $283.0 million at June 30, 2009 and December 31, 2008, respectively. These outstanding balances include no short-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 2.020% to 5.185% and are secured by loans and investments securities. The Company has one floating rate advance with a rate of 0.789%. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

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9: Subordinated Debentures

Subordinated Debentures at June 30, 2009 and December 31, 2008 consisted of guaranteed payments on trust preferred securities with the following components:

	June 30, 2009	December 31, 2008
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	$ 20,619	$ 20,619
Subordinated debentures, issued in 2000, due 2030, fixed at 10.60%, callable in 2010 with a penalty ranging from 5.30% to 0.53% depending on the year of prepayment, callable in 2020 without penalty	3,198	3,243
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty	5,155	5,155
Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2011 without penalty	3,093	3,093
Total subordinated debt	$ 47,530	$ 47,575

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.

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10: 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,	
	2009	2008	2009	2008
	(In thousands)			
Current:				
Federal	$ 454	$ 1,829	$ 3,876	$ 6,174
State	42	366	690	1,091
Total current	496	2,195	4,566	7,265
Deferred:				
Federal	1,440	315	454	(930)
State	286	43	91	(187)
Total deferred	1,726	358	545	(1,117)
Provision for income taxes	$ 2,222	$ 2,553	$ 5,111	$ 6,148

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,	
	2009	2008	2009	2008
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(7.57)	(4.97)	(6.77)	(4.17)
Cash value of life insurance	(2.62)	(2.18)	(2.19)	(2.01)
State income taxes, net of federal benefit	2.78	3.24	3.03	3.08
Other	1.41	0.02	1.36	0.32
Effective income tax rate	29.00%	31.11%	30.43%	32.22%

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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, 2009	December 31, 2008
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 16,303	$ 15,772
Deferred compensation	785	640
Stock options	528	514
Non-accrual interest income	901	358
Impairment of investment securities	39	2,364
Unrealized loss on securities	1,125	2,178
Net operating loss carryforward		119
Other	598	514
Gross deferred tax assets	20,279	22,459
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,327	2,519
Core deposit intangibles	2,140	2,486
FHLB dividends	847	843
Other	296	344
Gross deferred tax liabilities	5,610	6,192
Net deferred tax assets	$ 14,669	$ 16,267

11: Common Stock and Stock Compensation Plans

On July 16, 2008, our Board of Directors declared an 8% stock dividend which was paid August 27, 2008 to stockholders of record as of August 13, 2008. Except for fractional shares, the holders of our common stock received 8% additional common stock on August 27, 2008. The common stockholders did not receive fractional shares; instead they received cash at a rate equal to the closing price of a share on August 28, 2008 times the fraction of a share they otherwise would have been entitled to.

All share and per share amounts occurring before August 27, 2008 have been restated to reflect the retroactive effect of the stock dividend. After issuance, this stock dividend lowered our total capital position by approximately $13,000 as a result of the cash paid in lieu of fractional shares. Our financial statements reflect an increase in the number of outstanding shares of common stock, an increase in surplus and reduction of retained earnings.

On January 16, 2009, we issued and sold, and the United States Department of the Treasury purchased, (1) 50,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock Series A, liquidation preference of $1,000 per share, and (2) a ten-year warrant to purchase up to 288,129 shares of the Company s common stock, par value $0.01 per share, at an exercise price of $26.03 per share, for an aggregate purchase price of $50.0 million in cash. Cumulative dividends on the Preferred Shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter.

These preferred shares will qualify as Tier 1 capital. The preferred shares will be callable at par after three years. Prior to the end of three years, the preferred shares may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock. The Treasury must approve any quarterly cash dividend on our common stock above $0.06 per share or share repurchases until three years from the date of the investment

unless the shares are paid off in whole or transferred to a third party.

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The Company has a stock option and performance incentive plan. The purpose of the plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve our business results. This plan provides for the granting of incentive nonqualified options to purchase up to 1,620,000 (stock dividend adjusted) of common stock in the Company.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, is approximately $251,000 as of June 30, 2009. The intrinsic value of the stock options outstanding and stock options vested at June 30, 2009 was $7.2 million and $5.1 million, respectively. The intrinsic value of the stock options exercised during the three-month and six-month periods ended June 30, 2009 was approximately $542,000 and $607,000, respectively.

The table below summarized the transactions under the Company s stock option plans at June 30, 2009 and December 31, 2008 and changes during the six-month period and year then ended, respectively:

	For the Six Months Ended June 30, 2009		For the Year Ended December 31, 2008	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	1,069	$11.72	1,096	$11.12
Granted			51	19.47
Forfeited	(39)	12.18	(16)	11.57
Exercised	(43)	7.00	(60)	7.49
Expired			(2)	8.02
Outstanding, end of period	987	11.91	1,069	11.72
Exercisable, end of period	599	$10.59	592	$ 9.88

Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006, is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company s employee stock options. There were no options granted during the six-months ended June 30, 2009. The weighted-average fair value of options granted during the year-ended December 31, 2008, was $2.62. 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 the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Expected dividend yield	Not applicable	0.98%
Expected stock price volatility	Not applicable	3.13%
Risk-free interest rate	Not applicable	3.35%
Expected life of options	Not applicable	6.4 years

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The following is a summary of currently outstanding and exercisable options at June 30, 2009:

	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
$5.69 to $6.19	14	2.14	$ 5.85	13	$ 5.85
$6.79 to $7.71	174	3.24	6.85	174	6.85
$8.64 to $9.55	100	4.05	9.43	100	9.43
$10.50 to $10.81	52	6.04	10.59	52	10.59
$10.50 to $10.81	199	7.47	11.73	196	11.73
$12.20 to $12.20	298	6.71	12.20	3	12.20
$18.32 to $19.60	102	7.76	19.26	33	19.36
$20.35 to $20.48	21	7.82	20.43	6	20.42
$22.36 to $25.01	27	7.89	22.86	22	22.36
	987			599	

12. Non-Interest Expense

The table below shows the components of non-interest expense for three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Salaries and employee benefits	$ 8,432	$ 8,931	$ 17,376	$ 18,209
Occupancy and equipment	2,667	2,726	5,344	5,428
Data processing expense	844	833	1,651	1,619
Other operating expenses:				
Advertising	856	691	1,456	1,305
Merger expenses	896		1,638	
Amortization of intangibles	462	463	925	925
Amortization of mortgage servicing rights	218	147	365	294
Electronic banking expense	889	823	1,752	1,575
Directors fees	237	231	521	462
Due from bank service charges	107	82	207	144
FDIC and state assessment	1,949	429	2,914	801
Insurance	271	235	568	463
Legal and accounting	368	316	803	596
Mortgage servicing expense	78	74	150	161
Other professional fees	250	444	509	1,277
Operating supplies	192	245	405	489
Postage	173	188	349	368
Telephone	181	233	359	464

Other expense	1,228	1,406	2,298	2,600
Total other operating expenses	8,355	6,007	15,219	11,924
Total non-interest expense	$ 20,298	$ 18,497	$ 39,590	$ 37,180

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13: Concentration of Credit Risks

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

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

14: Significant Estimates and Concentrations

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

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, capital that could negatively impact the Company s ability to meet regulatory capital requirements and maintain sufficient liquidity.

15: 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, 2009 and December 31, 2008, commitments to extend credit of $276.6 million and $351.2 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, 2009 and December 31, 2008, is $15.7 million and $18.0 million, respectively.

The Company and/or its subsidiary bank 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.

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16: Regulatory Matters

The Bank is 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 Bank is 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. During the first six months of 2009, the Company did not request any dividends form its banking subsidiary. Beginning in the third quarter of 2009, the Company anticipates it will request a dividend equal to 50% of the current year earnings for the last half of the year. This anticipated dividend is within the regulatory agency s dividend levels.

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, 2009, the Bank 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 13.21%, 15.07%, and 16.32%, respectively, as of June 30, 2009.

17: Additional Cash Flow Information

In connection with the Centennial Bancshares, Inc. acquisition accounting for using the purchase method, the Company acquired approximately $241.5 million in assets, assumed $218.9 million in liabilities, issued $24.3 million of equity and received net funds of $1.7 million during 2008. On March 11, 2009, the Company settled the contingent consideration for $3.1 million which was paid to the Centennial stockholders in cash. The following is summary of the Company s additional cash flow information during the three and six months ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Interest paid	$10,513	$14,934	$21,810	$33,374
Income taxes paid		10,100		10,750
Assets acquired by foreclosure	2,969	872	12,394	1,164

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18: Financial Instruments

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available for sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company s securities are considered to be Level 2 securities. These Level 2 securities consist of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. At the beginning of the year 2008, our Level 3 securities included two investment securities which became worthless during the year. As a result, we wrote them down by $5.9 million in 2008 to a value of zero. As of year end 2008 and June 30, 2009, Level 3 securities were immaterial.

Impaired loans are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan s existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Impaired loans, net of specific allowance, were $30.3 million and $20.6 million as of June 30, 2009 and December 31, 2008, respectively. This valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 2 inputs based on observable market data. As of June 30, 2009 and December 31, 2008, the fair value of foreclosed assets held for sale, less estimated costs to sell was $17.6 million and $6.8 million, respectively.

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Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed in these notes:

Cash and cash equivalents and federal funds sold For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Loans receivable, net For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Accrued interest receivable The carrying amount of accrued interest receivable approximates its fair value.

Deposits and securities sold under agreements to repurchase The fair values of demand, savings deposits and securities sold under agreements to repurchase are, by definition, equal to the amount payable on demand and therefore approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

Federal funds purchased The carrying amount of federal funds purchased approximates its fair value.

Accrued interest payable The carrying amount of accrued interest payable approximates its fair value.

FHLB and other borrowed funds For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term debt is estimated based on the current rates available to the Company for debt with similar terms and remaining maturities.

Subordinated debentures The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities.

Commitments to extend credit, letters of credit and lines of credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents the estimated fair values of the Company s financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

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	June 30, 2009	
	Carrying Amount	Fair Value
	(In thousands)	
Financial assets:		
Cash and cash equivalents	$ 46,084	$ 46,084
Federal funds sold	31,805	31,805
Net loans receivable, net of impaired loans	1,900,641	1,899,595
Accrued interest receivable	12,840	12,840
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	$ 294,339	$ 294,339
Savings and interest-bearing transaction accounts	661,387	661,387
Time deposits	876,339	883,378
Federal funds purchased		
Securities sold under agreements to repurchase	65,232	65,232
FHLB and other borrowed funds	277,640	280,149
Accrued interest payable	4,577	4,577
Subordinated debentures	47,530	61,869

	December 31, 2008	
	Carrying Amount	Fair Value
	(In thousands)	
Financial assets:		
Cash and cash equivalents	$ 54,168	$ 54,168
Federal funds sold	7,865	7,865
Net loans receivable, net of impaired loans	1,895,273	1,891,254
Accrued interest receivable	13,115	13,115
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	$ 249,349	$ 249,349
Savings and interest-bearing transaction accounts	656,758	656,758
Time deposits	941,801	952,758
Federal funds purchased		
Securities sold under agreements to repurchase	113,389	113,389
FHLB and other borrowed funds	282,975	287,280
Accrued interest payable	4,888	4,888
Subordinated debentures	47,575	59,623

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19: Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141(R), Business Combinations, which established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133. SFAS 161 amended and expanded the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. SFAS 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements**.** The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

On April 9, 2009, the FASB finalized three FASB Staff Positions (FSPs) regarding the accounting treatment for investments including mortgage-backed securities. These FSPs changed the method for determining if an other-than-temporary impairment (OTTI) exists and the amount of OTTI to be recorded through an entity s income statement. The changes brought about by the FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

FSP *SFAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157, *Fair Value Measurements.*

FSP *SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-temporary Impairments* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

FSP *SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments* enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

The adoption of these FSP s did not have a material effect on the Company s results of operations or financial position.

In May 2009, FASB issued SFAS No. 165 *Subsequent Events*, with the objective to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 on June 30, 2009, did not have an impact on the Company s consolidated financial statements.

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In June 2009, FASB issued SFAS No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. SFAS No. 166 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it have a material effect on the Company s financial position or results of operation.

In June 2009, FASB issued SFAS No. 167 *Amendments to FASB Interpretation No. 46(R)*. The objective of SFAS 167 is to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it have a material effect on the Company s financial position or results of operation.

20. Subsequent Events

Subsequent events have been evaluated through August 5, 2009, which is the date the financial statements were issued.

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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, 2009 and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2009 and 2008 and statements of stockholders equity and cash flows for the six-month periods ended June 30, 2009 and 2008. 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, 2008 and the related consolidated statements of income, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2009, 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, 2008 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 5, 2009

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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 our Form 10-K, filed with the Securities and Exchange Commission on March 6, 2009, which includes the audited financial statements for the year ended December 31, 2008. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary. As of June 30, 2009, we had, on a consolidated basis, total assets of $2.58 billion, loans receivable of $1.97 billion, total deposits of $1.83 billion, and stockholders equity of $343.4 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 common 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. Per share amounts for June 30, 2008 have been adjusted for the 8% stock dividend which occurred in August of 2008.

Key Financial Measures

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands, except per share data)			
Total assets	$2,579,926	$2,611,619	$2,579,926	$2,611,619
Loans receivable	1,972,704	1,951,272	1,972,704	1,951,272
Total deposits	1,832,065	1,901,803	1,832,065	1,901,803
Net income	5,441	5,654	11,686	12,932
Net income available to common stockholders	4,771	5,654	10,450	12,932
Basic earnings per common share	0.24	0.29	0.53	0.66
Diluted earnings per common share	0.24	0.28	0.52	0.64
Diluted cash earnings per common share (1)	0.25	0.29	0.55	0.66
Annualized net interest margin FTE	4.08%	3.89%	4.01%	3.83%
Efficiency ratio	62.70	64.04	62.44	57.33
Annualized return on average assets	0.84	0.89	0.91	1.02
Annualized return on average common equity	6.53	7.91	7.26	9.12

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

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Overview

Results of Operations for Three Months Ended June 30, 2009 and 2008

Our net income decreased 3.8% to $5.4 million for the three-month period ended June 30, 2009, from $5.7 million for the same period in 2008. On a diluted earnings per share basis, our net earnings decreased 14.3% to $0.24 for the three-month period ended June 30, 2009, as compared to $0.28 (stock dividend adjusted) for the same period in 2008.

During the three months ended June 30, 2009, we incurred merger expenses and a special assessment from the FDIC. Excluding the $1.3 million after tax or $0.06 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the three-month period ended June 30, 2009 were $6.7 million and $0.30, respectively.

During the three months ended June 30, 2008, we conducted an efficiency study and incurred an investment security impairment. Excluding the $1.4 million after tax or $0.07 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the three-month period ended June 30, 2008 were $7.0 million and $0.35, respectively.

The $341,000 decrease in core earnings is primarily associated with the higher provision for loan losses, recurring increase in FDIC and state assessment fees and lower dividend yields offset by a 19 basis point increase in net interest margin, reduced salaries and employee benefits and improving fees in non-interest income

Our annualized return on average assets was 0.84% for the three months ended June 30, 2009, compared to 0.89% the same period in 2008, respectively. Our annualized return on average common equity was 6.53% for the three months ended June 30, 2009, compared to 7.91% for the same period in 2008, respectively.

Excluding the after tax $1.3 million and the after tax $1.4 million of non-core expenses in 2009 and 2008, respectively, our core return on average assets would have been 1.05% and 1.11% for the three months ended June 30, 2009 and 2008, respectively. While our core return on average common equity would have been 8.24% and 9.84% for the three months ended June 30, 2009 and 2008, respectively. These 2009 lower ratio s were primarily due to the previously discussed changes in core earnings for the three month period ended June 30, 2009, compared to the same period in 2008.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.08% for the three months ended June 30, 2009, compared to 3.89% for the same period in 2008, respectively. Our ability to improve pricing on our deposits and hold down the decline of interest rates on loans combined with the proceeds from our issuance of $50.0 million of Fixed Rate Cumulative Perpetual Preferred Stock Series A to the United States Department of Treasury under the Capital Purchase Program allowed the Company to expand net interest margin.

Our efficiency ratio was 62.70% for the three months ended June 30, 2009, compared to 64.04% for the same period in 2008. Excluding the after tax $1.3 million and the after tax $1.4 million of non-core expenses in 2009 and 2008, respectively, our efficiency ratio would have been 56.20% and 59.00% for the three months ended June 30, 2009 and 2008, respectively. This positive progress was primarily due to our ability to raise net interest margin and the continued improvement of our overall operations.

Results of Operations for Six Months Ended June 30, 2009 and 2008

Our net income decreased 9.6% to $11.7 million for the six-month period ended June 30, 2009, from $12.9 million for the same period in 2008. On a diluted earnings per share basis, our net earnings decreased 18.8% to $0.52 for the six-month period ended June 30, 2009, as compared to $0.64 (stock dividend adjusted) for the same period in 2008.

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During the first six months of 2009, we incurred merger expenses and a special assessment from the FDIC. Excluding the $1.7 million after tax or $0.08 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the six-month period ended June 30, 2009 were $13.4 million and $0.60, respectively.

During the first six months of 2008, we sold our investment in White River Bancshares, conducted an efficiency study and incurred an investment security impairment. Excluding the $2.0 million after tax or $0.10 diluted earnings per share positive combined impact of these three non-core items, core net income and core diluted earnings per common share for the six-month period ended June 30, 2008 were $10.9 million and $0.54, respectively.

The $2.5 million increase in core earnings is primarily associated with the lower provision for loan losses, a 18 basis point increase in net interest margin, reduced salaries and employee benefits and improving fees in non-interest income offset by the recurring increase in FDIC and state assessment fees and lower dividend yields.

Our annualized return on average assets was 0.91% for the six months ended June 30, 2009, compared to 1.02% for the same period in 2008, respectively. Our annualized return on average common equity was 7.26% for the six months ended June 30, 2009, compared to 9.12% for the same period in 2008, respectively.

Excluding the after tax $1.7 million of non-core expenses in 2009 and the after tax $2.0 million of combined net non-core earnings in 2008, our core return on average assets would have been 1.04% and 0.86% for the six months ended June 30, 2009 and 2008, respectively. While our core return on average common equity would have been 8.45% and 7.76% for the six months ended June 30, 2009 and 2008, respectively. The 2009 improvements were primarily due to the previously discussed changes in core earnings for the six month period ended June 30, 2009, compared to the same period in 2008.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.01% for the six months ended June 30, 2009, compared to 3.83% for the same period in 2008, respectively. Our ability to improve pricing on our deposits and hold down the decline of interest rates on loans combined with the proceeds from our issuance of $50.0 million of Fixed Rate Cumulative Perpetual Preferred Stock Series A to the United States Department of Treasury under the Capital Purchase Program allowed the Company to expand net interest margin.

Our efficiency ratio was 62.44% for the six months ended June 30, 2009, compared to 57.33% for the same period in 2008. Excluding the after tax $1.7 million of non-core expenses in 2009 and the after tax $2.0 million of combined net non-core earnings in 2008, our efficiency ratio would have been 57.92% and 59.78% for the six months ended June 30, 2009 and 2008, respectively. This positive progress was primarily due to our ability to raise net interest margin and the continued improvement of our overall operations.

Financial Condition as of and for the Period Ended June 30, 2009 and December 31, 2008

Our total assets as of June 30, 2009 were effectively unchanged from the $2.58 billion reported as of December 31, 2008. Our loan portfolio increased slightly by $16.5 million, an annualized growth of 1.7%, to $1.97 billion as of June 30, 2009, from $1.96 billion as of December 31, 2008. Stockholders equity increased $60.3 million to $343.4 million as of June 30, 2009, compared to $283.0 million as of December 31, 2008. The increase in stockholders equity is primarily associated with the issuance of $50.0 million of preferred stock to the United States Department of Treasury combined with retained earnings for the first six months of 2009. Excluding the issuance of the $50.0 million of preferred stock the annualized growth in stockholders equity for the first six months of 2009 was 7.3%

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As of June 30, 2009, our non-performing loans increased to $35.3 million, or 1.79%, of total loans from $29.9 million, or 1.53%, of total loans as of December 31, 2008. The allowance for loan losses as a percent of non-performing loans decreased to 119% as of June 30, 2009, compared to 135% from December 31, 2008. Unfavorable economic conditions continue in the Florida market. Non-performing loans in Florida were $24.1 million at June 30, 2009 compared to $17.3 million as of December 31, 2008.

As of June 30, 2009, our non-performing assets increased to $52.9 million, or 2.05%, of total assets from $36.7 million, or 1.42%, of total assets as of December 31, 2008. The increase in non-performing assets is primarily the result of the struggling economy, particularly Florida. Non-performing assets in Florida were $37.2 million at June 30, 2009 compared to $22.0 million as of December 31, 2008.

Critical Accounting Policies

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

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

Investments. Securities available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders 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, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

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

We consider a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms thereof. We apply this policy even if delays or shortfalls in payments are expected to be insignificant. 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.

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

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

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.

Stock Options. In accordance with FASB Statement No. 123, Share-Based Payment (Revised 2004) (SFAS No. 123R), the fair value of each option award is estimated on the date of grant. The Company recognizes compensation expense for the grant-date fair value of the option award over the vesting period of the award.

Acquisitions and Equity Investments

On January 1, 2008, we acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of $234.1 million, loans of $192.8 million and total deposits of $178.8 million on the date of acquisition. The consideration for the merger was $25.4 million, which was paid approximately 4.6%, or $1.2 million in cash and 95.4%, or $24.3 million, in shares of our common stock. In connection with the acquisition, $3.0 million of the purchase price, consisting of $139,000 in cash and 140,456 shares (stock dividend adjusted) of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in $1.0 million of the escrow proceeds being released. In addition to the consideration given at the time of the merger, the merger agreement provided for additional contingent consideration to Centennial s stockholders of up to a maximum of $4 million, which could be paid in cash or our common stock at the election of the former Centennial accredited stockholders, based upon the 2008 earnings performance. The final contingent consideration was computed and agreed upon in the amount of $3.1 million on March 11, 2009. We paid this amount to the former Centennial stockholders on a pro rata basis on March 12, 2009. All of the former Centennial stockholders elected to receive the contingent consideration in cash. As a result of this transaction, we recorded total goodwill of $15.4 million and a core deposit intangible of $694,000.

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In our continuing evaluation of our growth plans for the Company, we believe properly priced bank acquisitions can complement our organic growth and de novo branching growth strategies. The Company s acquisition focus will be to expand in its primary market areas of Arkansas and Florida. We are continually evaluating potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Branches

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 2009, we opened a branch location in the Arkansas community of Heber Springs. Presently, we are evaluating additional opportunities but have no firm commitments for any additional de novo branch locations.

As a result of the evaluation process for cost saving opportunities under the efficiency study, three existing Arkansas branches were closed during the second quarter of 2009. The locations closed were located in New Edinburg, Kingsland and one of our two Heights neighborhood locations in Little Rock.

Charter Consolidation

In July 2008, management of Home BancShares, Inc. approved the combining of all six of the Company s individually charted banks into one charter. All of the banks would adopt Centennial Bank as their common name.

In the fourth quarter of 2008, First State Bank and Marine Bank consolidated and adopted Centennial Bank as its new name. Community Bank and Bank of Mountain View were completed in the first quarter of 2009, and Twin City Bank and the original Centennial Bank finished the process in June of 2009. All of the banks now have the same name, logo and charter allowing for a more customer-friendly banking experience and seamless transactions across our entire banking network. We remain committed to our community banking philosophy and will continue to rely on local management and boards of directors.

Holding Company Status

During the second quarter of 2008, we changed from a financial holding company to a bank holding company. Since we were not utilizing any of the additional permitted activities allowed to our financial holding company status, this will not change any of our current business practices.

Results of Operations

For Three Months Ended June 30, 2009 and 2008

Our net income decreased 3.8% to $5.4 million for the three-month period ended June 30, 2009, from $5.7 million for the same period in 2008. On a diluted earnings per share basis, our net earnings decreased 14.3% to $0.24 for the three-month period ended June 30, 2009, as compared to $0.28 (stock dividend adjusted) for the same period in 2008.

During the three months ended June 30, 2009, we incurred merger expenses and a special assessment from the FDIC. Excluding the $1.3 million after tax or $0.06 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the three-month period ended June 30, 2009 were $6.7 million and $0.30, respectively.

During the three months ended June 30, 2008, we conducted an efficiency study and incurred an investment security impairment. Excluding the $1.4 million after tax or $0.07 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the three-month period ended June 30, 2008 were $7.0 million and $0.35, respectively.

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The $341,000 decrease in core earnings is primarily associated with the higher provision for loan losses, recurring increase in FDIC and state assessment fees and lower dividend yields offset by a 19 basis point increase in net interest margin, reduced salaries and employee benefits and improving fees in non-interest income

For Six Months Ended June 30, 2009 and 2008

Our net income decreased 9.6% to $11.7 million for the six-month period ended June 30, 2009, from $12.9 million for the same period in 2008. On a diluted earnings per share basis, our net earnings decreased 18.8% to $0.52 for the six-month period ended June 30, 2009, as compared to $0.64 (stock dividend adjusted) for the same period in 2008.

During the first six months of 2009, we incurred merger expenses and a special assessment from the FDIC. Excluding the $1.7 million after tax or $0.08 diluted earnings per share negative impact of these two non-core items, core net income and core diluted earnings per common share for the six-month period ended June 30, 2009 were $13.4 million and $0.60, respectively.

During the first six months of 2008, we sold our investment in White River Bancshares, conducted an efficiency study and incurred an investment security impairment. Excluding the $2.0 million after tax or $0.10 diluted earnings per share positive combined impact of these three non-core items, core net income and core diluted earnings per common share for the six-month period ended June 30, 2008 were $10.9 million and $0.54, respectively.

The $2.5 million increase in core earnings is primarily associated with the lower provision for loan losses, a 18 basis point increase in net interest margin, reduced salaries and employee benefits and improving fees in non-interest income offset by the recurring increase in FDIC and state assessment fees and lower dividend yields.

Net Interest Income

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began in 2008 at 4.25%. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008, 75 basis points on March 18, 2008, 25 basis points on April 30, 2008 and 50 basis points to a rate of 1.50% as of October 8, 2008. The rate continued to fall 50 basis points on October 29, 2008 and 75 to 100 basis points to a low of 0.25% to 0% on December 16, 2008.

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Net interest income on a fully taxable equivalent basis increased $1.1 million, or 5.12%, to $23.6 million for the three-month period ended June 30, 2009, from $22.5 million for the same period in 2008. This increase in net interest income was the result of a $3.4 million decrease in interest income combined with a $4.5 million decrease in interest expense. The $3.4 million decrease in interest income was primarily the result of the repricing of our earning assets in the declining interest rate environment offset by organic growth of our bank subsidiary. The repricing of our earning assets in the declining interest rate environment resulted in a $3.8 million decrease in interest income while the higher level of earning assets resulted in an improvement in interest income of $474,000, for the three-month period ended June 30, 2009. The $4.5 million decrease in interest expense for the three-month period ended June 30, 2009, is primarily the result our interest bearing liabilities repricing in the declining interest rate environment combined with a reduction in our interest bearing liabilities. Our issuance of $50.0 million of preferred stock to the United States Department of Treasury allowed us to reduce our interest bearing liabilities. The repricing of our interest bearing liabilities in the declining interest rate environment resulted in a $4.2 million decrease in interest expense. The reduction of our interest bearing liabilities resulted in lower interest expense of $362,000.

Net interest income on a fully taxable equivalent basis increased $2.3 million, or 5.18%, to $46.3 million for the six-month period ended June 30, 2009, from $44.0 million for the same period in 2008. This increase in net interest income was the result of a $8.5 million decrease in interest income combined with a $10.8 million decrease in interest expense. The $8.5 million decrease in interest income was primarily the result of the repricing of our earning assets in the declining interest rate environment offset by organic growth of our bank subsidiary. The repricing of our earning assets in the declining interest rate environment resulted in a $10.3 million decrease in interest income while the higher level of earning assets resulted in an improvement in interest income of $1.8 million, for the six-month period ended June 30, 2009. The $10.8 million decrease in interest expense for the six-month period ended June 30, 2009, is primarily the result our interest bearing liabilities repricing in the declining interest rate environment combined with a reduction in our interest bearing liabilities. Our issuance of $50.0 million of preferred stock to the United States Department of Treasury allowed us to reduce our interest bearing liabilities. The repricing of our interest bearing liabilities in the declining interest rate environment resulted in a $10.3 million decrease in interest expense. The reduction of our interest bearing liabilities resulted in lower interest expense of $493,000.

Net interest margin, on a fully taxable equivalent basis, was 4.08% and 4.01% for the three and six months ended June 30, 2008 compared to 3.89% and 3.83% for the same periods in 2007, respectively. Our ability to improve pricing on our deposits and hold the decline of interest rates on loans to a minimum combined with the proceeds from our issuance of $50.0 million of preferred stock to the United States Department of Treasury allowed the Company to expand net interest margin. The issuance of the preferred stock increased net interest margin by approximately 6 basis points for 2009.

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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, 2009 and 2008, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2009, compared to the same periods in 2008.

Table 1: Analysis of Net Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Interest income	$ 32,996	$ 36,540	$ 66,104	$ 74,936
Fully taxable equivalent adjustment	923	752	1,788	1,468
Interest income fully taxable equivalent	33,919	37,292	67,892	76,404
Interest expense	10,275	14,799	21,572	32,364
Net interest income fully taxable equivalent	$ 23,644	$ 22,493	$ 46,320	$ 44,040
Yield on earning assets fully taxable equivalent	5.85%	6.44%	5.87%	6.65%
Cost of interest-bearing liabilities	2.11	2.94	2.20	3.22
Net interest spread fully taxable equivalent	3.74	3.50	3.67	3.43
Net interest margin fully taxable equivalent	4.08	3.89	4.01	3.83

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended June 30, 2009 vs. 2008	Six Months Ended June 30, 2009 vs. 2008
	(In thousands)	
Increase in interest income due to change in earning assets	$ 474	$ 1,819
Decrease in interest income due to change in earning asset yields	3,847	10,331
Decrease in interest expense due to change in interest-bearing liabilities	362	493
Decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	4,162	10,299
Increase in net interest income	$ 1,151	$ 2,280

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Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three-month and six-month periods ended June 30, 2009 and 2008. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended June 30,					
	2009			2008		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 5,854	$ 8	0.55%	$ 5,093	$ 37	2.92%
Federal funds sold	11,513	4	0.14	19,138	99	2.08
Investment securities taxable	209,597	2,252	4.31	276,903	2,996	4.35
Investment securities non-taxable	120,364	2,146	7.15	111,082	1,894	6.86
Loans receivable	1,979,837	29,509	5.98	1,915,404	32,266	6.78
Total interest-earning assets	2,327,165	33,919	5.85	2,327,620	37,292	6.44
Non-earning assets	263,118			241,757		
Total assets	$ 2,590,283			$ 2,569,377		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 674,055	$ 1,176	0.70%	$ 698,084	$ 2,766	1.59%
Time deposits	872,895	5,955	2.74	924,671	8,853	3.85
Total interest-bearing deposits	1,546,950	7,131	1.85	1,622,755	11,619	2.88
Federal funds purchased	5,103	2	0.16	3,396	20	2.37
Securities sold under agreement to repurchase	72,037	124	0.69	108,589	367	1.36
FHLB borrowed funds	277,702	2,359	3.41	242,809	2,059	3.41
Subordinated debentures	47,543	659	5.56	47,633	734	6.20

Total interest-bearing liabilities	1,949,335	10,275	2.11	2,025,182	14,799	2.94
Non-interest bearing liabilities						
Non-interest bearing deposits	285,637			242,148		
Other liabilities	13,219			14,493		
Total liabilities	2,248,191			2,281,823		
Stockholders equity	342,092			287,554		
Total liabilities and stockholders equity	$ 2,590,283			$ 2,569,377		
Net interest spread			3.74%			3.50%
Net interest income and margin		$ 23,644	4.08%		$ 22,493	3.89%

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Table 3: Average Balance Sheets and Net Interest Income Analysis

	Six Months Ended June 30,					
	2009			2008		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 7,221	$ 20	0.56%	$ 5,245	$ 92	3.53%
Federal funds sold	12,673	11	0.18	20,919	265	2.55
Investment securities taxable	220,130	4,905	4.49	300,502	6,758	4.52
Investment securities non-taxable	118,723	4,210	7.15	110,198	3,720	6.79
Loans receivable	1,973,420	58,746	6.00	1,873,371	65,569	7.04
Total interest-earning assets	2,332,167	67,892	5.87	2,310,235	76,404	6.65
Non-earning assets	262,071			249,719		
Total assets	$ 2,594,238			$ 2,559,954		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 670,687	$ 2,461	0.74%	$ 674,159	$ 6,171	1.84%
Time deposits	893,087	12,788	2.89	921,009	18,970	4.14
Total interest-bearing deposits	1,563,774	15,249	1.97	1,595,168	25,141	3.17
Federal funds purchased	4,450	4	0.18	4,987	89	3.59
Securities sold under agreement to repurchase	78,348	235	0.60	113,007	955	1.70
FHLB borrowed funds	279,280	4,749	3.43	259,583	4,634	3.59
Subordinated debentures	47,554	1,335	5.66	47,645	1,545	6.52
Total interest-bearing liabilities	1,973,406	21,572	2.20	2,020,390	32,364	3.22
Non-interest bearing liabilities	275,175			239,588		

Non-interest bearing deposits						
Other liabilities	10,517			14,825		
Total liabilities	2,259,098			2,274,803		
Stockholders equity	335,140			285,151		
Total liabilities and stockholders equity	$ 2,594,238			$ 2,559,954		
Net interest spread			3.67%			3.43%
Net interest income and margin		$ 46,320	4.01%		$ 44,040	3.83%

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month and six-month periods ended June 30, 2009 compared to the same periods in 2008, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

	Three Months Ended June 30, 2009 over 2008			Six Months Ended June 30, 2009 over 2008		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 5	$ (34)	$ (29)	$ 26	$ (98)	$ (72)
Federal funds sold	(28)	(67)	(95)	(75)	(179)	(254)
Investment securities taxable	(723)	(21)	(744)	(1,792)	(61)	(1,853)
Investment securities non-taxable	163	89	252	296	194	490
Loans receivable	1,057	(3,814)	(2,757)	3,364	(10,187)	(6,823)
Total interest income	474	(3,847)	(3,373)	1,819	(10,331)	(8,512)
Interest expense:						
Interest-bearing transaction and savings deposits	(92)	(1,498)	(1,590)	(32)	(3,678)	(3,710)
Time deposits	(473)	(2,425)	(2,898)	(559)	(5,623)	(6,182)
Federal funds purchased	7	(25)	(18)	(9)	(76)	(85)
Securities sold under agreement to repurchase	(99)	(144)	(243)	(232)	(488)	(720)
FHLB borrowed funds	296	4	300	342	(227)	115
Subordinated debentures	(1)	(74)	(75)	(3)	(207)	(210)
Total interest expense	(362)	(4,162)	(4,524)	(493)	(10,299)	(10,792)
Increase (decrease) in net interest income	$ 836	$ 315	$ 1,151	$ 2,312	$ (32)	$ 2,280

Provision for Loan Losses

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

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

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

During the first quarter of 2008, we began to experience a decline in our asset quality, particularly in the Florida market. In 2008, non-performing loans started the year at $3.3 million but ended the second quarter at $12.2 million and ended the year with a balance of $29.9 million. As of June 30, 2009, non-performing loans are $35.3 million.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. Our provision for loan losses increased $2.0 million, or 290.6%, to $2.8 million for the three-month period ended June 30, 2009, from $704,000 for the same period in 2008. Our provision for loan losses decreased $1.8 million, or 32.0%, to $3.8 million for the six-month period ended June 30, 2009, from $5.5 million for the same period in 2008. The provision for loan losses in our Florida market was approximately $2.5 million and $3.0 million for the three and six months ended June 30, 2009, respectively. The deterioration of the loan portfolio during this time required us to make these provisions to the allowance for loan loss to provide for charge-offs and problem credits.

Non-Interest Income

Total non-interest income was $8.0 million for the three-month period ended June 30, 2009 compared to $5.7 million for the same period in 2008. Total non-interest income was $15.6 million for the six-month period ended June 30, 2009 compared to $19.2 million for the same period in 2008. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, data processing, mortgage lending, mortgage servicing, insurance, title fees, increase in cash value of life insurance and dividends.

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Table 5 measures the various components of our non-interest income for the three-month and six month periods ended June 30, 2009 and 2008, respectively, as well as changes for the three-month and six-month periods ended June 30, 2009 compared to the same periods in 2008.

Table 5: Non-Interest Income

	Three Months Ended June 30,		2009 Change from 2008		Six Months Ended June 30,		2009 Change from 2008	
	2009	2008			2009	2008		
	(Dollars in thousands)							
Service charges on deposit accounts	$ 3,633	$ 3,352	$ 281	8.4%	$ 7,007	$ 6,449	$ 558	8.7%
Other service charges and fees	1,841	1,699	142	8.4	3,625	3,462	222	6.5
Data processing fees	134	225	(91)	(40.4)	320	435	(115)	(26.4)
Mortgage lending income	815	706	109	15.4	1,695	1,338	248	17.1
Mortgage servicing income	191	217	(26)	(12.0)	391	448	(57)	(12.7)
Insurance commissions	198	184	14	7.6	455	456	(1)	(0.2)
Income from title services	151	189	(38)	(20.1)	291	357	(66)	(18.5)
Increase in cash value of life insurance	574	513	61	11.9	1,051	1,098	(47)	(4.3)
Dividends from FHLB, FRB & bankers bank	99	227	(128)	(56.4)	206	508	(302)	(59.4)
Equity in income (loss) of unconsolidated affiliates				0.0		102	(102)	(100.0)
Gain on sale of equity investment				0.0		6,102	(6,102)	(100.0)
Gain on sale of SBA loans				0.0		101	(101)	(100.0)
Gain (loss) on sale of premises and equipment, net	(19)		(19)	100.0	(12)	(2)	(10)	500.0
Gain (loss) on OREO, net	(28)	(50)	22	(44.0)	(145)	(430)	285	(66.3)
Gain (loss) on securities, net	(3)	(2,067)	2,064	(99.9)	(3)	(2,067)	2,064	(99.9)
Other income	404	472	(68)	(14.4)	724	844	(70)	(8.8)
Total non-interest income	$ 7,990	$ 5,667	$ 2,323	41.0%	$ 15,605	$ 19,201	$ (3,596)	(18.7)%

Non-interest income increased $2.3 million, or 41.0%, to $8.0 million for the three-month period ended June 30, 2009 from $5.7 million for the same period in 2008. Excluding the $2.1 million impairment loss on securities during the second quarter of 2008, we experienced an increase in core non-interest income of 256,000 or 3.3% for the second quarter of 2009.

Non-interest income decreased $3.6 million, or 18.7%, to $15.6 million for the six-month period ended June 30, 2009 from $19.2 million for the same period in 2008. Excluding the $2.1 million impairment loss on securities and the sale of our investment in White River Bancshares during 2008, we experienced an increase in core non-interest income of 541,000 or 3.6% for 2009.

The primary factors that resulted in these increases are an improved fee process for service charges on deposit accounts, increased mortgage lending associated with home owners refinancing in the current lower interest rate environment and reduced losses on OREO offset by lower dividend yields.

Non-Interest Expense

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

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Table 6 below sets forth a summary of non-interest expense for the three-month and six-month periods ended June 30, 2009 and 2008, as well as changes for the three-month and six-month periods ended June 30, 2009 compared to the same periods in 2008.

Table 6: Non-Interest Expense

	Three Months Ended June 30,		2009 Change from 2008		Six Months Ended June 30,		2009 Change from 2008	
	2009	2008			2009	2008		
	(Dollars in thousands)							
Salaries and employee benefits	$ 8,432	$ 8,931	$ (499)	(5.6)%	$ 17,376	$ 18,209	$ (833)	(4.6)%
Occupancy and equipment	2,667	2,726	(59)	(2.2)	5,344	5,428	(84)	(1.5)
Data processing expense	844	833	11	1.3	1,651	1,619	32	2.0
Other operating expenses:								
Advertising	856	691	165	23.9	1,456	1,305	151	11.6
Merger expenses	896		896	100.0	1,638		1,638	100.0
Amortization of intangibles	462	463	(1)	(0.2)	925	925		0.0
Amortization of mortgage servicing rights	218	147	71	48.3	365	294	71	24.1
Electronic banking expense	889	823	66	8.0	1,752	1,575	177	11.2
Directors fees	237	231	6	2.6	521	462	59	12.8
Due from bank service charges	107	82	25	30.5	207	144	63	43.8
FDIC and state assessment	1,949	429	1,520	354.3	2,914	801	2,113	263.8
Insurance	271	235	36	15.3	568	463	105	22.7
Legal and accounting	368	316	52	16.5	803	596	207	34.7
Mortgage servicing expense	78	74	4	5.4	150	161	(11)	(6.8)
Other professional fees	250	444	(194)	(43.7)	509	1,277	(768)	(60.1)
Operating supplies	192	245	(53)	(21.6)	405	489	(84)	(17.2)
Postage	173	188	(15)	(8.0)	349	368	(19)	(5.2)
Telephone	181	233	(52)	(22.3)	359	464	(105)	(22.6)
Other expense	1,228	1,406	(178)	(12.7)	2,298	2,600	(302)	(11.6)
Total non-interest expense	$ 20,298	$ 18,497	$ 1,801	9.7%	$ 39,590	$ 37,180	$ 2,410	6.5%

The Board of Directors of the FDIC have increased insured institutions normal recurring assessment and imposed a special assessment. These increased assessment fees are in response to the current banking crisis in the United States.

Non-interest expense increased $1.8 million, or 9.7%, to $20.3 million for the three-month period ended June 30, 2009, from $18.5 million for the same period in 2008. During the three months ended June 30, 2009, we incurred $896,000 of merger expenses and a $1.2 million for the special assessment from the FDIC. During the three months ended June 30, 2008, we conducted an efficiency study for $200,000. Excluding these non-core items, core non-interest expense was $18.2 million for the three months ended June 30, 2009 compared to $18.3 million for the same period in 2008. This slight decrease is associated with the partial implementation of the efficiency study, particularly in $499,000 of reduced personnel costs. However, this progress was offset by the $432,000 recurring increase in FDIC and state assessment fees and the normal increase in cost of doing business.

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Non-interest expense increased $2.4 million, or 6.5%, to $39.6 million for the six-month period ended June 30, 2009, from $37.2 million for the same period in 2008. During the six months ended June 30, 2009, we incurred $1.6 million of merger expenses and a $1.2 million for the special assessment from the FDIC. During the six months ended June 30, 2008, we conducted an efficiency study for $860,000. Excluding these non-core items, core non-interest expense was $36.8 million for the six months ended June 30, 2009 compared to $36.3 million for the same period in 2008. This 1.3% increase is the result of the $1.1 million recurring increase in FDIC and state assessment fees and the normal increase in cost of doing business offset by the partial implementation of the efficiency study, particularly in $833,000 of reduced personnel costs.

The efficiency study is expected to be fully implemented in the fourth quarter of 2009.

Income Taxes

The provision for income taxes decreased $331,000, or 13.0%, to $2.2 million for the three-month period ended June 30, 2009, from $2.6 million as of June 30, 2008. The provision for income taxes decreased $1.0 million, or 16.9%, to $5.1 million for the six-month period ended June 30, 2009, from $6.1 million as of June 30, 2008. The effective income tax rate was 29.0% and 30.4% for the three-month and six-month periods ended June 30, 2009, compared to 31.1% and 32.2% for the same periods in 2008, respectively. The primary cause of this decrease is the result of our lower earnings which is tax-effected at a marginal rate of 39.225%.

Financial Condition as of and for the Period Ended June 30, 2009 and December 31, 2008

Our total assets decreased $167,000, a decrease of 0.01%, to $2.58 billion as of June 30, 2009, from $2.58 billion as of December 31, 2008. Our loan portfolio increased $16.5 million, a growth of 0.8%, to $1.97 billion as of June 30, 2009, from $1.96 billion as of December 31, 2008. Stockholders equity increased $60.3 million, a growth of 21.3%, to $343.4 million as of June 30, 2009, compared to $283.0 million as of December 31, 2008. Asset and loan increases are primarily associated with the organic growth of our bank subsidiary. The increase in stockholders equity is primarily associated with the issuance of $50.0 million of preferred stock to the United States Department of Treasury combined with retained earnings for the first quarter of 2009.

Loan Portfolio

Our loan portfolio averaged $1.98 billion and $1.97 billion during the three-month and six-month periods ended June 30, 2009. Loans were $1.97 billion as of June 30, 2009, compared to $1.96 billion as of December 31, 2008, a modest annualized increase of 1.7%. The slow down in loan growth from our historical expansion rates was not unexpected. Our customers have grown more cautious in this weakening economy.

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These loans are primarily originated within our market areas of central Arkansas, north central Arkansas, southern Arkansas, southwest Florida and the Florida Keys and are generally secured by residential or commercial real estate or business or personal property within our market areas.

Certain credit markets have experienced difficult conditions and volatility during 2008 and 2009, particularly Florida. The Florida market currently is approximately 92.1% secured by real estate and 16.5% of our total loan portfolio. The markets continue to experience pressure including the well-publicized sub-prime mortgage market. The Company has not or does not actively market or originate subprime mortgage loans.

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

Table 7: Loan Portfolio

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 794,675	$ 816,603
Construction/land development	347,028	320,398
Agricultural	38,379	23,603
Residential real estate loans:		
Residential 1-4 family	407,642	391,255
Multifamily residential	72,673	56,440
Total real estate	1,660,397	1,608,299
Consumer	41,814	46,615
Commercial and industrial	224,043	255,153
Agricultural	21,566	23,625
Other	24,884	22,540
Total loans receivable before allowance for loan losses	1,972,704	1,956,232
Less: Allowance for loan losses	41,804	40,385
Total loans receivable, net	$ 1,930,900	$ 1,915,847

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

As of June 30, 2009, commercial real estate loans totaled $1.18 billion, or 59.8% of our loan portfolio, which is comparable to $1.16 billion, or 59.3% of our loan portfolio, as of December 31, 2008.

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

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As of June 30, 2009, we had $480.3 million, or 24.3% of our loan portfolio, in residential real estate loans, compared to the $447.7 million, or 22.9% of our loan portfolio, as of December 31, 2008. The changing market conditions have given our community bank the opportunity to retain more residential real estate loans. These loans normally have maturities of less than five years.

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

As of June 30, 2009, our installment consumer loan portfolio totaled $41.8 million, or 2.1% of our total loan portfolio, compared to the $46.6 million, or 2.4% of our loan portfolio as of December 31, 2008. This decrease is associated with normal payoffs and pay downs combined with flat loan demand.

Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower s liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% to 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 60% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of June 30, 2009, commercial and industrial loans outstanding totaled $224.0 million, or 11.4% of our loan portfolio, compared to $255.2 million, or 13.0% of our loan portfolio, as of December 31, 2008. This decrease is associated with normal payoffs and pay downs combined with flat loan demand.

Non-Performing Assets

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

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

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Table 8 sets forth information with respect to our non-performing assets as of June 30, 2009 and December 31, 2008. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 8: Non-performing Assets

	As of June 30, 2009	As of December 31, 2008
	(Dollars in thousands)	
Non-accrual loans	$ 29,977	$ 28,524
Loans past due 90 days or more (principal or interest payments)	5,291	1,374
Total non-performing loans	35,268	29,898
Other non-performing assets		
Foreclosed assets held for sale	17,606	6,763
Other non-performing assets	2	16
Total other non-performing assets	17,608	6,779
Total non-performing assets	$ 52,876	$ 36,677
Allowance for loan losses to non-performing loans	118.53%	135.08%
Non-performing loans to total loans	1.79	1.53
Non-performing assets to total assets	2.05	1.42

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

Since December 31, 2007, the weakening real estate market, particularly in Florida, has and may continue to increase our level of non-performing loans. While we believe our allowance for loan losses is adequate at June 30, 2009, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan loss during 2009.

As of June 30, 2009, we had $38.1 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 8. Of the $38.1 million in restructured loans, $3.3 million are also reported as impaired loans. Most of these credits are where borrowers have continued to pay as agreed but negotiated a lower interest rate due to general economic pressures rather than credit specific pressure. Our Florida market contains $30.3 million of these restructured loans.

Total foreclosed assets held for sale were $17.6 million as of June 30, 2009, compared to $6.8 million as of December 31, 2008 for an increase of $10.8 million. The increase is primarily the result of foreclosure on two Florida housing developments in the Keys. Each of the two housing developments has vacant lots and one completed model home. The $17.6 million in foreclosed assets held for sale is comprised of $13.1 million of assets located in Florida with the remaining $4.5 million of assets located in Arkansas. The Florida foreclosed assets includes a substantially vacant owner occupied commercial rental center in the Keys plus the two Florida housing developments. The properties are currently listed for sale with a broker.

Total non-performing loans were $35.3 million as of June 30, 2009, compared to $29.9 million as of December 31, 2008 for an increase of $5.4 million. Non-performing loans are $24.1 million in the Florida market. The increase in

non-performing loans is primarily from our Florida market.

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If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $403,000 and $201,000 for the three-month periods ended June 30, 2009 and 2008, respectively, and $870,000 and $258,000 for the six-month periods ended June 30, 2009 and 2008, respectively, would have been recorded. The interest income recognized on the non-accrual loans for the three-month period ended June 30, 2009 and 2008 was considered immaterial.

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. As of June 30, 2009, average impaired loans were $38.3 million compared to $24.5 million as of June 30, 2008. As of June 30, 2009, impaired loans were $43.0 million compared to $31.5 million as of December 31, 2008 for an increase of $11.5 million. The unfavorable economic conditions that are impacting our Florida market accounted for $6.0 million of the increase. Our Florida market accounted for $15.2 million of the impaired loans.

Non-performing loans and impaired loans are defined differently. Some loans may be included in both categories

Allowance for Loan Losses

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

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

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

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

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

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

Charge-offs and Recoveries. Total charge-offs decreased to $2.3 million for the three months ended June 30, 2009, compared to $2.5 million for the same period in 2008. Total charge-offs increased to $3.3 million for the six months ended June 30, 2009, compared to $3.1 million for the same period in 2008. Total recoveries decreased to $556,000 for the three months ended June 30, 2009, compared to $1.3 million for the same period in 2008. Total recoveries decreased to $1.0 million for the six months ended June 30, 2009, compared to $1.4 million for the same period in 2008. The changes in net charge-offs are due to the unfavorable economic conditions in Florida and our proactive stance on asset quality.

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Table 9 shows the allowance for loan losses, charge-offs and recoveries as of and for the three-month and six-month periods ended June 30, 2009 and 2008.

Table 9: Analysis of Allowance for Loan Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Balance, beginning of period	$ 40,822	$ 37,075	$ 40,385	$ 29,406
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	830		986	16
Construction/land development	605	598	640	642
Agricultural				
Residential real estate loans:				
Residential 1-4 family	331	1,174	675	1,531
Multifamily residential				
Total real estate	1,766	1,772	2,301	2,189
Consumer	338	66	740	166
Commercial and industrial	220	645	291	751
Agricultural				
Other			7	
Total loans charged off	2,324	2,483	3,339	3,106
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	104	1,156	107	1,160
Construction/land development	8	4	8	6
Agricultural	172		172	
Residential real estate loans:				
Residential 1-4 family	130	80	423	109
Multifamily residential				
Total real estate	414	1,240	710	1,275
Consumer	111	22	258	56
Commercial and industrial	15	5	23	36
Agricultural				
Other	16		17	1
Total recoveries	556	1,267	1,008	1,368
Net (recoveries) loans charged off	1,768	1,216	2,331	1,738
Allowance for loan loss of Centennial Bancshares, Inc.				3,382
Provision for loan losses	2,750	704	3,750	5,513

Balance, June 30	$ 41,804	$ 36,563	$ 41,804	$ 36,563
Net (recoveries) charge-offs to average loans	0.36%	0.26%	0.34%	0.09%
Allowance for loan losses to period end loans	2.12	1.87	2.12	1.87
Allowance for loan losses to net (recoveries) charge-offs	590	748	889	1,046

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

The changes for the period ended June 30, 2009 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with the decline in asset quality, particularly in our Florida market, net charge-offs during 2009 and normal changes in the outstanding loan portfolio for those products from December 31, 2008.

Table 10 presents the allocation of allowance for loan losses as of June 30, 2009 and December 31, 2008.

Table 10: Allocation of Allowance for Loan Losses

	As of June 30, 2009		As of December 31, 2008	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 15,723	40.3%	$ 16,010	41.7%
Construction/land development	8,647	17.6	9,369	16.4
Agricultural	299	1.9	255	1.2
Residential real estate loans:				
Residential 1-4 family	10,220	20.7	6,814	20.0
Multifamily residential	707	3.7	880	2.9
Total real estate	35,596	84.2	33,328	82.2
Consumer	630	2.1	848	2.4
Commercial and industrial	4,702	11.3	4,945	13.0
Agricultural	397	1.1	816	1.2
Other		1.3		1.2
Unallocated	479		448	
Total	$ 41,804	100.0%	$ 40,385	100.0%

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

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted

market prices of comparable securities. As of June 30, 2009, we had no held-to-maturity or trading securities.

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Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale. Available-for-sale securities were $310.0 million as of June 30, 2009, compared to $355.2 million as of December 31, 2008. The estimated effective duration of our securities portfolio was 3.2 as of June 30, 2009.

As of June 30, 2009, $143.4 million, or 46.3%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $182.0 million, or 51.2%, of our available-for-sale securities as of December 31, 2008. To reduce our income tax burden, $138.3 million, or 44.6%, of our available-for-sale securities portfolio as of June 30, 2009, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $119.8 million, or 33.7%, of our available-for-sale securities as of December 31, 2008. Also, we had approximately $23.6 million, or 7.6%, invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2009, compared to $50.4 million, or 14.2%, of our available-for-sale securities as of December 31, 2008. The Company does not have any preferred securities issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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Table 11 presents the carrying value and fair value of investment securities as of June 30, 2009 and December 31, 2008.

Table 11: Investment Securities

	As of June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
		(In thousands)		
Available-for-Sale				
U.S. government-sponsored enterprises	$ 23,446	$ 209	$ (49)	$ 23,606
Mortgage-backed securities	143,627	2,313	(2,494)	143,446
State and political subdivisions	139,889	1,540	(3,097)	138,332
Other securities	5,845		(1,240)	4,605
Total	$ 312,807	$ 4,062	$ (6,880)	$ 309,989

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
		(In thousands)		
Available-for-Sale				
U.S. government-sponsored enterprises	$ 49,632	$ 810	$ (7)	$ 50,435
Mortgage-backed securities	183,808	1,673	(3,517)	181,964
State and political subdivisions	123,119	990	(4,279)	119,830
Other securities	4,238		(1,223)	3,015
Total	$ 360,797	$ 3,473	$ (9,026)	$ 355,244

Deposits

Our deposits averaged $1.83 billion and $1.84 billion for the three-month and six-month periods ended June 30, 2009. Total deposits decreased $15.8 million, or a decrease of 0.9%, to $1.83 billion as of June 30, 2009, from $1.85 billion as of December 31, 2008. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. As of June 30, 2009 and December 31, 2008, brokered deposits were $77.6 million and $111.0 million, respectively. Included in these brokered deposits are $44.6 million and $39.9 million of Certificate of Deposit Account Registry Service (CDARS) as of June 30, 2009 and December 31, 2008, respectively. CDARS are deposits we have swapped our customer with other institutions. This gives our customer the potential for FDIC insurance of up to $50 million.

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The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing and do not anticipate a significant change in total deposits unless our liquidity position changes. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if we experience increased loan demand or other liquidity needs.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began in 2008 at 4.25%. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008, 75 basis points on March 18, 2008, 25 basis points on April 30, 2008 and 50 basis points to a rate of 1.50% as of October 8, 2008. The rate continued to fall 50 basis points on October 29, 2008 and 75 to 100 basis points to a low of 0.25% to 0% on December 16, 2008. Due to the rate reductions occurring late in 2007, its impact for 2007 was minimal. As our earning assets and interest-bearing liabilities began to reprice during 2008, we experienced a more significant decline to our average rates from the lower rate environment.

Table 12 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month and six-month periods ended June 30, 2009 and 2008.

Table 12: Average Deposit Balances and Rates

	Three Months Ended June 30,			
	2009		2008	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 285,637	%	$ 242,148	%
Interest-bearing transaction accounts	609,736	0.70	642,204	1.64
Savings deposits	64,319	0.69	55,880	1.06
Time deposits:				
$100,000 or more	508,715	2.72	531,304	3.77
Other time deposits	364,180	2.75	393,367	3.97
Total	$ 1,832,587	1.56%	$ 1,864,903	2.51%

	Six Months Ended June 30,			
	2009		2008	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 275,175	%	$ 239,588	%
Interest-bearing transaction accounts	608,739	0.75	619,365	1.91
Savings deposits	61,948	0.66	54,794	1.03
Time deposits:				
$100,000 or more	502,411	2.85	528,536	4.08
Other time deposits	390,676	2.94	392,473	4.23

Total	$ 1,838,949	1.67%	$ 1,834,756	2.76%

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Securities Sold Under Agreements to Repurchase

During 2008, the U.S. regulatory agencies implemented the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program through December 31, 2009, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC s general deposit insurance rules. Since business non-interest bearing accounts currently have unlimited deposit insurance coverage, many of our business customers have chosen to move their money from repurchase agreements to non-interest bearing demand accounts to take advantage of this unlimited coverage. As a result, securities sold under agreements to repurchase decreased $48.2 million, or 42.5%, from $113.4 million as of December 31, 2008 to $65.2 million as of June 30, 2009.

FHLB Borrowed Funds

Our FHLB borrowed funds were $277.6 million and $283.0 million at June 30, 2009 and December 31, 2008, respectively. These outstanding balances include no short-term advances. Our remaining FHLB borrowing capacity was $192.4 million and $191.5 million as of June 30, 2009 and December 31, 2008, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $47.5 million and $47.6 million as of June 30, 2009 and December 31, 2008, respectively.

Table 13 reflects subordinated debentures as of June 30, 2009 and December 31, 2008, which consisted of guaranteed payments on trust preferred securities with the following components:

Table 13: Subordinated Debentures

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	$ 20,619	$ 20,619
Subordinated debentures, issued in 2000, due 2030, fixed at 10.60%, callable in 2010 with a penalty ranging from 5.30% to 0.53% depending on the year of prepayment, callable in 2020 without penalty	3,198	3,243
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty	5,155	5,155
Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2011 without penalty	3,093	3,093
Total	$ 47,530	$ 47,575

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

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

The Company holds two trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. The 2009 agreement between the Company and the Treasury limits our ability to retire any of our qualifying capital. As a result, the notes previously mentioned are not currently eligible to be paid off.

Stockholders Equity

Stockholders equity was $343.4 million at June 30, 2009 compared to $283.0 million at December 31, 2008, an increase of 60.3%. As of June 30, 2009 and December 31, 2008 our common equity to asset ratio was 11.4%. Book value per common share was $14.78 at June 30, 2009 compared to $14.25 at December 31, 2008, a 3.7% increase.

Troubled Asset Relief Program. On January 16, 2009, we issued and sold, and the United States Department of the Treasury purchased, (1) 50,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock Series A, liquidation preference of $1,000 per share, and (2) a ten-year warrant to purchase up to 288,129 shares of the Company s common stock, par value $0.01 per share, at an exercise price of $26.03 per share, for an aggregate purchase price of $50.0 million in cash. Cumulative dividends on the Preferred Shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter.

These preferred shares will qualify as Tier 1 capital. The preferred shares will be callable at par after three years. Prior to the end of three years, the preferred shares may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock. The Treasury must approve any quarterly cash dividend on our common stock above $0.06 per share or share repurchases until three years from the date of the investment unless the shares are paid off in whole or transferred to a third party.

Cash Dividends. We declared cash dividends on our common stock of $0.060 and $0.051 (stock dividend adjusted) per share for the three-month periods ended June 30, 2009 and 2008, respectively, and $0.120 and $0.097 (stock dividend adjusted) per share for the six-month periods ended June 30, 2009 and 2008, respectively. The common stock dividend payout ratio for the six months ended June 30, 2009 and 2008 was 20.4% and 14.9%, respectively. The common per share amounts are reflective of the 8% stock dividend during 2008. The 2009 agreement between the Company and the Treasury limits the payment of dividends on the Common Stock to a quarterly cash dividend of not more than $0.06 per share.

Stock Dividends. On July 16, 2008, our Board of Directors declared an 8% stock dividend which was paid August 27, 2008 to stockholders of record as of August 13, 2008. Except for fractional shares, the holders of our common stock received 8% additional common stock on August 27, 2008. The common stockholders did not receive fractional shares; instead they received cash at a rate equal to the closing price of a share on August 28, 2008 times the fraction of a share they otherwise would have been entitled to.

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All common share and common per share amounts have been restated to reflect the retroactive effect of the stock dividend. After issuance, this stock dividend lowered our total capital position by approximately $13,000 as a result of the cash paid in lieu of fractional shares. Our financial statements reflect an increase in the number of outstanding shares of common stock, an increase in surplus and reduction of retained earnings.

Repurchase Program. On January 18, 2008, we announced the adoption by our Board of Directors of a stock repurchase program. The program authorizes us to repurchase up to 1,080,000 shares (stock dividend adjusted) of our common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that we intend to repurchase. The repurchase program may be suspended or discontinued at any time without prior notices. The timing and amount of any repurchases will be determined by management, based on its evaluation of current market conditions and other factors. The stock repurchase program will be funded using our cash balances, which we believe are adequate to support the stock repurchase program and our normal operations. As of June 30, 2009, we have not repurchased any shares in the program. The 2009 agreement between the Company and the Treasury limits our ability to repurchase common stock.

Liquidity and Capital Adequacy Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of June 30, 2009 and December 31, 2008, we met all regulatory capital adequacy requirements to which we were subject.

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Table 14 presents our risk-based capital ratios as of June 30, 2009 and December 31, 2008.

Table 14: Risk-Based Capital

	As of June 30, 2009	As of December 31, 2008
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 343,354	$ 283,044
Qualifying trust preferred securities	46,000	46,000
Goodwill and core deposit intangibles, net	(56,223)	(53,803)
Unrealized loss on available-for-sale securities	1,743	3,375
Servicing assets	(153)	(189)
Total Tier 1 capital	334,721	278,427
Tier 2 capital		
Qualifying allowance for loan losses	27,942	27,573
Total Tier 2 capital	27,942	27,573
Total risk-based capital	$ 362,663	$ 306,000
Average total assets for leverage ratio	$ 2,533,907	$ 2,562,044
Risk weighted assets	$ 2,221,537	$ 2,193,001
Ratios at end of period		
Leverage ratio	13.21%	10.87%
Tier 1 risk-based capital	15.07	12.70
Total risk-based capital	16.32	13.95
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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

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Table 15 presents actual capital amounts and ratios as of June 30, 2009 and December 31, 2008, for our bank subsidiary and us.

Table 15: Capital and Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of June 30, 2009						
Leverage ratios:						
Home BancShares	$334,721	13.21%	$101,354	4.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	251,001	9.92	101,210	4.00	126,513	5.00
Tier 1 capital ratios:						
Home BancShares	$334,721	15.07%	$ 88,844	4.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	251,001	11.36	88,381	4.00	132,571	6.00
Total risk-based capital ratios:						
Home BancShares	$362,663	16.32%	$177,776	8.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	278,806	12.61	176,879	8.00	221,099	10.00
As of December 31, 2008						
Leverage ratios:						
Home BancShares	$278,427	10.87%	$102,457	4.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	89,791	8.68	41,378	4.00	51,723	5.00
Community Bank	37,957	9.33	16,273	4.00	20,341	5.00
Twin City Bank	68,810	9.53	28,881	4.00	36,102	5.00
Bank of Mountain View	16,764	9.65	6,949	4.00	8,686	5.00
Centennial Bank	23,105	8.81	10,490	4.00	13,113	5.00
Tier 1 capital ratios:						
Home BancShares	$278,427	12.70%	$ 87,694	4.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	89,791	10.02	35,845	4.00	53,767	6.00
Community Bank	37,957	11.14	13,629	4.00	20,444	6.00
Twin City Bank	68,810	10.73	25,651	4.00	38,477	6.00
Bank of Mountain View	16,764	14.99	4,473	4.00	6,710	6.00
Centennial Bank	23,105	11.01	8,394	4.00	12,591	6.00
Total risk-based capital ratios:						
Home BancShares	$306,000	13.95%	$175,484	8.00%	$ N/A	N/A%
Centennial Bank (Formerly FSB)	101,071	11.28	71,682	8.00	89,602	10.00
Community Bank	42,260	12.40	27,265	8.00	34,081	10.00
Twin City Bank	76,823	11.98	51,301	8.00	64,126	10.00
Bank of Mountain View	18,115	16.19	8,951	8.00	11,189	10.00
Centennial Bank	25,758	12.27	16,794	8.00	20,993	10.00

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Non-GAAP Financial Measurements

We had $58.7 million, $56.6 million, and $57.3 million total goodwill, core deposit intangibles and other intangible assets as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted cash earnings per share, tangible book value per common share, cash return on average assets, cash return on average tangible common equity and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 16 through 20, respectively. Per share amounts for June 30, 2008 have been adjusted for the retroactive effect of the stock dividend which occurred in August of 2008.

Table 16: Diluted Cash Earnings Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
	(In thousands, except per share data)			
GAAP net income available to common stockholders	$ 4,771	$ 5,654	$ 10,450	$ 12,932
Intangible amortization after-tax	281	280	562	562
Cash earnings available to common stockholders	$ 5,052	$ 5,934	$ 11,012	$ 13,494
GAAP diluted earnings per share	$ 0.24	$ 0.28	$ 0.52	$ 0.64
Intangible amortization after-tax	0.01	0.01	0.03	0.02
Diluted cash earnings per share	$ 0.25	$ 0.29	$ 0.55	$ 0.66

Table 17: Tangible Book Value Per Share

	As of June 30, 2009	As of December 31, 2008
	(Dollars in thousands, except per share data)	
Book value per common share: A/B	$ 14.78	$ 14.25
Tangible book value per common share: (A-C-D)/B	11.83	11.40
(A) Total common equity	$ 294,169	$ 283,044
(B) Common shares outstanding	19,903	19,860
(C) Goodwill	53,039	50,038
(D) Core deposit and other intangibles	5,622	6,547

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Table 18: Cash Return on Average Assets

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Return on average assets: A/C	0.84%	0.89%	0.91%	1.02%
Cash return on average assets: B/(C-D)	0.91	0.95	0.97	1.08
(A) GAAP net income	$ 5,441	$ 5,654	$ 11,686	$ 12,932
Intangible amortization after-tax	281	280	562	562
(B) Cash earnings	$ 5,722	$ 5,934	$ 12,248	$ 13,494
(C) Average assets	$ 2,590,283	$ 2,569,377	$ 2,594,238	$ 2,559,954
(D) Average goodwill, core deposits and other intangible assets	58,977	57,552	58,804	57,825

Table 19: Cash Return on Average Tangible Common Equity

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Return on average common equity: A/C	6.53%	7.91%	7.26%	9.12%
Return on average tangible common equity: B/(C-D)	8.66	10.38	9.57	11.94
(A) Net income available to common stockholders	$ 4,771	$ 5,654	$ 10,450	$ 12,932
(B) Cash earnings available to common stockholders	5,052	5,934	11,012	13,494
(C) Average common equity	292,935	287,554	290,079	285,151
(D) Average goodwill, core deposits and other intangible assets	58,977	57,522	58,010	57,825

Table 20: Tangible Common Equity to Tangible Assets

	As of June 30, 2009	As of December 31, 2008
	(Dollars in thousands)	
Equity to assets: B/A	13.31%	10.97%
Common equity to assets: C/A	11.40	10.97
Tangible common equity to tangible assets: (C-D-E)/(A-D-E)	9.34	8.97
(A) Total assets	$2,579,926	$2,580,093
(B) Total equity	343,354	283,044
(C) Total common equity	294,169	283,044
(D) Goodwill	53,039	50,038

(E) Core deposit and other intangibles	5,622	6,547

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Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141(R), Business Combinations, which established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133. SFAS 161 amended and expanded the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. SFAS 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements**.** The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

On April 9, 2009, the FASB finalized three FASB Staff Positions (FSPs) regarding the accounting treatment for investments including mortgage-backed securities. These FSPs changed the method for determining if an Other-than-temporary impairment (OTTI) exists and the amount of OTTI to be recorded through an entity s income statement. The changes brought about by the FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

FSP *SFAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157, *Fair Value Measurements.*

FSP *SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-temporary Impairments* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

FSP *SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments* enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

The adoption of these FSP s did not have a material effect on the Company s results of operations or financial position.

In May 2009, FASB issued SFAS No. 165 *Subsequent Events*, with the objective to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 on June 30, 2009, did not have an impact on the Company s consolidated financial statements.

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In June 2009, FASB issued SFAS No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. SFAS No. 166 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. We are currently evaluating the impact of the adoption of this standard, but do not expect it have a material effect on the Company s financial position or results of operation.

In June 2009, FASB issued SFAS No. 167 *Amendments to FASB Interpretation No. 46(R)*. The objective of SFAS 167 is to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently evaluating the impact of the adoption of this standard, but do not expect it have a material effect on the Company s financial position or results of operation.

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Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of June 30, 2009, our cash and cash equivalents were $46.1 million, or 1.8% of total assets, compared to $54.2 million, or 2.1% of total assets, as of December 31, 2008. Our investment securities and federal funds sold were $341.8 million, or 13.2% of total assets, as of June 30, 2009 and $363.1 million, or 14.1% of total assets, as of December 31, 2008.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to $17.5 million and $84.1 million on an unsecured basis as of June 30, 2009 and December 31, 2008, respectively. These lines may be terminated by the respective lending institutions at any time. As a result of our recent charter consolidation, there is limited availability to borrow Fed funds on an unsecured basis.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were $277.6 million and $283.0 million at June 30, 2009 and December 31, 2008, respectively. These outstanding balances include no short-term advances. Our FHLB borrowing capacity was $192.4 million and $191.5 million as of June 30, 2009 and December 31, 2008.

We currently have a borrower in custody arrangement with the Federal Reserve. This arrangement provides us with the potential to obtain $82.6 million in borrowed funds from the Federal Reserve Bank. We have no borrowed funds under this agreement as of June 30, 2009.

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

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

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

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

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

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

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of June 30, 2009, our gap position was slightly asset sensitive with a one-year cumulative repricing gap of 7.0%, compared to 4.1% as of December 31, 2008. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

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

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Table 21 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of June 30, 2009.

Table 21: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 4,553	$	$	$	$	$	$	$ 4,553
Federal funds sold	31,805							31,805
Investment securities	22,348	18,389	28,923	41,669	32,997	64,627	101,036	309,989
Loans receivable	651,153	121,424	148,485	346,411	407,862	294,214	3,155	1,972,704
Total earning assets	709,859	139,813	177,408	388,080	440,859	358,841	104,191	2,319,051
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	24,184	48,368	72,551	145,103	123,709	123,709	123,763	661,387
Time deposits	155,638	175,307	213,291	238,089	62,096	31,916	2	876,339
Federal funds purchased								
Securities sold under repurchase agreements	65,233							65,233
FHLB borrowed funds	20,147	10,022	8,121	51,957	72,323	94,075	20,995	277,640
Subordinated debentures	25,782	15	23	45	15		21,650	47,530
Total interest-bearing liabilities	290,984	233,712	293,986	435,194	258,143	249,700	166,410	1,928,129
Interest rate sensitivity gap	$418,875	$ (93,899)	$(116,578)	$ (47,114)	$182,716	$109,141	$ (62,219)	$ 390,922

Cumulative interest rate sensitivity gap	$418,875	$324,976	$ 208,398	$161,284	$344,000	$453,141	$390,922
Cumulative rate sensitive assets to rate sensitive liabilities	244.0%	161.9%	125.5%	112.9%	122.8%	125.7%	120.3%
Cumulative gap as a % of total earning assets	18.1%	14.0%	9.0%	7.0%	14.8%	19.5%	16.9%

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Item 4: CONTROLS AND PROCEDURES

Article I. Evaluation of Disclosure Controls

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

Article II. Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal controls over financial reporting during the quarter ended June 30, 2009, which have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2008. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Not applicable.

Item 3: Defaults Upon Senior Securities

Not applicable.

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

The 2009 Annual Meeting of Shareholders of the Company was held on April 23, 2009. The following items of business were presented to stockholders:

(1) S. Gene Cauley did not stand for re-election as a result of his resignation from the Board of Directors on April 3, 2009. The remaining eleven directors were elected as proposed in the Proxy Statement dated March 20, 2009, under the caption Election of Directors with votes cast as follows:

	Total Vote For Each Director	Total Vote Withheld For Each Director
John W. Allison	16,296,993	250,157
Ron W. Strother	16,372,767	174,383
C. Randall Sims	16,382,247	164,903
Robert H. Adcock, Jr.	13,788,481	2,758,669
Richard H. Ashley	15,771,932	775,218
Dale A. Bruns	16,419,960	127,190
Richard A. Buckheim	16,367,098	180,052
Jack E. Engelkes	16,424,409	122,741
James G. Hinkle	16,383,749	163,401
Alex R. Lieblong	15,859,469	687,681
William G. Thompson	16,294,218	252,932

(2) The Audit Committee s selection and appointment of the accounting firm of BKD, LLP as the Company s independent registered public accounting firm for the year ending December 31, 2009 was ratified with votes cast as follows: 16,518,613 votes for, 19,215 votes against and 9,322 votes abstaining.

(3) The Company s executive compensation was approved as proposed in the Proxy Statement dated March 20, 2009, under the caption Advisory (Non-binding) Vote Approving Executive Compensation with votes cast as follows: 12,992,183 votes for, 175,144 votes against and 3,379,823 votes abstaining.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

15 Awareness of Independent Registered Public Accounting Firm

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

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

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

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

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SIGNATURES

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

HOME BANCSHARES, INC.

(Registrant)

Date: August 5, 2009 /s/ C. Randall Sims

C. Randall Sims, Chief Executive Officer

Date: August 5, 2009 /s/ Randy E. Mayor

Randy E. Mayor, Chief Financial Officer