HOME BANCSHARES INC
Form 10-K
March 05, 2008

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

(Mark One)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2007

or

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

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

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

(501) 328-4770
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

None	N/A
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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	Accelerated filer þ	Non-accelerated filer o	Smaller reporting Company o

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

The aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates on June 30, 2007, was $258.5 million based upon the last trade price as reported on the Nasdaq National Market® of $22.55.

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

Common Stock Issued and Outstanding: 18,334,378 shares as of February 15, 2008.

Documents incorporated by reference: Part III is incorporated by reference from the registrant s Proxy Statement relating to its 2008 Annual Meeting to be held on April 24, 2008.

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Consent of BKD, LLP

Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

Certification of Chairman and Chief Executive Officer Pursuant to Section 906

Certification of Chief Financial Officer Pursuant to Section 906

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see Risk Factors .

PART I

Item 1. BUSINESS

Home BancShares

We are a Conway, Arkansas based financial holding company registered under the federal Bank Holding Company Act of 1956. As of December 31, 2007, we have five wholly owned community bank subsidiaries which provide a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals, and municipalities. Three of our bank subsidiaries are located in the central Arkansas market area, a fourth serves Stone County in north central Arkansas, and a fifth serves the Florida Keys and southwestern Florida. On January 1, 2008, we completed the acquisition of Centennial Bancshares. Centennial Bank serves central and southern Arkansas.

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We were established when an investor group led by John W. Allison, our Chairman and Chief Executive Officer, and Robert H. Adcock, Jr., our Vice Chairman, formed Home BancShares, Inc. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We or members of our management team have also been involved in the formation of two of our other bank subsidiaries, Twin City Bank and Marine Bank, both of which we acquired in 2005. We have also acquired and integrated our two other bank subsidiaries, Community Bank and Bank of Mountain View, in 2003 and 2005, respectively.

We have achieved significant growth through acquisitions, organic growth and establishing new (also commonly referred to as *de novo*) branches. We acquire, organize and invest in community banks that serve attractive markets, and build our community banks around experienced bankers with strong local relationships.

Our common stock began trading on the Nasdaq National Market under the symbol HOMB on June 23, 2006, upon completion of our Initial Public Offering. The net proceeds of the offering, including the exercise of the over-allotment option, to the Company (after deducting sales commissions and expenses) were $47.2 million.

Our Bank Subsidiaries and Investments

We believe that many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of bank subsidiaries.

First State Bank - In October 1998, we acquired Holly Grove Bancshares, Inc. for the purpose of obtaining a bank charter. Following the purchase, we changed the name of the bank subsidiary to First State Bank and relocated the charter to Conway, Arkansas, to serve the central Arkansas market. At December 31, 2007, First State Bank had total assets of $601.2 million, total loans of $453.6 million and total deposits of $451.2 million.

Twin City Bank -In May 2000, we were the largest investor in a group that formed a holding company (subsequently renamed TCBancorp), acquired an existing bank charter, and relocated the charter to North Little Rock, Arkansas. The holding company named its subsidiary Twin City Bank, which had been used by North Little Rock s largest bank until its sale in 1994, and hired Robert F. Birch, Jr., who had been president of the former Twin City Bank. Twin City Bank grew quickly in North Little Rock and, in 2003, expanded into the adjacent Little Rock market. In January 2005, we acquired through merger the 68% of TCBancorp s common stock we did not already own. At December 31, 2007, Twin City Bank had total assets of $694.1 million, total loans of $484.5 million and total deposits of $494.3 million.

Community Bank - In December 2003, we acquired Community Financial Group, Inc., the holding company for Community Bank of Cabot. At December 31, 2007, Community Bank had total assets of $407.8 million, total loans of $258.5 million and total deposits of $271.3 million.

Marine Bank - In June 2005, we acquired Marine Bancorp, Inc., and its subsidiary, Marine Bank, in Marathon, Florida. Marine Bank was established in 1995. Our Chairman and Chief Executive Officer, John W. Allison, was a founding board member and the largest shareholder of Marine Bancorp, owning approximately 13.9% of its stock at the time of our acquisition. At December 31, 2007, Marine Bank had total assets of $381.5 million, total loans of $316.8 million and total deposits of $269.9 million.

Bank of Mountain View - In September 2005, we acquired Mountain View Bancshares, Inc., and its subsidiary, Bank of Mountain View. At December 31, 2007, Bank of Mountain View had total assets of $204.9 million, total loans of $93.7 million and total deposits of $138.3 million.

Centennial Bank On, January 1, 2008, we acquired Centennial Bancshares, Inc., and its subsidiary, Centennial Bank. At January 1, 2008, Centennial Bank had total assets of $234.1 million, total loans of $192.8 million and total deposits of $178.8 million.

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Investment in White River Bancshares - In May 2005, we invested $9.0 million to acquire 20% of the common stock of White River Bancshares, Inc., the holding company for Signature Bank in Fayetteville, Arkansas. In January 2006, we invested an additional $3.0 million to maintain our 20% ownership position. Signature Bank serves the growing northwest Arkansas market. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. in Brinkley, Arkansas. As a result, we made a $2.6 million additional investment in White River Bancshares on June 29, 2007 to maintain our 20% ownership. At December 31, 2007, White River Bancshares had total assets of $536.4 million, total loans of $442.4 million and total deposits of $433.0 million. On March 3, 2008, White River Bancshares, Inc. repurchased our 20% ownership for $19.9 million.

Our Management Team

The following table sets forth, as of December 31, 2007, information concerning the individuals who are our executive officers.

Name	Age	Position Held	Positions Held with Bank Subsidiaries
John W. Allison	61	Chairman of the Board and Chief Executive Officer	Chairman of the Board, First State Bank; Director, Community Bank, Twin City Bank, Bank of Mountain View, and Marine Bank
Ron W. Strother	59	President, Chief Operating Officer, and Director	Director, First State Bank, Community Bank, Twin City Bank, and Bank of Mountain View
Randy E. Mayor	42	Chief Financial Officer and Treasurer	Director, First State Bank
Brian S. Davis	42	Director of Financial Reporting and Investor Relations Officer	___
C. Randall Sims	53	Director and Secretary	President, Chief Executive Officer, and Director, First State Bank; Director, Community Bank
Robert Hunter Padgett	49	___	President, Chief Executive Officer, and Director, Marine Bank
Robert F. Birch, Jr.	57	___	President, Chief Executive Officer, and Director, Twin City Bank
Tracy M. French	46	___	President, Chief Executive Officer, and Director, Community Bank
Michael L. Waddington	64	___	Chief Executive Officer, and Director, Bank of Mountain View
Chris S. Roberts *	39	___	President, Chief Executive Officer, and Director, Centennial Bank

* Became an executive officer on January 1, 2008 with our acquisition of Centennial Bancshares.

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Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build shareholder value. Our growth strategy entails the following:

Organic growth - We believe that our current branch network provides us with the capacity to grow significantly within our existing market areas. Thirty-two of our 55 branches (including branches of banks we have acquired) have been opened since the beginning of 2001.

De novo branching - We intend to continue to open *de novo* branches in our current markets and in other attractive market areas if opportunities arise. During 2007, we opened six de novo branch locations. These branch locations are located in the Arkansas communities of Searcy (2 branches), Quitman and Bryant, and Key West and Key Largo, Florida. Also during 2007, we consolidated two of our Cabot branch locations into one financial center. Currently we have plans for two additional de novo branch locations in Morrilton and Cabot, Arkansas.

Strategic acquisitions - We will continue to consider strategic acquisitions, with a primary focus on Arkansas and southwestern Florida. When considering a potential acquisition, we assess a combination of factors, but concentrate on the strength of existing management, the growth potential of the bank and the market, the profitability of the bank, and the valuation of the bank. We believe that potential sellers consider us an acquirer of choice, largely due to our community banking philosophy. With each acquisition we seek to maintain continuity of management and the board of directors, consolidate back office operations, add product lines, and implement our credit policy.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

operate largely autonomous community banks managed by experienced bankers and a local board of directors, who are empowered to make customer-related decisions quickly;

provide exceptional service and develop strong customer relationships;

pursue the business relationships of our boards of directors, management, shareholders, and customers to actively promote our community banks; and

maintain our commitment to the communities we serve by supporting their civic and nonprofit organizations.

Operating Strategy

Our operating strategies focus on improving credit quality, increasing profitability, finding experienced bankers, and leveraging our infrastructure:

Emphasis on credit quality - Credit quality is our first priority in the management of our bank subsidiaries. We employ a set of credit standards across our bank subsidiaries that are designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards at each of our bank subsidiaries. We have a centralized loan review process and regularly monitor each of our bank subsidiaries loan portfolios, which we believe enables us to take prompt action on potential problem loans.

Continue to improve profitability - We intend to improve our profitability as we leverage the available capacity of our newer branches and employees. We believe our investments in our branch network and centralized technology infrastructure are sufficient to support a larger organization, and therefore believe increases in our expenses should be lower than the corresponding increases in our revenues. We contracted with a third party consultant for an efficiency study which is expected to be completed in 2008.

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Attract and motivate experienced bankers - We believe a major factor in our success has been our ability to attract and retain bankers who have experience in and knowledge of their local communities. For example, in January 2006, we hired eight experienced bankers in the Searcy, Arkansas, market (located approximately 50 miles northeast of Little Rock), where we subsequently opened three new branches. Hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

Leveraging our infrastructure - The support services we provide to our bank subsidiaries are generally centralized in Conway, Arkansas. These services include finance and accounting, internal audit, compliance, loan review, human resources, training, and data processing.

Our Market Areas

As of December 31, 2007, we conducted business principally through 43 branches in five counties in Arkansas, nine branches in the Florida Keys and three branches in southwestern Florida. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have significant opportunities for deposit market share growth.

Lending Activities

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses, as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2007, was comprised as follows:

	Amount	Percentage of portfolio
	(Dollars in thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 607,638	37.8%
Construction/land development	367,422	22.9
Agricultural	22,605	1.4
Residential real estate loans:		
Residential 1-4 family	259,975	16.2
Multifamily residential	45,428	2.8
Total real estate	1,303,068	81.1
Consumer	46,275	2.9
Commercial and industrial	219,062	13.6
Agricultural	20,429	1.3
Other	18,160	1.1
Total loans receivable	$ 1,606,994	100.0%

Real Estate Non-farm/Non-residential. Non-farm/non-residential loans consist primarily of loans secured by real estate mortgages on income-producing properties. We make commercial mortgage loans to finance the purchase of real property as well as loans to smaller business ventures, credit lines for working capital and inventory financing, including letters of credit, that are also secured by real estate. Commercial mortgage lending typically involves higher loan principal amounts, and the repayment of loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service.

Real Estate Construction/Land Development. We also make construction and development loans to residential and commercial contractors and developers located primarily within our market areas. Construction loans generally are

secured by first liens on real estate.

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Real Estate Residential Mortgage. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks and low levels of profitability. Residential loans to individuals retained in our loan portfolio primarily consist of shorter-term first liens on 1-4 family residential mortgages, home equity loans and lines of credit.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans.

Commercial and Industrial. Our commercial loan portfolio includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, as well as letters of credit that are generally secured by collateral other than real estate. Commercial borrowers typically secure their loans with assets of the business, personal guaranties of their principals and often mortgages on the principals personal residences.

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower s ability to repay include interest rates, inflation and the demand for the commercial borrower s products and services, as well as other factors affecting a borrower s customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates and, in the case of commercial borrowers, the quality of the borrower s management. Consumer loan repayments depend upon the borrower s financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common documentation and policies, based on the type of loan, for all of our bank subsidiaries. The board of directors of each bank subsidiary supplements our standard policies to meet local needs and establishes loan approval procedures for that bank. Each bank s board periodically reviews their lending policies and procedures. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank s capital. The Florida Banking Code provides that no loan relationship may exceed 15% of a bank s capital, or 25% on a fully secured basis.

Loan Approval Procedures. Our bank subsidiaries have supplemented our common loan policies to establish their own loan approval procedures as follows:

Individual Authorities. The board of directors of each bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers range from $10,000 to $500,000 for secured loans and from $1,000 to $100,000 for unsecured loans.

Officer Loan Committees. Most of our bank subsidiaries also give their Officer Loan Committees loan approval authority. In those banks, credits in excess of individual loan limits are submitted to the appropriate bank s Officer Loan Committee. The Officer Loan Committees consist of members of the senior management team of that bank and are chaired by that bank s chief lending officer. The Officer Loan Committees have approval authority up to $750,000 at First State Bank, $750,000 at Community Bank, and $1.0 million at Twin City Bank. At Marine Bank, certain officers are allowed to combine limits on secured loans up to $1.0 million for certain grades of credits. Since Bank of Mountain View has no Officer Loan Committee, loans exceeding an officer s individual authority are approved by the Directors Loan Committee.

Directors Loan Committee. Each of our bank subsidiaries has a Directors Loan Committee consisting of outside directors and senior lenders of the bank. Generally, each bank requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the chief lending officer or the chief executive officer of the bank. Each bank s board of directors establishes the approval authority for this committee, which may be up to that bank s legal lending limit.

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Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Banks of Dallas and Atlanta and other borrowings. These secondary sources enable us to borrow funds at rates and terms, which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour Internet banking and voice response information, cash management, overdraft protection, direct deposit, traveler s checks, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

Insurance

Community Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased July 1, 2000, by Community Bank. Community Insurance Agency writes policies for commercial and personal lines of business, with approximately 60% and 40% of the business coming from commercial and personal lines, respectively. It is subject to regulation by the Arkansas Insurance Department. The offices of Community Insurance Agency are located in Jacksonville, Cabot, and Conway, Arkansas.

Trust Services

FirsTrust Financial Services, Inc. provides trust services, focusing primarily on personal trusts, corporate trusts and employee benefit trusts. In the fourth quarter of 2006, we made a strategic decision to enter into agent agreement for the management of our trust services to a non-affiliated third party. This change was caused by our aspiration to improve the overall profitability of our trust efforts. FirsTrust Financial Services still has ownership rights to the trust assets under management.

Competition

As of December 31, 2007, we conducted business through 55 branches in our primary market areas of Pulaski, Faulkner, Lonoke, Stone, Saline, and White Counties in Arkansas and Monroe, Charlotte and Collier Counties in Florida. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in Arkansas and Florida, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Employees

On December 31, 2007, we had 595 full-time equivalent employees. We expect that our staff will increase as a result of our increased branching activities anticipated in 2008. Additionally our staff will increase as a result of our acquisition of Centennial Bancshares, Inc. on January 1, 2008. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

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SUPERVISION AND REGULATION

General

We and our subsidiary banks are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the FDIC and the banking system as a whole, and not shareholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Home BancShares

We are a financial holding company registered under the federal Bank Holding Company Act of 1956 (the Bank Holding Company Act) and are subject to supervision, regulation and examination by the Federal Reserve Board. We have elected under the Gramm-Leach-Bliley Act to become a financial holding company. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board s prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank s voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve Board may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve Board is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve Board s consideration of financial resources generally focuses on capital adequacy, which is discussed below.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, we, as well as other banks located within Arkansas or Florida, may purchase a bank located outside of Arkansas or Florida. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Arkansas or Florida may purchase a bank located inside Arkansas or Florida. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. For example, Florida law prohibits a bank holding company from acquiring control of a Florida financial institution until the target institution has been incorporated for three years.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve Board approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

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Our common stock is registered under the Securities Exchange Act of 1934, as amended. The regulations provide a procedure for challenging any rebuttable presumption of control.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

banking or managing or controlling banks; and

any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include:

factoring accounts receivable;

making, acquiring, brokering or servicing loans and usual related activities;

leasing personal or real property;

operating a non-bank depository institution, such as a savings association;

trust company functions;

financial and investment advisory activities;

conducting discount securities brokerage activities;

underwriting and dealing in government obligations and money market instruments;

providing specified management consulting and counseling activities;

performing selected data processing services and support services;

acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and

performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve Board may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Gramm-Leach-Bliley Act; Financial Holding Companies. The Gramm-Leach-Bliley Financial Modernization Act of 1999 revised and expanded the provisions of the Bank Holding Company Act by including a new section that permits a bank holding company to elect to become a financial holding company to engage in a full range of activities that are financial in nature. The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company require that all of the subsidiary banks controlled by the bank holding company at the time of election to become a financial holding company must be and remain at all times well-capitalized and well managed.

The Gramm-Leach-Bliley Act further requires that, in the event that the bank holding company elects to become a financial holding company, the election must be made by filing a written declaration with the appropriate Federal Reserve Bank that:

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states that the bank holding company elects to become a financial holding company;

provides the name and head office address of the bank holding company and each depository institution controlled by the bank holding company;

certifies that each depository institution controlled by the bank holding company is well-capitalized as of the date the bank holding company submits its declaration;

provides the capital ratios for all relevant capital measures as of the close of the previous quarter for each depository institution controlled by the bank holding company; and

certifies that each depository institution controlled by the bank holding company is well managed as of the date the bank holding company submits its declaration.

The bank holding company must have also achieved at least a rating of satisfactory record of meeting community credit needs under the Community Reinvestment Act during the institution s most recent examination. Financial holding companies may engage, directly or indirectly, in any activity that is determined to be:

financial in nature;

incidental to such financial activity; or

complementary to a financial activity provided it does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be financial in nature : lending, trust and other banking activities; insurance activities; financial or economic advisory services; securitization of assets; securities underwriting and dealing; existing bank holding company domestic activities; existing bank holding company foreign activities, and merchant banking activities. In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of financial or incidental activities, but requires consultation with the United States Treasury Department, and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Support of Subsidiary Institutions. Under Federal Reserve Board policy, we are expected to act as a source of financial strength for our subsidiary banks and are required to commit resources to support them. Until White River Bancshares, Inc. repurchased our 20% ownership on March 3, 2008, we were obligated to act as a source of financial strength for White River Bancshares, Inc., despite the fact we were a minority owner of that Company and thus had no ability to control its operations. Moreover, an obligation to support our bank subsidiaries and White River Bancshares may be required at times when, without this Federal Reserve Board policy, we might not be inclined to provide it. In addition, any capital loans made by us to our subsidiary banks will be repaid only after their deposits and various other obligations are repaid in full. In the unlikely event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of our subsidiary banks and White River Bancshares will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

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The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having $500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of $500 million, and are therefore subject to the Federal Reserve Board s capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2007, our Tier 1 risk-based capital ratio was 13.45% and our total risk-based capital ratio was 14.70%. Thus, we are considered adequately capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company s Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. As of December 31, 2007, our leverage ratio was 11.44%.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Subsidiary Banks

General. First State Bank, Community Bank, Bank of Mountain View and Twin City Bank are chartered as Arkansas state banks and are members of the Federal Reserve System, making them primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. Marine Bank, which is chartered as a Florida state bank, is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Florida Office of Financial Regulation. In addition, our subsidiary banks are subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our subsidiary banks.

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Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company s obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary s assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

FDIC Insurance Assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the undercapitalized category including institutions that are undercapitalized, significantly undercapitalized and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution s primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution s financial condition and the risk posed to the deposit insurance funds. Assessments range from 5 to 43 cents per $100 of deposits, depending on the institution s capital group and supervisory subgroup. In recent years, the assessment had been set at zero for well-capitalized banks in the top supervisory subgroup, but beginning in 2007, these institutions will be charged between 5 and 7 cents. The overall level of assessments depends primarily upon claims against the deposit insurance fund. If bank failures were to increase, assessments could rise significantly. In addition, the FDIC imposes assessments to help pay off the $780 million in annual interest payments on the $8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. This assessment rate is adjusted quarterly. The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Legislative reforms to modernize the Federal Deposit Insurance System were enacted in February 2006. As part of these reforms, effective March 31, 2006, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) were merged into a new Deposit Insurance Fund. In addition to merging the insurance funds, the legislation:

effective April 1, 2006, raised the deposit insurance limit on certain retirement accounts to $250,000 and indexed that limit for inflation;

requires the FDIC and National Credit Union Administration boards, starting in 2010 and every succeeding five years, to consider raising the standard maximum deposit insurance; and

effective January 1, 2007, eliminated the current fixed 1.25 percent Designated Reserve Ratio and provided the FDIC with the discretion to set the DRR within a range of 1.15 to 1.50 percent for any given year.

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Community Reinvestment Act. The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our subsidiary banks. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Each of our subsidiary banks received satisfactory CRA ratings from their applicable federal banking regulatory at their last examinations.

Other Regulations. Interest and other charges collected or contracted for by our subsidiary banks are subject to state usury laws and federal laws concerning interest rates.

Loans to Insiders. Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank s loans-to-one-borrower limit (generally equal to 15% of the institution s unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior Board of Directors approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements. Our subsidiary banks are also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators.

The Federal Reserve Bank, with respect to our bank subsidiaries that are members of the Federal Reserve System, monitor the capital adequacy of our subsidiary banks by using a combination of risk-based guidelines and leverage ratios. The agencies consider each of the bank s capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system.

Under the risk-based capital guidelines, a risk weight factor of 0% to 100% is assigned to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a risk-weighted asset base. At least half of the risk-based capital must consist of core (Tier 1) capital, which is comprised of:

- common shareholders equity (includes common stock and any related surplus, undivided profits, disclosed capital reserves that represent a segregation of undivided profits, and foreign currency translation adjustments; less net unrealized losses on marketable equity securities);
- certain non-cumulative perpetual preferred stock and related surplus; and
- minority interests in the equity capital accounts of consolidated subsidiaries, and excludes goodwill and various intangible assets.

The remainder, supplementary (Tier 2) capital, may consist of:

- allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets;
- certain perpetual preferred stock and related surplus;
- hybrid capital instruments;
- perpetual debt;

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mandatory convertible debt securities;

term subordinated debt;

intermediate-term preferred stock; and

certain unrealized holding gains on equity securities.

Total risk-based capital is determined by combining core capital and supplementary capital. Under the regulatory capital guidelines, our subsidiary banks must maintain a total risk-based capital to risk-weighted assets ratio of at least 8.0%, a Tier 1 capital to risk-weighted assets ratio of at least 4.0%, and a Tier 1 capital to adjusted total assets ratio of at least 4.0% (3.0% for banks receiving the highest examination rating) to be considered adequately capitalized. See discussion in the section below entitled *The FDIC Improvement Act.*

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank s financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC.

FDICIA also places certain restrictions on activities of banks depending on their level of capital. FDICIA divides banks into five different categories, depending on their level of capital. Under regulations adopted by the FDIC, a bank is deemed to be well-capitalized if it has a total Risk-Based Capital Ratio of 10.00% or more, a Tier 1 Capital Ratio of 6.00% or more and a Leverage Ratio of 5.00% or more, and the bank is not subject to an order or capital directive to meet and maintain a certain capital level. Under such regulations, a bank is deemed to be adequately capitalized if it has a total Risk-Based Capital Ratio of 8.00% or more, a Tier 1 Capital Ratio of 4.00% or more and a Leverage Ratio of 4.00% or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a Leverage Ratio of 3.00% or more). Under such regulations, a bank is deemed to be undercapitalized if it has a total Risk-Based Capital Ratio of less than 8.00%, a Tier 1 Capital Ratio of less than 4.00% or a Leverage Ratio of less than 4.00%. Under such regulations, a bank is deemed to be significantly undercapitalized if it has a Risk-Based Capital Ratio of less than 6.00%, a Tier 1 Capital Ratio of less than 3.00% and a Leverage Ratio of less than 3.00%. Under such regulations, a bank is deemed to be critically undercapitalized if it has a Leverage Ratio of less than or equal to 2.00%. In addition, the FDIC has the ability to downgrade a bank s classification (but not to critically undercapitalized) based on other considerations even if the bank meets the capital guidelines. According to these guidelines, each of our subsidiary banks were classified as well-capitalized as of December 31, 2007.

In addition, if a bank is classified as undercapitalized, the bank is required to submit a capital restoration plan to the federal banking regulators. Pursuant to FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the federal banking regulators of a capital restoration plan for the bank.

Furthermore, if a bank is classified as undercapitalized, the federal banking regulators may take certain actions to correct the capital position of the bank; if a bank is classified as significantly undercapitalized or critically undercapitalized, the federal banking regulators would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring: sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, FDICIA requires the bank to be placed into conservatorship or receivership within 90 days, unless

the federal banking regulators determine that other action would better achieve the purposes of FDICIA regarding prompt corrective action with respect to undercapitalized banks.

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The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months. An exception to this requirement, however, provides that a bank that (i) has assets of less than $500 million, (ii) is categorized as well-capitalized, (iii) during its most recent examination, was found to be well managed and its composite rating was outstanding or, in the case of a bank with total assets of not more than $100 million, outstanding or good, (iv) is not currently subject to a formal enforcement proceeding or order by the FDIC or the appropriate federal banking agency and (v) has not been subject to a change in control during the last 12 months, need only be examined once every 18 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Interstate Branching. Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 amended the FDIA and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed legislation prior to May 31, 1997 expressly prohibiting interstate mergers. Under the Riegle-Neal Act amendments, once a state or national bank has established branches in a state, that bank may establish and acquire additional branches at any location in the state at which any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. If a state opts out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or de novo.

Federal Home Loan Bank System. The Federal Home Loan Bank system, of which each of our subsidiary banks is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Board, or FHFB. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the Boards of directors of each regional FHLB.

As a system member, our subsidiary banks are entitled to borrow from the FHLB of their respective region and is required to own a certain amount of capital stock in the FHLB. Each of our subsidiary banks is in compliance with the stock ownership rules described above with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our subsidiary banks are secured by a portion of their respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Mortgage Banking Operations. Each of our subsidiary banks is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. Our subsidiary banks are also subject to regulation by the Arkansas State Bank Department or the Florida Department of Financial Regulation, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

Payment of Dividends

We are a legal entity separate and distinct from our subsidiary banks and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our shareholders, are dividends that our subsidiary

banks pay to us as their sole shareholder. Statutory and regulatory limitations apply to the dividends that our subsidiary banks can pay to us, as well as to the dividends we can pay to our shareholders.

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The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary banks also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiaries or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company s ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiaries. First State Bank, Community Bank, Twin City Bank and Bank of Mountain View, which are subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Marine Bank, which is subject to Florida banking laws, may not declare or pay a dividend in excess of 100% of current year earnings and 100% of retained earnings for the prior two years. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our subsidiary banks, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

Restrictions on Transactions with Affiliates

We and our subsidiary banks are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

a bank s loans or extensions of credit to affiliates;

a bank s investment in affiliates;

assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve Board;

loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and

a bank s guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank s capital and surplus and, as to all affiliates combined, to 20% of a bank s capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. Our subsidiary banks must also comply with other provisions designed to avoid the taking of low-quality assets. We and our subsidiary banks are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Our subsidiary banks are also subject to restrictions on extensions of credit to their executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

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Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and all of our subsidiaries have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Anti-Terrorism and Money Laundering Legislation

Our subsidiary banks are subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our subsidiary banks have established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise have implemented policies and procedures intended to comply with the foregoing rules.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

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Risks Related to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which would materially and adversely affect our business, financial condition, results of operations and future prospects.

Management makes various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We maintain an allowance for loan losses that we consider adequate to absorb future losses which may occur in our loan portfolio. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information. As of December 31, 2007, our allowance for loan losses was approximately $29.4 million, or 1.8% of our total loans receivable.

If our assumptions are incorrect, our current allowance may be insufficient to cover future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs could have a negative effect on our operating results.

Because we have a high concentration of loans secured by real estate, a downturn in the real estate market could result in losses and materially and adversely affect business, financial condition, results of operations and future prospects.

A significant portion of our loan portfolio is dependent on real estate. As of December 31, 2007, approximately 81.1% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. An adverse change in the economy affecting values of real estate generally or in our primary markets specifically could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Furthermore, it is likely that we would be required to increase our provision for loan losses. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability and financial condition could be adversely impacted.

In Northwest Arkansas, the number of residential real estate lots and commercial real estate projects available exceed the current demand. Management s failure to monitor the status of the market and make the necessary changes could have a negative effect on operating results.

Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect our business, financial condition, results of operations, and future prospects.

We have a concentration of exposure to a number of individual borrowers. Under applicable law, each of our bank subsidiaries is generally permitted to make loans to one borrowing relationship up to 20% of their respective capital in the case of our Arkansas bank subsidiaries, and 15% of capital (25% on secured loans) in the case of our Florida bank subsidiary. Historically, when our bank subsidiaries have lending relationships that exceed their individual loan to one borrower limitation, the overline, or amount in excess of the subsidiary bank s legal lending limit, is participated to our other bank subsidiaries. As a result, on a consolidated basis we may have aggregate exposure to individual or related borrowers in excess of each individual bank subsidiary s legal lending limit. As of December 31, 2007, the aggregate legal lending limit of our bank subsidiaries for secured loans was approximately $47.7 million. Currently, our board of directors has established an in-house consolidated lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of our Chairman and our Vice Chairman.

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As of December 31, 2007, we had 31 borrowing relationships where we had a commitment to loan in excess of $10.0 million, with the aggregate amount of those commitments totaling approximately $512.2 million. The largest of those commitments to one borrowing relationship was $27.3 million, which is 10.8% of our consolidated shareholders equity. Given the size of these loan relationships relative to our capital levels and earnings, a significant loss on any one of these loans could materially and adversely affect our business, financial condition, results of operations, and future prospects.

The unexpected loss of key officers may materially and adversely affect our business, financial condition, results of operations and future prospects.

Our success depends significantly on our executive officers, especially John W. Allison, Ron W. Strother, Randy E. Mayor, and on the presidents of our bank subsidiaries. Our bank subsidiaries, in particular, rely heavily on their management team s relationships in their local communities to generate business. Because we do not have employment agreements or non-compete agreements with our employees, our executive officers and bank presidents are free to resign at any time and accept an employment offer from another company, including a competitor. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

Our growth and expansion strategy may not be successful and our market value and profitability may suffer.

Growth through the acquisition of banks, *de novo* branching, and the organization of new banks represents an important component of our business strategy. Although we have no present plans to acquire any financial institution or financial services provider, any future acquisitions we might make will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

credit risk associated with the acquired bank s loans and investments;

difficulty of integrating operations and personnel; and

potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In addition to the acquisition of existing financial institutions, we plan to continue *de novo* branching, and we may consider the organization of new banks in new market areas. We do not, however, have any current plans to organize a new bank. *De novo* branching and any acquisition or organization of a new bank carries with it numerous risks, including the following:

the inability to obtain all required regulatory approvals;

significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;

the inability to secure the services of qualified senior management;

the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;

the inability to obtain attractive locations within a new market at a reasonable cost; and

the additional strain on management resources and internal systems and controls.

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We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions, *de novo* branching and the organization of new banks. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

We expect to continue to grow our assets and deposits, the products and services we offer, and the scale of our operations, generally, both internally and through acquisitions. If we continue to grow rapidly, we may not be able to control costs and maintain our asset quality. Our ability to manage our growth successfully will depend on our ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms. If we grow too quickly and are not able to control costs and maintain asset quality, this rapid growth could materially and adversely affect our financial performance.

There may be undiscovered risks or losses associated with our acquisitions of bank subsidiaries which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of bank subsidiaries. We acquired three bank subsidiaries in 2005, and will continue to consider strategic acquisitions, with a primary focus on Arkansas and southwestern Florida. In most cases, our acquisition of a bank includes the acquisition of all of the target bank s assets and liabilities, including its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our future income.

An economic downturn, natural disaster or act of terrorism, especially one affecting our market areas, could adversely affect our business, financial condition, results of operations and future prospects.

Our business is affected by prevailing economic conditions in the United States, including inflation and unemployment rates, but is particularly subject to the local economies in Arkansas, the Florida Keys and southwestern Florida. Our relatively small size and our geographic concentration expose us to greater risk of unfavorable local economic conditions than the larger national or regional banks in our market areas. Adverse changes in local economic factors, such as population growth trends, income levels, deposits and housing starts, may adversely affect our operations.

We are at risk of natural disaster or acts of terrorism, even if our market areas are not primarily affected. Our Florida market, in particular, is subject to risks from hurricanes, which may damage or dislocate our facilities, damage or destroy collateral, adversely affect the livelihood of borrowers or otherwise cause significant economic dislocation in areas we serve.

If and when economic conditions deteriorate, either in our local market areas or nationwide, we may experience a reduction in the demand for our products and services and deterioration in the quality of our loan portfolio and consequently have a material and adverse effect on our business, financial condition, results of operations and future prospects.

Competition from other financial institutions may adversely affect our profitability.

The banking business is highly competitive. We experience strong competition, not only from commercial banks, savings and loan associations, and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other financial institutions operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

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Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification.

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. Competitive pressures can adversely affect our profitability.

Our recent results do not indicate our future results, and may not provide guidance to assess the risk of an investment in our common stock.

We are unlikely to sustain our historical rate of growth, and may not even be able to expand our business at all. Further, our recent growth may distort some of our historical financial ratios and statistics. In the future, we may not have the benefit of several recently favorable factors, such as a strong residential housing market or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our bank subsidiaries to maintain adequate levels of capital to support our operations. While we believe that our capital will be sufficient to support our current operations and anticipated expansion, factors such as faster than anticipated growth, reduced earning levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired.

We may be unable to, or choose not to, pay dividends on our common stock.

Although we have paid a quarterly dividend on our common stock since the second quarter of 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiaries, is subject to federal and state laws that limit the ability of these banks to pay dividends.

Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition.

Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our company.

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Our directors and executive officers own a significant portion of our common stock and can exert significant control over our business and corporate affairs.

Our directors and executive officers, as a group, beneficially own approximately 32.8% of our common stock. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting our company with which you disagree.

The holders of our subordinated debentures have rights that are senior to those of our shareholders.

We have $44.6 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our common stock.

Risks Related to Our Industry

Our profitability is vulnerable to interest rate fluctuations and monetary policy.

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities.

As of December 31, 2007, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 92.2% and our cumulative gap position was -5.2% of total earning assets, resulting in a minimum impact on earnings for various interest rate change scenarios. Floating rate loans made up 38.8% of our $1.61 billion loan portfolio. In addition, 67.6% of our loans receivable and 89.6% of our time deposits were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact to our earnings.

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

We are a registered financial holding company primarily regulated by the Federal Reserve Board. Our bank subsidiaries are also primarily regulated by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Arkansas State Bank Department or Florida Office of Financial Regulation.

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Complying with banking industry regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions. Recently, banks generally have faced increased regulatory sanctions and scrutiny, particularly under the USA Patriot Act and statutes that promote customer privacy or seek to prevent money laundering. As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002 and the related rules and regulations issued by the SEC and the Nasdaq Stock Market have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices, including the costs of completing the Company s external audit and maintaining its internal controls.

Our stock price is affected by a variety of factors, many of which are outside of our control.

Stock price volatility may make it more difficult for investors to resell shares of our common stock at times and prices they find attractive. Our common stock price can fluctuate significantly in response to a variety of factors, including, among other things:

actual or anticipated variations in quarterly results of operations;

recommendations by securities analysts;

operating and stock price performance of other companies that investors deem comparable to us;

news reports relating to trends, concerns and other issues in the financial services industry; and

perceptions in the marketplace regarding us and/or our competitors.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed for trade on the Nasdaq Stock Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, losses in its value are not insured by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report, and is subject to the same market forces that affect the price of common stock in any other company.

Item 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

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Item 2. PROPERTIES

As of December 31, 2007, our bank subsidiaries operated a total of 43 branches in Arkansas and 12 branches in Florida as shown in the following table:

Office Address	City	Owned or Leased	Date Constructed	Square Feet
First State Bank				
620 Chestnut	Conway, AR	Owned	1999	9,000
2500 Dave Ward Drive	Conway, AR	Owned	2002	2,640
1815 East Oak Street	Conway, AR	Owned	2001	2,640
2690 Donaghey	Conway, AR	Leased	2001	2,600
1445 Hogan Lane	Conway, AR	Leased	2004	3,300
945 Salem Road	Conway, AR	Owned	1999	4,200
1208 Oak	Conway, AR	Owned	1999	2,500
582 Highway 365 South	Mayflower, AR	Leased	2000	800
1044 Main Street	Vilonia, AR	Owned	1999	2,640
#8 Business Park Drive	Greenbrier, AR	Owned	2002	2,640
1300 West Beebe-Capps Expwy	Searcy, AR	Owned	2006	5,000
801 North Maple St.	Searcy, AR	Owned	2007	2,560
411 Hartsfield Dr.	Searcy, AR	Leased	2007	2,200
6039 Heber Springs Road	Quitman, AR	Owned	2007	1,280
Community Bank				
2171 West Main	Cabot, AR	Owned	1999	20,500
3111 Bill Foster Memorial Hwy	Cabot, AR	Leased (1)	2004	3,500
300 West Main	Cabot, AR	Owned	1978	22,150
1204 S. Pine Street	Cabot, AR	Owned	1990	3,300
707 Dewitt Henry Drive	Beebe, AR	Owned	1998	2,924
10 Crestview Plaza	Jacksonville, AR	Leased	1997	2,600
1900 John Hardin Drive	Jacksonville, AR	Owned	2000	3,807

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Office Address	City	Owned or Leased	Date Constructed	Square Feet
Community Bank (continued)				
1816 West Main	Jacksonville, AR	Owned	2005	5,000
902 North Street	Ward, AR	Owned	1973	2,400
30 Hwy 64 West	Beebe, AR	Owned	2006	3,425
Twin City Bank				
2716 Lakewood Village Place	North Little Rock, AR	Leased	2000	3,579
650 Main	North Little Rock, AR	Leased	2000	1,344
4308 Broadway	North Little Rock, AR	Owned	2001	2,060
3811 MacArthur Drive	North Little Rock, AR	Owned	2000	1,360
4515 Camp Robinson Road	North Little Rock, AR	Owned	2004	3,700
9501 Maumelle Boulevard	Maumelle, AR	Owned	2005	4,000
7213 Hwy. 107	Sherwood, AR	Owned	2002	3,700
301 East Kiehl	Sherwood, AR	Owned	1998	2,898
2922 South University	Little Rock, AR	Leased	2003	3,511
10315 Interstate 30	Little Rock, AR	Owned	2003	3,700
718 Broadway	Little Rock, AR	Owned	2005	2,500
520 Bowman	Little Rock, AR	Leased	2003	4,664
5100 Kavanaugh Avenue	Little Rock, AR	Leased	2003	893
2610 Cantrell Road	Little Rock, AR	Leased	2003	5,000
13910 Cantrell Road	Little Rock, AR	Owned	2003	3,700
9712 Rodney Parham	Little Rock, AR	Owned	2003	3,700
2224 N. Reynolds St	Bryant, AR	Owned	2007	3,700
Bank of Mountain View				
121 East Main Street	Mountain View, AR	Owned	1968	1,354
301 Sylamore Ave	Mountain View, AR	Owned	2007	4,464
Marine Bank				
11290 Overseas Highway	Marathon, FL	Owned	1995	7,414
25000 Overseas Highway	Summerland Key, FL	Leased	1998	296
82787 Overseas Highway	Islamorada, FL	Owned	1988	705
101 Wilder Road	Big Pine Key, FL	Owned	1998	3,456
4594 Overseas Highway	Marathon, FL	Owned	2000	1,450
2514 N. Roosevelt Blvd	Key West, FL	Leased (1)	2001	3,756
798 Duck Key Lane	Duck Key, FL	Leased	2001	850
22627 Bayshore Road	Port Charlotte, FL	Leased	2006	3,384
615 Elkcam Circle	Marco Island, FL	Leased	2006	8,000
401 Taylor Street	Punta Gorda, FL	Owned	2006	5,871
100290 Overseas Highway	Key Largo, FL	Leased	2007	4,500
1229 Simonton Street	Key West, FL	Leased	2007	3,440

(1) Office is located on land that we lease.

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In addition to the branches listed above, we and our non-bank subsidiaries had offices as shown in the following table:

Office Address	City	Owned or Leased	Date Constructed	Square Feet
719 Harkrider Street	Conway, AR	Owned	1984	33,000
1475 Hogan Lane, Suite 122	Conway, AR	Leased	2004	1,300
203 Dakota Drive, Suites A and C	Cabot, AR	Leased	2000	2,000
1515 N. Center, Suite 9	Lonoke, AR	Leased	2000	600
#3 Crestview Plaza	Jacksonville, AR	Leased	2000	1,600
715 Chestnut	Conway, AR	Leased	1999	2,100
81011 Overseas Highway	Islamorada, FL	Leased	2002	2,500
1638 Overseas Highway	Marathon, FL	Owned	2003	1,960

We believe that our banking and other offices are in good condition and are suitable to our needs.

Item 3. LEGAL PROCEEDINGS

While we and our bank subsidiaries and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiaries or other affiliates that will, individually or in the aggregate, have a material adverse affect on our business or consolidated financial condition.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security-holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq National Market in the Global Select Market System under the symbol HOMB . The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing bid prices for our common stock.

	Price per Common Share		Quarterly Dividends Per Common Share
	High	Low	
2007			
1st Quarter	$25.11	$21.77	$ 0.025
2nd Quarter	23.64	21.66	0.035
3rd Quarter	23.08	19.76	0.040
4th Quarter	23.00	19.25	0.045

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is necessarily dependent upon the availability of earnings and future financial condition.

There were no sales of our unregistered securities during the period covered by this report.

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We priced our initial public offering of 2.5 million shares of common stock at $18.00 per share. We received net proceeds of approximately $40.9 million from its sale of shares after deducting sales commissions and expenses. The underwriters of the Company s initial public offering exercised and completed their option to purchase an additional 375,000 shares of common stock to cover over-allotments effective July 26, 2006. We received net proceeds of approximately $6.3 million from this sale of shares after deducting sales commissions. We have used $16.0 million of the initial public offering proceeds to provide capital contributions to our bank subsidiaries, $2.6 million as an additional investment in White River Bancshares to maintain our 20% ownership and $2.0 million to purchase a long-term investment.

We currently maintain a compensation plan, Home BancShares, Inc. 2006 Stock Option and Performance Incentive Plan, that provides for the issuance of stock-based compensation to directors, officers and other employees. This plan has been approved by the shareholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2007:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-avergage exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a) (c)
Equity compensation plans approved by the shareholders	1,014,462	$ 12.01	399,625
Equity compensation plans not approved by the shareholders			

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Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company s stockholders since its shares of common stock were registered under Section 12 of the Exchange Act on June 22, 2006, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company s common stock and each index was $100.00 on June 22, 2006 and that subsequent cash dividends were reinvested.

			Period Ending			
Index	**06/22/06**	**12/31/06**	**03/31/07**	**06/30/07**	**09/30/07**	**12/31/07**
Home Bancshares, Inc.	100.00	133.86	122.91	125.90	121.88	117.54
Russell 2000	100.00	115.28	117.52	122.71	118.92	113.47
SNL Bank and Thrift Index	100.00	112.35	108.86	107.64	103.75	85.68

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Item 6. SELECTED FINANCIAL DATA.

Summary Consolidated Financial Data

	As of or for the Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars and shares in thousands, except per share data)				
Income statement data:					
Total interest income	$ 141,765	$ 123,763	$ 85,458	$ 36,681	$ 21,538
Total interest expense	73,778	60,940	36,002	11,580	8,240
Net interest income	67,987	62,823	49,456	25,101	13,298
Provision for loan losses	3,242	2,307	3,827	2,290	807
Net interest income after provision for loan losses	64,745	60,516	45,629	22,811	12,491
Non-interest income	25,754	19,127	15,222	13,681	6,739
Gain on sale of equity investment			465	4,410	
Non-interest expense	61,535	56,478	44,935	26,131	13,070
Income before income taxes and minority interest	28,964	23,165	16,381	14,771	6,160
Provision for income taxes	8,519	7,247	4,935	5,030	2,343
Minority interest				582	48
Net income	$ 20,445	$ 15,918	$ 11,446	$ 9,159	$ 3,769
Per share data:					
Basic earnings	$ 1.19	$ 1.07	$ 0.92	$ 1.08	$ 0.66
Diluted earnings	1.17	1.00	0.82	0.94	0.63
Diluted cash earnings (1)	1.23	1.07	0.89	0.98	0.64
Book value per common share	14.67	13.45	11.45	10.75	9.79
Book value per share with preferred converted to common (2)	14.67	13.45	11.63	11.07	10.29
Tangible book value per common share (3) (6)	12.05	10.72	7.43	7.89	6.63
Tangible book value per share with preferred converted to common (2) (3) (6)	12.05	10.72	8.21	8.70	7.68
Dividends Common	0.145	0.09	0.07	0.04	0.01
Average common shares outstanding	17,235	14,497	11,862	7,986	5,721
Average diluted shares outstanding	17,525	15,923	13,889	9,783	5,964
Performance ratios:					
Return on average assets	0.92%	0.78%	0.69%	1.17%	0.85%
Cash return on average assets (7)	0.98	0.86	0.76	1.26	0.87
Return on average shareholders equity	8.50	8.12	7.27	8.61	8.88
Cash return on average tangible equity (3) (8)	11.06	11.46	10.16	11.54	9.44

Net interest margin (10)	3.52	3.51	3.37	3.75	3.47
Efficiency ratio (4)	62.10	64.99	64.94	57.65	64.61
Asset quality:					
Nonperforming assets to total assets	0.36%	0.23%	0.47%	1.18%	1.24%
Nonperforming loans to total loans	0.20	0.32	0.69	1.73	1.73
Allowance for loan losses to nonperforming loans	903.97	574.37	291.62	182.40	170.10
Allowance for loans losses to total loans	1.83	1.84	2.01	3.16	2.94
Net (recoveries) charge-offs to average loans		0.03	0.38	0.13	0.16

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Summary Consolidated Financial Data Continued

	As of or for the Years Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
Total assets	$ 2,291,630	$ 2,190,648	$ 1,911,491	$ 805,186	$ 803,103
Investment securities	430,399	531,891	530,302	190,466	161,951
Loans receivable	1,606,994	1,416,295	1,204,589	516,655	500,055
Allowance for loan losses	29,406	26,111	24,175	16,345	14,717
Intangible assets	45,229	46,985	48,727	22,816	25,252
Non-interest-bearing deposits	211,993	215,142	209,974	86,186	76,508
Total deposits	1,592,206	1,607,194	1,427,108	552,878	572,218
Subordinated debentures (trust preferred securities)	44,572	44,663	44,755	24,219	24,238
Shareholders equity	253,056	231,419	165,857	106,610	99,472
Capital ratios:					
Equity to assets	11.04%	10.56%	8.68%	13.24%	12.39%
Tangible equity to tangible assets (3) (9)	9.25	8.60	6.29	10.71	9.54
Tier 1 leverage ratio (5)	11.44	11.29	9.22	13.47	13.06
Tier 1 risk-based capital ratio	13.45	14.57	12.25	17.39	16.35
Total risk-based capital ratio	14.70	15.83	13.51	17.39	16.35
Dividend payout common	12.23	8.46	7.30	3.71	2.46

(1) Diluted cash earnings per share reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 20, for the non-GAAP tabular reconciliation.

(2) Shares of Class A preferred stock and Class B preferred

stock outstanding on the indicated dates are assumed to have been converted to shares of common stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 21 .

(3) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.

(4) The efficiency ratio 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.

(5) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment

securities.

(6) See Management s Discussion and Analysis of Financial Condition and Results of Operations - Table 21, for the non-GAAP tabular reconciliation.

(7) See Management s Discussion and Analysis of Financial Condition and Results of Operations - Table 22, for the non-GAAP tabular reconciliation.

(8) See Management s Discussion and Analysis of Financial Condition and Results of Operations - Table 23, for the non-GAAP tabular reconciliation.

(9) See Management s Discussion and Analysis of Financial Condition and Results of Operations - Table 24, for the non-GAAP tabular reconciliation.

(10) Fully taxable equivalent (assuming an income tax rate of 39.23% for 2007,

2006, 2005 and
2004 and 38.29%
for 2003).

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Item 7: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2007, 2006 and 2005. This discussion should be read together with the Summary Consolidated Financial Data, our financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned Risk Factors, and elsewhere in this document. Unless the context requires otherwise, the terms us , we , and our refer to Home BancShares, Inc. on a consolidated basis.

General

We are a financial holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our five wholly owned bank subsidiaries. As of December 31, 2007, we had, on a consolidated basis, total assets of $2.29 billion, loans receivable of $1.61 billion, total deposits of $1.59 billion, and shareholders equity of $253.1 million.

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

Key Financial Measures

	As of or for the Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands, except per share data)		
Total assets	$2,291,630	$2,190,648	$1,911,491
Loans receivable	1,606,994	1,416,295	1,204,589
Total deposits	1,592,206	1,607,194	1,427,108
Net income	20,445	15,918	11,446
Basic earnings per share	1.19	1.07	0.92
Diluted earnings per share	1.17	1.00	0.82
Diluted cash earnings per share (1)	1.23	1.07	0.89
Net interest margin FTE	3.52%	3.51%	3.37%
Efficiency ratio	62.10	64.99	64.94
Return on average assets	0.92	0.78	0.69
Return on average equity	8.50	8.12	7.27

(1) See Table 20 Diluted Cash Earnings Per Share for a reconciliation to GAAP for diluted cash earnings per share.

2007 Overview

Our net income increased $4.5 million, or 28.4%, to $20.4 million for the year ended December 31, 2007, from $15.9 million for the same period in 2006. Diluted earnings per share increased $0.17, or 17.0%, to $1.17 for the year

ended December 31, 2007, from $1.00 for 2006. The increase in earnings is primarily associated with organic growth of our bank subsidiaries.

Our return on average equity was 8.50% for the year ended December 31, 2007, compared to 8.12% for 2006. While net income for 2007 increased considerably, return on average equity only increased slightly as a result of the increase in average stockholders equity from the net proceeds of our initial public offering in 2006 and retained earnings.

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Our return on average assets was 0.92% for the year ended December 31, 2007, compared to 0.78% for 2006. The increase was primarily due to the $4.5 million improvement in net income for 2007 compared to 2006.

Our net interest margin on a fully tax equivalent basis was 3.52% for the year ended December 31, 2007, compared to 3.51% for 2006. During 2006, competitive pressures and a slightly inverted yield curve put pressure on our net interest margin. The current competitive pressures eased somewhat during 2007, allowing for a comparable net interest margin from December 31, 2006 to December 31, 2007 by achieving strong loan growth that was funded by both the run off in the investment portfolio and more reasonably priced interest-bearing liabilities.

Our efficiency ratio (calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income) was 62.10% for the year ended December 31, 2007, compared to 64.99% for 2006. The improvement in our efficiency ratio is primarily due to an increase in net interest income from the net proceeds of our initial public offering and continued improvement of our operations.

Our total assets increased $101.0 million, or 4.6%, to $2.29 billion as of December 31, 2007, compared to $2.19 billion as of December 31, 2006. Our loan portfolio increased $190.7 million, or 13.5%, to $1.61 billion as of December 31, 2007, from $1.42 billion as of December 31, 2006. Shareholders equity increased $21.7 million, or 9.4%, to $253.1 million as of December 31, 2007, from $231.4 million as of December 31, 2006. Asset and loan increases are primarily associated with organic growth of our bank subsidiaries. The increase in stockholders equity was primarily the result of retained earnings during 2007.

As of December 31, 2007, our asset quality improved as non-performing loans declined to $3.3 million, or 0.20%, of total loans from $4.5 million, or 0.32%, of total loans as of the prior year-end. The allowance for loan losses as a percent of non-performing loans improved to 904.0% as of December 31, 2007, compared to 574.4% from the prior year-end.

2006 Overview

Our net income increased $4.5 million, or 39.1%, to $15.9 million for the year ended December 31, 2006, from $11.4 million for the same period in 2005. Diluted earnings per share increased $0.18, or 22.0%, to $1.00 for the year ended December 31, 2006, from $0.82 for 2005. The increase in earnings is primarily associated with our acquisitions during 2005, combined with organic growth of our bank subsidiaries.

Our return on average equity was 8.12% for the year ended December 31, 2006, compared to 7.27% for 2005. Our return on average assets was 0.78% for the year ended December 31, 2006, compared to 0.69% for 2005. The increases were primarily due to the $4.5 million increase in net income for 2006 compared to 2005.

Our net interest margin on a fully tax equivalent basis was 3.51% for the year ended December 31, 2006, compared to 3.37% for 2005. Competitive pressures and a slightly inverted yield curve have put pressure on our net interest margin. Yet, we were able to improve the net interest margin. The improvements were due to organic loan growth and the net proceeds from our initial public offering combined with the acquisitions during 2005.

Our efficiency ratio (calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income) was 64.99% for the year ended December 31, 2006, compared to 64.94% for 2005.

Our total assets increased $279.2 million, or 14.6%, to $2.19 billion as of December 31, 2006, compared to $1.91 billion as of December 31, 2005. Our loan portfolio increased $211.7 million, or 17.6%, to $1.42 billion as of December 31, 2006, from $1.20 billion as of December 31, 2005. Shareholders equity increased $65.6 million, or 39.5%, to $231.4 million as of December 31, 2006, from $165.9 million as of December 31, 2005. Asset and loan increases are primarily associated with organic growth of our bank subsidiaries. The increase in stockholders equity was primarily the result of the $47.2 million proceeds from our initial public offering and retained earnings during 2006.

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As of December 31, 2006, our asset quality improved as non-performing loans declined to $4.5 million, or 0.32%, of total loans from $8.3 million, or 0.69%, of total loans as of the prior year-end. The allowance for loan losses as a percent of non-performing loans improved to 574.4% as of December 31, 2006, compared to 291.6% from the prior year-end. These ratios reflect the continuing commitment of our management to improve and maintain sound asset quality.

Critical Accounting Policies

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements included as part of this document.

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

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

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

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

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

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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 collectibility of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 84 to 114 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill 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.

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

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

Acquisitions and Equity Investments

On January 1, 2008, we acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of $234.1 million, loans of $192.8 million and total deposits of $178.8 million on the date of acquisition. The consideration for the merger was $25.4 million, which was paid approximately 4.6%, or $1.2 million in cash and 95.4%, or $24.2 million, in shares of our common stock. In connection with the acquisition, $3.0 million of the purchase price, consisting of $139,000 in cash and 130,052 shares of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. The merger further provides for an earn out based upon 2008 earnings of up to a maximum of $4,000,000 which can be paid in cash or our stock at the election of the accredited shareholders. As a result of this transaction, we recorded goodwill of $11.6 million and a core deposit intangible of $694,000.

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

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

On January 3, 2005, we purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in northwest Arkansas. In January 2006, White River Bancshares issued an additional $15.0 million of common stock. To maintain our 20% ownership, we invested an additional $3.0 million in White River Bancshares at that time. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. in Brinkley, Arkansas. As a result, we made a $2.6 million additional investment in White River Bancshares on June 29, 2007 to maintain our 20% ownership. As of December 31, 2007, White River Bancshares had total assets of $536.4 million, loans of $442.4 million, and total deposits of $433.0 million.

On March 3, 2008, White River Bancshares, Inc. repurchased our 20% ownership for $19.9 million in cash. The repurchase by White River will result in one-time pre-tax gain of approximately $6.1 million or $0.20 diluted earnings per share for 2008.

We have not specifically allocated the use of these proceeds. The purpose may include paying down debt associated with our subordinated debentures, providing investments in our bank subsidiaries to support growth, including the development of additional banking offices or for general corporate purposes. Presently, we anticipate the additional funds will result in a modest accretion to the 2008 earnings per share of approximately $0.02 to $0.03.

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

In February 2005, CB Bancorp merged into Home BancShares, and Community Bank thus became our wholly owned subsidiary.

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

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De Novo Branching

We intend to continue to open new (commonly referred to de novo) branches in our current markets and in other attractive market areas if opportunities arise. During 2007, we opened six de novo branch locations. These branch locations are located in the Arkansas communities of Quitman, Searcy (2 branches) and Bryant plus Key West and Key Largo, Florida. Also during 2007, we consolidated two of our Cabot branch locations into one financial center. Currently we have plans for two additional de novo branch locations in Morrilton and Cabot, Arkansas.

Results of Operations for the Years Ended December 31, 2007, 2006 and 2005

Our net income increased $4.5 million, or 28.4%, to $20.4 million for the year ended December 31, 2007, from $15.9 million for the same period in 2006. Diluted earnings per share increased $0.17, or 17.0%, to $1.17 for the year ended December 31, 2007, from $1.00 for 2006. The increase in earnings is primarily associated with organic growth of our bank subsidiaries.

Our net income increased $4.5 million, or 39.1%, to $15.9 million for the year ended December 31, 2006, from $11.4 million for the same period in 2005. Diluted earnings per share increased $0.18, or 22.0%, to $1.00 for the year ended December 31, 2006, from $0.82 for 2005. The increase in earnings is primarily associated with our acquisitions during 2005, combined with organic growth of our bank subsidiaries.

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

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 2004 at 1%. During 2004, the Federal Funds rate increased 125 basis points to end the year at 2.25%. Over the next 6 quarters, the Federal Funds rate increased 50 basis points in each of the six quarters until June 29, 2006 when it reached 5.25%. The rate then remained constant until September 18, 2007, when the Federal Funds rate was lowered by 50 basis points to 4.75%. The Federal Funds rate decreased another 25 basis points on October 31, 2007 and December 11, 2007. Due to these reductions occurring late in 2007, the impact for the year was minimal. Average interest rates for 2007 reflect the higher interest rate environment that existed until September 18, 2007 when the Federal Funds rate was lowered. Going forward, we will begin to see more of an impact of the decrease in the Federal Funds rate as our earning assets and interest-bearing liabilities begin to reprice. Most recently, the rate decreased by 75 basis points on January 22, 2008 and 50 basis points on January 30, 2008.

Net interest income on a fully taxable equivalent basis increased 8.4% to $70.5 million for the year ended December 31, 2007, from $65.1 million for 2006. This increase in net interest income was the result of an $18.3 million increase in interest income offset by $12.8 million increase in interest expense. The $18.3 million increase in interest income was primarily the result of organic growth of our bank subsidiaries combined with the repricing of our earning assets in the higher interest rate environment. The higher level of earning assets resulted in an improvement in interest income of $13.7 million, and our earning assets repricing in the higher interest rate environment resulted in a $4.6 million increase in interest income during 2007. The $12.8 million increase in interest expense for the year ended December 31, 2007, is primarily the result of organic growth of our bank subsidiaries combined with our interest bearing liabilities repricing in the higher interest rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of $6.0 million. The repricing of our interest bearing liabilities in the higher interest rate environment resulted in a $6.8 million increase in interest expense during 2007.

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Net interest income on a fully taxable equivalent basis increased $13.8 million, or 26.9%, to $65.1 million for the year ended December 31, 2006, from $51.2 million for 2005. This increase in net interest income was the result of a $38.7 million increase in interest income offset by $24.9 million increase in interest expense. The $38.7 million increase in interest income was primarily the result of organic growth of our bank subsidiaries and a $267.6 million increase in average earning assets associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during 2005, combined with higher interest rates as a result of the rising rate environment. The higher level of earning assets resulted in an improvement in interest income of $24.1 million, and the rising rate environment resulted in a $14.6 million increase in interest income during 2006. The $24.9 million increase in interest expense for the year ended December 31, 2006, is primarily the result of organic growth of our bank subsidiaries and a $197.4 million increase in average interest-bearing liabilities associated with our acquisitions of Marine Bancorp, Inc. and Mountain View Bancshares, Inc. during 2005, combined with higher interest rates during 2005 as a result of the rising rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of $9.9 million. The rising rate environment resulted in a $15.1 million increase in interest expense during 2006.

Net interest margin, on a fully tax equivalent basis, was 3.52% for the year ended December 31, 2007, compared to 3.51% for 2006. During 2006, competitive pressures and a slightly inverted yield curve put pressure on our net interest margin. The current competitive pressures eased somewhat during 2007, allowing for a comparable net interest margin from December 31, 2006 to December 31, 2007 by achieving strong loan growth that was funded by both the run off in the investment portfolio and more reasonably priced interest-bearing liabilities.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2007, 2006 and 2005, as well as changes in fully taxable equivalent net interest margin for the years 2007 compared to 2006 and 2006 compared to 2005.

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Table 1: Analysis of Net Interest Income

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Interest income	$ 141,765	$ 123,763	$ 85,458
Fully taxable equivalent adjustment	2,526	2,229	1,790
Interest income fully taxable equivalent	144,291	125,992	87,248
Interest expense	73,778	60,940	36,002
Net interest income fully taxable equivalent	$ 70,513	$ 65,052	$ 51,246
Yield on earning assets fully taxable equivalent	7.21%	6.80%	5.74%
Cost of interest-bearing liabilities	4.18	3.79	2.75
Net interest spread fully taxable equivalent	3.03	3.01	2.99
Net interest margin fully taxable equivalent	3.52	3.51	3.37

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	December 31,	
	2007 vs. 2006	2006 vs. 2005
	(In thousands)	
Increase in interest income due to change in earning assets	$ 13,719	$ 24,119
Increase in interest income due to change in earning asset yields	4,580	14,625
Increase in interest expense due to change in interest-bearing liabilities	6,006	9,856
Increase in interest expense due to change in interest rates paid on interest-bearing liabilities	6,832	15,082
Increase in net interest income	$ 5,461	$ 13,806

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 years ended December 31, 2007, 2006 and 2005. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

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Table 3: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31,								
	2007			2006			2005		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)								
ASSETS									
Earning assets									
Interest-bearing balances due from banks	$ 3,235	$ 166	5.13%	$ 2,939	$ 139	4.73%	$ 3,159	$ 101	3.20%
Federal funds sold	6,683	342	5.12	16,870	840	4.98	8,048	284	3.53
Investment securities - taxable	371,893	17,003	4.57	427,696	18,879	4.41	442,168	17,103	3.87
Investment securities non- taxable	98,539	6,468	6.56	91,232	5,814	6.37	66,960	4,301	6.42
Loans receivable	1,521,881	120,312	7.91	1,314,611	100,320	7.63	1,000,906	65,459	6.54
Total interest-earning assets	2,002,231	144,291	7.21	1,853,348	125,992	6.80	1,521,241	87,248	5.74
Non-earning assets	231,114			177,170			137,601		
Total assets	$ 2,233,345			$ 2,030,518			$ 1,658,842		
LIABILITIES AND SHAREHOLDERS EQUITY									
Liabilities									
Interest-bearing liabilities									
Interest-bearing transaction and savings deposits	$ 591,874	$ 17,032	2.88%	$ 530,219	$ 13,179	2.49%	$ 447,433	$ 8,267	1.85%
Time deposits	807,765	39,200	4.85	763,291	33,034	4.33	624,692	18,616	2.98
Total interest-bearing deposits	1,399,639	56,232	4.02	1,293,510	46,213	3.57	1,072,125	26,883	2.51
Federal funds purchased	15,538	816	5.25	13,889	689	4.96	13,996	399	2.85
Securities sold under agreement to repurchase	121,751	4,746	3.90	111,635	4,420	3.96	85,876	2,657	3.09
FHLB and other borrowed funds	183,248	8,982	4.90	144,074	6,627	4.60	109,323	4,046	3.70
Subordinated debentures	44,620	3,002	6.73	44,710	2,991	6.69	29,408	2,017	6.86

Total interest-bearing liabilities	1,764,796	73,778	4.18	1,607,818	60,940	3.79	1,310,728	36,002	2.75
Non-interest bearing liabilities									
Non-interest-bearing deposits	215,212			215,075			177,511		
Other liabilities	12,781			11,611			13,125		
Total liabilities	1,992,789			1,834,504			1,501,364		
Shareholders equity	240,556			196,014			157,478		
Total liabilities and shareholders equity	$ 2,233,345			$ 2,030,518			$ 1,658,842		
Net interest spread			3.03%			3.01%			2.99%
Net interest income and margin		$ 70,513	3.52		$ 65,052	3.51		$ 51,246	3.37

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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 year ended December 31, 2007, compared to 2006, and 2006 compared to 2005, 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

	Years Ended December 31,					
	2007 over 2006			2006 over 2005		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 15	$ 12	$ 27	$ (7)	$ 45	$ 38
Federal funds sold	(520)	22	(498)	404	152	556
Investment securities taxable	(2,532)	656	(1,876)	(575)	2,351	1,776
Investment securities non-taxable	476	178	654	1,547	(34)	1,513
Loans receivable	16,280	3,712	19,992	22,750	12,111	34,861
Total interest income	13,719	4,580	18,299	24,119	14,625	38,744
Interest expense:						
Interest-bearing transaction and savings deposits	1,635	2,218	3,853	1,714	3,198	4,912
Time deposits	2,000	4,166	6,166	4,745	9,673	14,418
Federal funds purchased	85	42	127	(3)	293	290
Securities sold under agreement to repurchase	395	(69)	326	912	851	1,763
FHLB and other borrowed funds	1,897	458	2,355	1,463	1,118	2,581
Subordinated debentures	(6)	17	11	1,025	(51)	974
Total interest expense	6,006	6,832	12,838	9,856	15,082	24,938
Increase (decrease) in net interest income	$ 7,713	$ (2,252)	$ 5,461	$ 14,263	$ (457)	$ 13,806

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.

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

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internal evaluations. To the extent that this review process yields differences between estimated and actual observed losses, adjustments are made to the loss factors used to determine the appropriate level of the allowance for loan losses.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. The provision was $3.2 million for the year ended December 31, 2007, $2.3 million for 2006, and $3.8 million for 2005.

Our provision for loan losses increased $935,000, or 40.5%, to $3.2 million for the year ended December 31, 2007, from $2.3 million for 2006. The increase in the provision is primarily associated with growth in the loan portfolio combined with the unfavorable economic conditions, particularly in the Florida market.

Our provision for loan losses decreased $1.5 million, or 39.7%, to $2.3 million for the year ended December 31, 2006, from $3.8 million for 2005. The decrease in the provision is primarily associated with the improvement in non-performing loans and net charge-off from 2005 to 2006. The allowance for loan losses to nonperforming loans improved from 292% in 2005 to 574% in 2006. While the net charge-off ratio improved from 0.38% in 2005 to 0.03% in 2006.

Non-Interest Income. Total non-interest income was $25.8 million in 2007, compared to $19.1 million in 2006 and $15.7 million in 2005. Our non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, data processing fees, mortgage banking income, insurance commissions, income from title services, increases in cash value of life insurance, dividends, equity in earnings of unconsolidated affiliates and other income.

Table 5 measures the various components of our non-interest income for the years ended December 31, 2007, 2006, and 2005, respectively, as well as changes for the years 2007 compared to 2006 and 2006 compared to 2005.

Table 5: Non-Interest Income

	Years Ended December 31,			2007 Change from 2006		2006 Change from 2005	
	2007	2006	2005				
	(Dollars in thousands)						
Service charges on deposit accounts	$ 11,202	$ 9,447	$ 8,319	$ 1,755	18.6%	$ 1,128	13.6%
Other service charges and fees	5,470	2,642	2,099	2,828	107.0	543	25.9
Trust fees	131	671	458	(540)	(80.5)	213	46.5
Data processing fees	784	799	668	(15)	(1.9)	131	19.6
Mortgage banking income	1,662	1,736	1,651	(74)	(4.3)	85	5.1
Insurance commissions	762	782	674	(20)	(2.6)	108	16.0
Income from title services	713	957	823	(244)	(25.5)	134	16.3
Increase in cash value of life insurance	2,448	304	256	2,144	705.3	48	18.8
Dividends from FHLB, FRB & bankers bank	911	659	315	252	38.2	344	109.2
Equity in income (loss) of unconsolidated affiliates	(86)	(379)	(592)	293	(77.3)	213	(36.0)
Gain on sale of equity investment			465			(465)	(100.0)
Gain on sale of SBA loans	170	72	529	98	136.1	(457)	(86.4)

Gain (loss) on sale of premises and equipment	136	163	324	(27)	(16.6)	(161)	(49.7)
Gain (loss) on securities, net		1	(539)	(1)	(100.0)	540	(100.2)
Other income	1,451	1,273	237	178	14.0	1,036	437.1
Total non-interest income	$ 25,754	$ 19,127	$ 15,687	$ 6,627	34.6%	$ 3,440	21.9%

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Non-interest income increased $6.6 million, or 34.6%, to $25.7 million for the year ended December 31, 2007 from $19.1 million in 2006. The primary factors that resulted in the increase from 2006 to 2007 include:

The $1.8 million aggregate increase in service charges on deposit accounts was primarily a result of organic growth of our other bank subsidiaries service charges and an improved fee process.

The $2.8 million aggregate increase in other service charges and fees was primarily a result of increased retention of interchange fees, an infrequent referral fee received in the first quarter of 2007 and organic growth. More specifically, during the fourth quarter of 2006, we were able to negotiate with a new vendor the processing of interchange fees associated with our electronic banking transactions. This improved position is allowing us to retain more of the interchange fees by leveraging our in-house technology. During January 2007, we received a $125,000 referral fee from another institution for a large loan that we elected not to originate because it was outside our normal lending activities. We do not believe referral fees of this nature will be recurring.

In the fourth quarter of 2006, we made a strategic decision to enter into an agent agreement for the management of our trust services to a non-affiliated third party. This change was caused by our aspiration to improve the overall profitability of the trust efforts. The aggregate decrease in trust fees was primarily the result of the vendor retaining a significant portion of our trust fees. The out-sourcing of the trust management resulted in an $887,000 reduction of non-interest expense for 2007 compared to 2006. This non-interest expense reduction includes $599,000 related to salaries and employee benefits for 2007.

Late in the third quarter of 2007, White River Bancshares moved their data processing services in house. This will result in an annual reduction of our data processing fees of approximately $300,000.

Our community banks purchased $35 million and $3.5 million of additional bank owned life insurance on December 14, 2006 and April 23, 2007, respectively. The $2.1 million aggregate increase in cash surrender value is primarily related to these new policies.

The $252,000 increase in dividends was primarily associated with the Federal Reserve Bank (FRB) stock our bank subsidiaries bought in connection with their change to supervision of the Federal Reserve Board combined with additional stock they bought in Federal Home Loan Bank (FHLB) to increase the their borrowing capacity with FHLB.

The equity in loss of unconsolidated affiliate is related to the 20% interest in White River Bancshares that we purchased during 2005. Because the investment in White River Bancshares is accounted for on the equity method, we recorded our share of White River Bancshares operating earnings. White River Bancshares is operating at a loss as a result of their status as a start up company. The maturity of White River Bancshares and their acquisition of Brinkley Bancshares, Inc. helped to improve their earnings and should allow them to be in a profitable position going forward.

Gain on sale of premises and equipment for 2007 remained constant when compared to 2006 due to a gain in the second quarter of 2007 from the final settlement of insurance proceeds associated with the damage incurred by the storm surge during Hurricane Wilma, which struck the Florida Keys during the fourth quarter of 2005.

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Non-interest income increased $3.4 million, or 21.9%, to $19.1 million for the year ended December 31, 2006 from $15.7 million in 2005. The primary factors that resulted in the increase from 2005 to 2006 include:

The $1.7 million aggregate increase in service charges on deposit accounts and other service charges and fees was primarily a result of our acquisitions completed during 2005 combined with organic growth of our other bank subsidiaries service charges. More specifically, during the fourth quarter of 2006, we were able to negotiate with a new vendor the processing of interchange fees associated with our electronic banking transactions. This improved position is allowing us to retain more of the interchange fees by leveraging our in-house technology.

The $131,000 increase in data processing fees was related to the data processing fees associated with White River Bancshares, which began banking operations in May 2005.

The $455,000 aggregate increase in trust fees, insurance commissions and title fees was primarily a result of our organic growth in those product lines.

The $344,000 increase in dividends was primarily associated with the Federal Reserve Bank (FRB) stock our bank subsidiaries bought in connection with their change to supervision of the Federal Reserve Board combined with additional stock they bought in Federal Home Loan Bank (FHLB) to increase the their borrowing capacity with FHLB.

The equity in loss of unconsolidated affiliate is related to the 20% interest in White River Bancshares that we purchased during 2005. Because the investment in White River Bancshares is accounted for on the equity method, we recorded our share of White River Bancshares operating loss. White River Bancshares is currently operating at a loss as a result of their status as a start up company.

The $163,000 gain on sale of premises and equipment is the result of our banking subsidiary acquired in 2003 disposing of excess premises and equipment no longer needed as a result of synergies achieved from the combined entities.

The $1.0 million increase in other income is primarily a result of the recognized income from the sale of one branch banking location in 2005, gains on sales of foreclosed assets held for sale and the 2005 acquisitions. Due to contingencies associated with the sale of the branch banking location, income is being recognized over the thirty-month life of the contingencies of which $426,000 was recognized in 2006.

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

Table 6 below sets forth a summary of non-interest expense for the years ended December 31, 2007, 2006, and 2005, as well as changes for the years ended 2007 compared to 2006 and 2006 compared to 2005.

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Table 6: Non-Interest Expense

	Years Ended December 31,			2007 Change from 2006		2006 Change from 2005	
	2007	2006	2005				
	(Dollars in thousands)						
Salaries and employee benefits	$ 30,496	$ 29,313	$ 23,901	$ 1,183	4.0%	$ 5,412	22.6%
Occupancy and equipment	9,459	8,712	6,869	747	8.6	1,843	26.8
Data processing expense	2,648	2,506	1,991	142	5.7	515	25.9
Other operating expenses:							
Advertising	2,691	2,383	2,067	308	12.9	316	15.3
Amortization of intangibles	1,756	1,742	1,466	14	0.8	276	18.8
Electronic banking expense	2,359	789	427	1,570	199.0	362	84.8
Directors fees	843	774	505	69	8.9	269	53.3
Due from bank service charges	214	331	284	(117)	(35.3)	47	16.5
FDIC and state assessment	1,016	527	503	489	92.8	24	4.8
Insurance	901	1,030	504	(129)	(12.5)	526	104.4
Legal and accounting	1,206	1,025	941	181	17.7	84	8.9
Other professional fees	902	771	534	131	17.0	237	44.4
Operating supplies	983	940	745	43	4.6	195	26.2
Postage	663	663	580			83	14.3
Telephone	951	975	669	(24)	(2.5)	306	45.7
Other expense	4,447	3,997	2,949	450	11.3	1,048	35.5
Total non-interest expense	$ 61,535	$ 56,478	$ 44,935	$ 5,057	9.0%	$ 11,543	25.7%

Non-interest expense increased $5.0 million, or 9.0%, to $61.5 million for the year ended December 31, 2007, from $56.5 million in 2006. The increase in non-interest expense is the result of the continued expansion of the Company combined with the normal increased cost of doing business. The most significant component of the increase was the $1.6 million increase in electronic banking for 2007. The electronic banking increase was primarily the result of additional costs associated with our ability to retain more of the interchange fee income. During 2007 and 2006, we opened five de novo branch locations in Florida and six in Arkansas.

At its April 20, 2007 meeting, our Board of Directors approved a Chairman s Retirement Plan for John Allison our Chairman and CEO. Beginning on Mr. Allison s 65th birthday, he will receive a $250,000 annual benefit to be paid for 10 consecutive years or until his death, whichever shall occur later. An expense of $388,000 was accrued for 2007. This will result in an increase of approximately $535,000 to non-interest expense for 2008. During April 2007, we purchased $3.5 million of additional bank-owned life insurance to help offset a portion of the costs related to this retirement benefit.

Non-interest expense increased $11.5 million, or 25.7%, to $56.5 million for the year ended December 31, 2006, from $44.9 million in 2005. The increase in non-interest expense is the result of the acquisitions completed during 2005 combined with our continued expansion. The most significant component of the increase was the $5.4 million

increase in salaries and employee benefits for 2006. The $5.4 million increase was primarily the result of $5.0 million of additional staffing and $380,000 of options-related expense due to the adoption of SFAS 123R.

Amortization of intangibles expense was $1.8 million for the year ended December 31, 2007, $1.7 million for 2006, and $1.5 million for 2005. The expense was the result of core deposit intangibles created when we completed each of our acquisitions. Our estimated amortization expense for each of the following five years is: 2008 $1.7 million; 2009 $1.7 million; 2010 $1.7 million; 2011 $960,000; and 2012 $530,000.

Income Taxes. The provision for income taxes increased $1.3 million, or 17.6%, to $8.5 million for the year ended December 31, 2007, from $7.2 million for 2006. The provision for income taxes increased $2.3 million, or 46.8%, to $7.2 million for the year ended December 31, 2006, from $4.9 million for 2005. The effective tax rate for the years ended December 31, 2007, 2006 and 2005 were 29.4%, 31.3% and 30.1%, respectively. The lower effective income tax rate for 2007 is primarily associated with our purchase of $3.5 million and $35 million in additional bank-owned life insurance in the second quarter of 2007 and fourth quarter of 2006, respectively, which resulted in additional tax-free non-interest income.

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During 2007, we invested in Diamond State Ventures II, which is a venture capital fund that provides capital and assistance to small businesses in Arkansas and surrounding states throughout the South and Midwest. Our investment in Diamond State Ventures II resulted in an instant Arkansas state tax credit of one-third of our investment or $143,000 for 2007 which lowered our current year effective tax rate by 50 basis points.

Financial Conditions as of and for the Years Ended December 31, 2007 and 2006

Our total assets increased $101.0 million, or 4.6%, to $2.29 billion as of December 31, 2007, from $2.19 billion as of December 31, 2006. Our loans receivable increased $190.7 million, or 13.5%, to $1.61 billion as of December 31, 2007, from $1.42 billion as of December 31, 2006. Shareholders equity increased $21.7 million, or 9.4%, to $253.1 million as of December 31, 2007, compared to $231.4 million as of December 31, 2006. Asset and loan increases are primarily associated with organic growth of our bank subsidiaries. The increase in stockholders equity was primarily the result of retained earnings during 2007.

Loan Portfolio

Our loan portfolio averaged $1.52 billion during 2007, $1.31 billion during 2006 and $1.00 billion during 2005. Net loans were $1.58 billion, $1.39 billion and $1.18 billion as of December 31, 2007, 2006 and 2005, respectively. The most significant components of the loan portfolio were commercial and residential real estate, real estate construction, consumer, and commercial and industrial loans. These loans are primarily originated within our market areas of central Arkansas, north central Arkansas, northwest Arkansas, southwest Florida and the Florida Keys and are generally secured by residential or commercial real estate or business or personal property within our market areas.

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

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

Table 7: Loan Portfolio

	As of December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	$ 607,638	$ 465,306	$ 411,839	$ 181,995	$ 173,743
Construction/land development	367,422	393,410	291,515	116,935	74,138
Agricultural	22,605	11,659	13,112	12,912	5,065
Residential real estate loans:					
Residential 1-4 family	259,975	229,588	221,831	86,497	79,246
Multifamily residential	45,428	37,440	34,939	17,708	16,654
Total real estate	1,303,068	1,137,403	973,236	416,047	348,846
Consumer	46,275	45,056	39,447	24,624	31,546
Commercial and industrial	219,062	206,559	175,396	69,345	102,350
Agricultural	20,429	13,520	8,466	6,275	14,409
Other	18,160	13,757	8,044	364	2,904
Total loans receivable	1,606,994	1,416,295	1,204,589	516,655	500,055
Less: Allowance for loan losses	29,406	26,111	24,175	16,345	14,717
Total loans receivable, net	$ 1,577,588	$ 1,390,184	$ 1,180,414	$ 500,310	$ 485,338

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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 December 31, 2007, commercial real estate loans totaled $997.7 million, or 62.1% of our loan portfolio, compared to $870.3 million, or 61.5% of our loan portfolio, as of December 31, 2006. This increase is primarily the result of strong demand for this type of loan product which resulted in organic growth of our loan portfolio.

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

As of December 31, 2007, we had $305.4 million, or 19.0% of our loan portfolio, in residential real estate loans, compared to $267.0 million, or 18.9% of our loan portfolio, as of December 31, 2006. The changing market conditions have given our community banks the opportunity to retain more residential real estate loans. These loans have normal maturities of less than five years.

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

As of December 31, 2007, our installment consumer loan portfolio totaled $46.3 million, or 2.9% of our total loan portfolio, which is comparable to $45.1 million, or 3.2% of our loan portfolio, as of December 31, 2006.

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 December 31, 2007, commercial and industrial loans outstanding totaled $219.1 million, or 13.6% of our loan portfolio, which is comparable to $206.6 million, or 14.6% of our loan portfolio, as of December 31, 2006.

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Table 8 presents the distribution of the maturity of our loans as of December 31, 2007. The table also presents the portion of our loans that have fixed interest rates versus interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

Table 8: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
		(In thousands)		
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 159,463	$ 306,134	$ 142,041	$ 607,638
Construction/land development	216,994	126,702	23,726	367,422
Agricultural	7,366	5,075	10,164	22,605
Residential real estate loans:				
Residential 1-4 family	79,484	90,171	90,320	259,975
Multifamily residential	18,462	23,791	3,175	45,428
Total real estate	481,769	551,873	269,426	1,303,068
Consumer	20,890	24,483	902	46,275
Commercial and industrial	87,645	121,865	9,552	219,062
Agricultural	11,126	7,737	1,566	20,429
Other	7,507	8,636	2,017	18,160
Total loans receivable	$ 608,937	$ 714,594	$ 283,463	$ 1,606,994
With fixed interest rates	$ 371,468	$ 534,794	$ 76,982	$ 983,244
With floating interest rates	237,469	179,800	206,481	623,750
Total	$ 608,937	$ 714,594	$ 283,463	$ 1,606,994

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 9 sets forth information with respect to our non-performing assets as of December 31, 2007, 2006, 2005, 2004, and 2003. As of these dates, we did not have any restructured loans within the meaning of Statement of Financial Accounting Standards No. 15.

Table 9: Non-performing Assets

	As of December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in thousands)				
Non-accrual loans	$ 2,952	$ 3,905	$ 7,864	$ 8,959	$ 8,600
Loans past due 90 days or more (principal or interest payments)	301	641	426	2	52
Total non-performing loans	3,253	4,546	8,290	8,961	8,652
Other non-performing assets					
Foreclosed assets held for sale	5,083	435	758	458	1,274
Other non-performing assets	15	13	11	53	62
Total other non-performing assets	5,098	448	769	511	1,336
Total non-performing assets	$ 8,351	$ 4,994	$ 9,059	$ 9,472	$ 9,988
Allowance for loan losses to non-performing loans	903.97%	574.37%	291.62%	182.40%	170.10%
Non-performing loans to total loans	0.20	0.32	0.69	1.73	1.73
Non-performing assets to total assets	0.36	0.23	0.47	1.18	1.24

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

Total non-performing loans were $3.3 million as of December 31, 2007, compared to $4.5 million as of December 31, 2006. Total non-performing loans were $4.5 million as of December 31, 2006, compared to $8.3 million as of December 31, 2005. While our goal is to maintain sound asset quality, there has been an increase in the non-performing loans during the first quarter of 2008. During the first two months of 2008, our non-performing loans to total loans increased from 0.20% at December 31, 2007 to 0.63% as of February 29, 2008. Part of this increase is related to our acquisition of Centennial Bancshares on January 1, 2008 which reported a 1.10% non-performing loans to total loans as of February 29, 2008. The remaining increase in non-performing loans is indicative of the economic declines in a few of the markets that we serve, particularly in Florida. The appreciation of the real estate market in the Florida Keys has subsided, as a result of the sluggish economy. The weakening real estate market has and may continue pushing up our level of non-performing loans going forward. When we report results for the first quarter of 2008, we could see non-performing loans to total loans in the range of approximately 0.60% to 2.0%. As of the filing of this annual report, we have some concerns about our loan portfolio in that a couple of our markets are witnessing a slow down in sales and some price reduction. The key is our borrower s ability to weather this economic storm. While we believe our allowance for loan losses is adequate at December 31, 2007, as additional facts become known about relevant internal and external factors that effect loan collectability and our assumptions, it may result in us making additions to the provision for loan loss during 2008.

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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 $270,000 for the year ended December 31, 2007, $450,000 in 2006, and $550,000 in 2005 would have been recorded. Interest income recognized on the non-accrual loans for the years ended December 31, 2007, 2006 and 2005 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 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 December 31, 2007 and 2006, average impaired loans were $11.8 million and $7.2 million, respectively. At December 31, 2007 and 2006, impaired loans totaled $11.9 million and $11.2 million, respectively. While the year end impaired loans have increased $660,000 from 2006 to 2007, these impaired loans only result in a slight increase in loss exposure. As a result reserves relative to impaired loans at December 31, 2007, were $2.6 million and $2.1 million at December 31, 2006.

The $4.6 million increase in foreclosed assets held for sale is primarily the result of one credit located in the Florida Keys. This foreclosure was an owner occupied strip center. The space the proprietor occupied has subsequently been leased and the rest of the center is occupied. This property has been written down to the estimated fair value. We are cautiously optimistic that if there is loss on the sale of the strip center, it will not be material.

As a result of the building boom in northwest Arkansas, this market is experiencing over-development. Management will actively monitor the status of this market as it relates to our real estate loans and make changes to the allowance for loan losses if necessary. As of December 31, 2007, we had two credits amounting to $20.2 million in loans secured by real estate in northwest Arkansas. We anticipate no weakness in these credits as they are well-secured by substantial guarantors. At December 31, 2007, we had no loan participations in northwest Arkansas with our unconsolidated affiliate White River Bancshares, Inc.

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.

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

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

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

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

Charge-offs and Recoveries. Total charge-offs decreased $688,000, or 45.4%, to $826,000 for the year ended December 31, 2007, from $1.5 million in 2006. Total recoveries decreased $264,000, or 23.1%, to $879,000 for the year ended December 31, 2007 from $1.1 million in 2006. Total charge-offs decreased $3.1 million, or 67.2%, to $1.5 million for the year ended December 31, 2006, from $4.6 million in 2005. Total recoveries increased $293,000, or 34.5%, to $1.1 million for the year ended December 31, 2006 from $850,000 in 2005. The changes in net charge-offs are due to our conservative stance on asset quality. The acquisitions completed in 2005 had a minimal impact on net charge-offs.

Table 10 shows the allowance for loan losses, charge-offs and recoveries as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003.

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Table 10: Analysis of Allowance for Loan Losses

	As of December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in thousands)				
Balance, beginning of year	$ 26,111	$ 24,175	$ 16,345	$ 14,717	$ 5,706
Loans charged off					
Real estate:					
Commerical real estate loans:					
Non-farm/non-residential	16	322	2,448		
Construction/land development	9	125	405	5	23
Agricultural		18	15		17
Residential real estate loans:					
Residential 1-4 family	349	143	515	404	138
Multifamily residential	6				
Total real estate	380	608	3,383	409	178
Consumer	270	243			
Commercial and industrial	176	626	758	499	114
Agricultural			30	786	80
Other		37	440	487	304
Total loans charged off	826	1,514	4,611	2,181	676
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	423	102	294	1,057	1
Construction/land development	1	122	15	13	19
Agricultural	5				
Residential real estate loans:					
Residential 1-4 family	162	346	115	47	31
Multifamily residential	18	66			
Total real estate	609	636	424	1,117	51
Consumer	110	104			
Commercial and industrial	127	157	102	254	10
Agricultural				17	45
Other	33	246	324	131	44
Total recoveries	879	1,143	850	1,519	150
Net (recoveries) loans charged off	(53)	371	3,761	662	526
Allowance for loan losses of acquired institution			7,764		8,730
Provision for loan losses	3,242	2,307	3,827	2,290	807
Balance, end of year	$ 29,406	$ 26,111	$ 24,175	$ 16,345	$ 14,717

Net (recoveries) charge-offs to average loans	(0.00)%	0.03%	0.38%	0.13%	0.16%
Allowance for loan losses to period-end loans	1.83	1.84	2.01	3.16	2.94
Allowance for loan losses to net (recoveries) charge-offs	(55,483)	7,038	642	2,469	2,798

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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. The unallocated portion of the allowance, although unassigned to a particular credit relationship or product segment, is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the year 2007 in the allocation of the allowance for loan losses for the individual types of loans for the most part are consistent with the changes in the outstanding loan portfolio for those products from December 31, 2006. In the opinion of management, any allocation changes not consistent with the changes in the loan portfolio product would be considered normal operating changes, not downgrading or upgrading of any one particular type of loans in the loan portfolio.

Table 11 presents the allocation of allowance for loan losses as of the dates indicated.

Table 11: Allocation of Allowance for Loan Losses

	As of December 31,									
	2007		2006		2005		2004		2003	
	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)
	(Dollars in thousands)									
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	$ 11,475	37.8%	$ 9,130	32.8%	$ 7,202	34.1%	$ 6,212	35.3%	$ 5,505	34.8%
Construction/land development	7,332	22.9	7,494	27.8	5,544	24.2	1,690	22.6	1,407	14.8
Agricultural	311	1.4	505	0.8	407	1.1	493	2.5	491	1.0
Residential real estate loans:										
Residential 1-4 family	3,968	16.2	3,091	16.2	3,317	18.4	2,185	16.7	2,710	15.8
Multifamily residential	727	2.8	909	2.6	423	2.9	156	3.4	85	3.3
Total real estate	23,813	81.1	21,129	80.2	16,893	80.7	10,736	80.5	10,198	69.7
Consumer	905	2.9	861	3.2	682	3.3	526	4.8	724	6.3
Commercial and industrial	3,243	13.6	3,237	14.6	4,059	14.6	2,025	13.4	2,241	20.5
Agricultural	599	1.3	456	1.0	505	0.7	316	1.2	572	2.9
Other	14	1.1	11	1.0		0.7		0.1		0.6
Unallocated	832		417		2,036		2,742		982	
Total	$ 29,406	100.0%	$ 26,111	100.0%	$ 24,175	100.0%	$ 16,345	100.0%	$ 14,717	100.0%

(1) Percentage of loans in each category to loans

receivable.

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Investment 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 December 31, 2007 and 2006, we had no held-to-maturity or trading securities.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities classified as available for sale may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors. Available-for-sale securities were $430.4 million as of December 31, 2007, compared to $531.9 million as of December 31, 2006. The estimated duration of our securities portfolio was 2.6 years as of December 31, 2007.

As of December 31, 2007, $181.6 million, or 42.2%, of the available-for-sale securities were invested in mortgage-backed securities, compared to $219.8 million, or 41.3%, of the available-for-sale securities in the prior year. To reduce our income tax burden, $111.3 million, or 25.9%, of the available-for-sale securities portfolio as of December 31, 2007, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $103.4 million, or 19.4%, of the available-for-sale securities as of December 31, 2006. Also, we had approximately $126.3 million, or 29.3%, in obligations of U.S. Government-sponsored enterprises in the available-for-sale securities portfolio as of December 31, 2007, compared to $196.2 million, or 36.9%, of the available-for-sale securities in the prior year.

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from increases in market interest rates during 2005 and 2006. Based on evaluation of available evidence, 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 12 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 12: Investment Securities

	As of December 31,							
	2007				2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
Available-for-Sale								
U.S. Government-sponsored enterprises	$ 126,898	$ 268	$ (872)	$ 126,294	$ 199,085	$ 79	$ (2,927)	$ 196,237
Mortgage-backed securities	184,949	179	(3,554)	181,574	225,747	41	(5,988)	219,800
State and political subdivisions	111,014	1,105	(812)	111,307	102,536	1,360	(496)	103,400
Other securities	11,411		(187)	11,224	12,631		(177)	12,454
Total	$ 434,272	$ 1,552	$ (5,425)	$ 430,399	$ 539,999	$ 1,480	$ (9,588)	$ 531,891

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

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Table 13 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2007, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. 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.

Table13: Maturity Distribution of Investment Securities

	As of December 31, 2007					
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)					
Available-for-Sale						
U.S. Government-sponsored enterprises	$ 82,708	$ 19,462	$ 6,805	$ 17,923	$ 126,898	$ 126,294
Mortgage-backed securities	31,549	76,800	30,211	46,389	184,949	181,574
State and political subdivisions	26,942	57,459	18,169	8,444	111,014	111,307
Other securities	2,809	6,439	2,163		11,411	11,224
Total	$ 144,008	$ 160,160	$ 57,348	$ 72,756	$ 434,272	$ 430,399
Percentage of total	33.2%	36.9%	13.2%	16.8%	100.0%	
Weighted average yield	4.84%	5.45%	5.77%	5.35%	5.27%	

Deposits

Our deposits averaged $1.61 billion for the year ended December 31, 2007, and $1.51 billion for 2006. Total deposits decreased $15.0 million, or 0.9%, to $1.59 billion as of December 31, 2007, from $1.61 billion as of December 31, 2006. 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 December 31, 2007 and 2006, brokered deposits were $39.3 million and $50.2 million, respectively.

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing and do not anticipate a significant change in total deposits unless our liquidity position changes. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if we experience increased loan demand or other liquidity needs. The increase in interest rates paid from 2006 to 2007 is reflective of the Federal Reserve increasing the Federal Funds rate beginning in 2004 and the associated repricing of deposits during the subsequent years. On September 18, 2007, October 31, 2007 and December 11, 2007, the Federal Funds rate was lowered by 50 basis points, 25 basis points and 25 basis points, respectively. Due to these reductions occurring late in 2007, the impact for the year was minimal. Going forward, we will begin to see more of an impact of the decrease in the Federal Funds rate as deposits reprice. Average interest rates for 2007 reflect the higher interest rate environment that existed until late in 2007 when the Federal Funds rate was lowered. Because the rate was lowered by 75 basis points on

January 22, 2008 and another 50 basis points on January 30, 2008, we expect the impact of the decreases in the Federal Funds rate to be more prominent in 2008.

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Table 14 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 years ended December 31, 2007, 2006, and 2005.

Table 14: Average Deposit Balances and Rates

	Years Ended December 31,					
	2007		2006		2005	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)					
Non-interest-bearing transaction accounts	$ 215,212	%	$ 215,075	%	$ 177,511	%
Interest-bearing transaction accounts	536,032	3.04	458,463	2.63	389,291	1.94
Savings deposits	55,842	1.35	71,756	1.59	58,142	1.24
Time deposits:						
$100,000 or more	460,244	4.95	418,903	4.61	357,464	3.16
Other time deposits	347,521	4.72	344,388	3.99	267,228	2.74
Total	$ 1,614,851	3.48%	$ 1,508,585	3.06%	$ 1,249,636	2.15%

Table 15 presents our maturities of large denomination time deposits as of December 31, 2007 and 2006.

Table 15: Maturities of Large Denomination Time Deposits ($100,000 or more)

	As of December 31,			
	2007		2006	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
Three months or less	$ 170,092	39.1%	$ 230,126	47.3%
Over three months to six months	90,147	20.8	85,327	17.6
Over six months to 12 months	132,472	30.4	103,810	21.3
Over 12 months	42,777	9.7	67,083	13.8
Total	$ 435,488	100.0%	$ 486,346	100.0%

FHLB Borrowings

Our FHLB borrowings were $251.8 million as of December 31, 2007, and $151.8 million as of December 31, 2006. The outstanding balance for December 31, 2007, includes $116.0 million of short-term advances and $135.8 million of long-term advances. The outstanding balance for December 31, 2006, includes $5.0 million of short-term advances and $146.8 million of long-term advances. Our remaining FHLB borrowing capacity was $186.6 million as of December 31, 2007, and $323.6 million as of December 31, 2006.

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Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $44.6 million and $44.7 million as of December 31, 2007 and 2006, respectively.

Table 16 reflects subordinated debentures as of December 31, 2007 and 2006, which consisted of guaranteed payments on trust preferred securities with the following components:

Table 16: Subordinated Debentures

	As of December 31,	
	2007	2006
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, issued in 2000, due 2030, fixed at 10.60%, callable beginning in 2010 with a prepayment penalty declining from 5.30% to 0.53% depending on the year of prepayment, callable in 2020 without penalty	3,333	3,424
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total	$ 44,572	$ 44,663

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

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

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

Shareholders Equity

Stockholders equity was $253.1 million at December 31, 2007 compared to $231.4 million at December 31, 2006, an increase of 9.3%. As of December 31, 2007 our equity to asset ratio was 11.0%, compared to 10.6% as of December 31, 2006. Book value per common share was $14.67 at December 31, 2007 compared to $13.45 at December 31, 2006, a 9.1% increase. The increases in stockholders equity and book value per share were primarily the result of retained earnings during the prior twelve months.

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Initial Public Offering. We priced our initial public offering of 2.5 million shares of common stock at $18.00 per share. We received net proceeds of approximately $40.9 million from its sale of shares after deducting sales commissions and expenses. The underwriters of the Company s initial public offering exercised and completed their option to purchase an additional 375,000 shares of common stock to cover over-allotments effective July 26, 2006. We received net proceeds of approximately $6.3 million from this sale of shares after deducting sales commissions. We have used $16.0 million of the initial public offering proceeds to provide capital contributions to our bank subsidiaries, $2.6 million as an additional investment in White River Bancshares to maintain our 20% ownership and $2.0 million to purchase a long-term investment.

Preferred Stock Conversion. During the third quarter of 2006, our Board of Directors authorized the redemption and conversion of the issued and outstanding shares of Home BancShares s Class A Preferred Stock and Class B Preferred Stock into Home BancShares Common Stock, effective as of August 1, 2006.

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

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

Stock Split. On May 31, 2005, we completed a three-for-one stock split effected in the form of a stock dividend. This resulted in issuing two additional shares of stock to the common shareholders for each share previously held. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the $78,000 transfer of the par value of these additional shares from capital surplus. All share and per share amounts have been restated to reflect the retroactive effect of the stock split, except for our capitalization.

Cash Dividends. We declared cash dividends on our common stock of $0.145 for the year ended December 31, 2007. We declared cash dividends on our common stock, Class A preferred stock, and Class B preferred stock of $0.090, $0.1458 and $0.3325 per share, respectively, for the year ended December 31, 2006. The common per share amounts are reflective of the three-for-one stock split during 2005.

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

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses and dividends are current cash on hand ($31.4 million as of December 31, 2007) and dividends received from our bank subsidiaries.

Dividend payments by our bank subsidiaries are subject to various regulatory limitations. As the result of historical special dividends paid and leveraged capital positions, the Company s subsidiary banks do not have any significant undivided profits available for payment of dividends to the Company, without prior approval of the regulatory agencies at December 31, 2007.

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Risk-Based Capital. We, as well as our bank subsidiaries, are subject to various regulatory capital requirements administered by the federal banking agencies. Until White River Bancshares, Inc. repurchased our 20% ownership on March 3, 2008, we were deemed by federal regulators to be a source of financial strength for White River Bancshares, despite having owned only 20% of its equity. 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 December 31, 2007 and 2006, we met all regulatory capital adequacy requirements to which we were subject.

Table 17 presents our risk-based capital ratios as of December 31, 2007 and 2006.

Table 17: Risk-Based Capital

	As of December 31,	
	2007	2006
	(Dollars in thousands)	
Tier 1 capital		
Shareholders equity	$ 253,056	$ 231,419
Qualifying trust preferred securities	43,000	43,000
Goodwill and core deposit intangibles, net	(42,332)	(43,433)
Qualifying minority interest		
Unrealized loss on available-for-sale securities	2,255	4,892
Other		
Total Tier 1 capital	255,979	235,878
Tier 2 capital		
Qualifying allowance for loan losses	23,861	20,308
Other		
Total Tier 2 capital	23,861	20,308
Total risk-based capital	$ 279,840	$ 256,186
Average total assets for leverage ratio	$ 2,236,776	$ 2,089,130
Risk weighted assets	$ 1,903,364	$ 1,618,849
Ratios at end of year		
Leverage ratio	11.44%	11.29%
Tier 1 risk-based capital	13.45	14.57
Total risk-based capital	14.70	15.83
Minimum guidelines		
Leverage ratio	4.00%	4.00%

Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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

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Table 18 presents actual capital amounts and ratios as of December 31, 2007 and 2006, for our bank subsidiaries and us.

Table 18: 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 December 31, 2007						
Leverage ratios:						
Home BancShares	$255,979	11.44%	$ 89,503	4.00%	$ N/A	N/A%
First State Bank	54,537	9.18	23,763	4.00	29,704	5.00
Community Bank	34,189	8.90	15,366	4.00	19,207	5.00
Twin City Bank	61,178	8.87	27,589	4.00	34,486	5.00
Marine Bank	33,332	8.91	14,964	4.00	18,705	5.00
Bank of Mountain View	16,174	8.26	7,832	4.00	9,791	5.00
Tier 1 capital ratios:						
Home BancShares	$255,979	13.45%	$ 76,128	4.00%	$ N/A	N/A%
First State Bank	54,537	10.29	21,200	4.00	31,800	6.00
Community Bank	34,189	11.21	12,199	4.00	18,299	6.00
Twin City Bank	61,178	10.10	24,229	4.00	36,343	6.00
Marine Bank	33,332	10.20	13,071	4.00	19,607	6.00
Bank of Mountain View	16,174	13.84	4,675	4.00	7,012	6.00
Total risk-based capital ratios:						
Home BancShares	$279,840	14.70%	$152,294	8.00%	$ N/A	N/A%
First State Bank	61,188	11.54	42,418	8.00	53,023	10.00
Community Bank	38,036	12.47	24,402	8.00	30,502	10.00
Twin City Bank	68,754	11.35	48,461	8.00	60,576	10.00
Marine Bank	37,429	11.45	26,151	8.00	32,689	10.00
Bank of Mountain View	17,442	14.92	9,352	8.00	11,690	10.00
As of December 31, 2006						
Leverage ratios:						
Home BancShares	$235,878	11.29%	$ 83,571	4.00%	$ N/A	N/A%
First State Bank	46,811	8.69	21,547	4.00	26,934	5.00
Community Bank	26,235	7.94	13,217	4.00	16,521	5.00
Twin City Bank	50,375	7.51	26,831	4.00	33,539	5.00
Marine Bank	27,317	8.08	13,523	4.00	16,904	5.00
Bank of Mountain View	15,230	7.73	7,881	4.00	9,851	5.00
Tier 1 capital ratios:						
Home BancShares	$235,878	14.57%	$ 64,757	4.00%	$ N/A	N/A%
First State Bank	46,811	10.29	18,197	4.00	27,295	6.00
Community Bank	26,235	10.31	10,178	4.00	15,268	6.00
Twin City Bank	50,375	10.15	19,852	4.00	29,778	6.00

Marine Bank	27,317	9.59	11,394	4.00	17,091	6.00
Bank of Mountain View	15,230	14.09	4,324	4.00	6,485	6.00
Total risk-based capital ratios:						
Home BancShares	$256,186	15.83%	$129,469	8.00%	$ N/A	N/A%
First State Bank	52,519	11.54	36,408	8.00	45,510	10.00
Community Bank	29,471	11.58	20,360	8.00	25,450	10.00
Twin City Bank	56,586	11.40	39,709	8.00	49,637	10.00
Marine Bank	30,582	10.74	22,780	8.00	28,475	10.00
Bank of Mountain View	16,316	15.09	8,650	8.00	10,812	10.00

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Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management s credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

Table 19 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2007.

Table 19: Funding Requirements of Financial Commitments

	Payments Due by Period				
	Less than One Year	One-Three Years	Three-Five Years	Greater than Five Years	Total
			(In thousands)		
Operating lease obligations	$ 1,116	$ 2,057	$ 1,823	$ 4,359	$ 9,355
FHLB advances	178,346	50,877	10,139	12,388	251,750
Subordinated debentures				44,572	44,572
Loan commitments	211,370	63,663	21,308	19,046	315,387
Letters of credit	10,931	317	98	4,492	15,838

Non-GAAP Financial Measurements

We had $45.2 million, $47.0 million, and $48.7 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2007, 2006 and 2005, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted cash earnings per share, tangible book value per share, cash return on average assets, cash return on average tangible equity and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average shareholders equity, and equity to assets, are presented in Tables 20 through 24, respectively.

Table 20: Diluted Cash Earnings Per Share

	Years Ended December 31,		
	2007	2006	2005
	(In thousands, except per share data)		
GAAP net income	$ 20,445	$ 15,918	$ 11,446
Intangible amortization after-tax	1,068	1,059	891
Cash earnings	$ 21,513	$ 16,977	$ 12,337
GAAP diluted earnings per share	$ 1.17	$ 1.00	$ 0.82
Intangible amortization after-tax	0.06	0.07	0.07
Diluted cash earnings per share	$ 1.23	$ 1.07	$ 0.89

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Table 21: Tangible Book Value Per Share

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands, except per share data)		
Book value per common share: (A-B-C)/D	$ 14.67	$ 13.45	$ 11.45
Book value per common share with preferred converted to common: A/(D+E+F)	14.67	13.45	11.63
Tangible book value per common share:(A-B-C-G-H)/D	12.05	10.72	7.43
Tangible book value per share with preferred converted to common: (A-G-H)/(D+E+F)	12.05	10.72	8.21
(A) Total shareholders equity	$253,056	$231,419	$165,857
(B) Total preferred A shareholders equity			20,760
(C) Total preferred B shareholders equity			6,422
(D) Common shares outstanding	17,250	17,206	12,114
(E) Preferred A shares converted to common			1,639
(F) Preferred B shares converted to common			507
(G) Goodwill	37,527	37,527	37,527
(H) Core deposit and other intangibles	7,702	9,458	11,200

Table 22: Cash Return on Average Assets

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Return on average assets: A/C	0.92%	0.78%	0.69%
Cash return on average assets: B/(C-D)	0.98	0.86	0.76
(A) Net income	$ 20,445	$ 15,918	$ 11,446
(B) Cash earnings	21,513	16,977	12,337
(C) Average assets	2,233,345	2,030,518	1,658,842
(D) Average goodwill, core deposits and other intangible assets	46,102	47,870	36,035

Table 23: Cash Return on Average Tangible Equity

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Return on average shareholders equity: A/C	8.50%	8.12%	7.27%
Return on average tangible equity: B/(C-D)	11.06	11.46	10.16
(A) Net income	$ 20,445	$ 15,918	$ 11,446
(B) Cash earnings	21,513	16,977	12,337
(C) Average shareholders equity	240,556	196,014	157,478
(D) Average goodwill, core deposits and other intangible assets	46,102	47,870	36,035

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Table 24: Tangible Equity to Tangible Assets

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Equity to assets: B/A	11.04%	10.56%	8.68%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.25	8.60	6.29
(A) Total assets	$2,291,630	$2,190,648	$1,911,491
(B) Total shareholders equity	253,056	231,419	165,857
(C) Goodwill	37,527	37,527	37,527
(D) Core deposit and other intangibles	7,702	9,458	11,200

Quarterly Results

Table 25 presents selected unaudited quarterly financial information for 2007 and 2006.

Table 25: Quarterly Results

	2007 Quarter				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 34,184	$ 35,144	$ 36,381	$ 36,056	$ 141,765
Total interest expense	18,122	18,399	19,061	18,196	73,778
Net interest income	16,062	16,745	17,320	17,860	67,987
Provision for loan losses	820	680	547	1,195	3,242
Net interest income after provision for loan losses	15,242	16,065	16,773	16,665	64,745
Total non-interest income	6,205	6,583	6,312	6,654	25,754
Total non-interest expense	14,741	15,517	15,599	15,678	61,535
Income before income taxes	6,706	7,131	7,486	7,641	28,964
Income tax expense	1,945	2,070	2,258	2,246	8,519
Net income	$ 4,761	$ 5,061	$ 5,228	$ 5,395	$ 20,445
Per share data:					
Basic earnings	$ 0.28	$ 0.29	$ 0.30	$ 0.32	$ 1.19
Diluted earnings	0.27	0.29	0.30	0.31	1.17
Diluted cash earnings	0.29	0.30	0.31	0.33	1.23

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	2006 Quarter				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 27,734	$ 29,886	$ 32,458	$ 33,685	$ 123,763
Total interest expense	12,928	14,523	16,022	17,467	60,940
Net interest income	14,806	15,363	16,436	16,218	62,823
Provision for loan losses	484	590	649	584	2,307
Net interest income after provision for loan losses	14,322	14,773	15,787	15,634	60,516
Total non-interest income	4,401	4,598	4,698	5,429	19,126
Gain (loss) on securities, net		1			1
Total non-interest expense	13,619	14,143	14,237	14,479	56,478
Income before income taxes	5,104	5,229	6,248	6,584	23,165
Income tax expense	1,588	1,593	1,960	2,106	7,247
Net income	$ 3,516	$ 3,636	$ 4,288	$ 4,478	$ 15,918
Per share data:					
Basic earnings	$ 0.28	$ 0.28	$ 0.26	$ 0.25	$ 1.07
Diluted earnings	0.24	0.25	0.25	0.26	1.00
Diluted cash earnings	0.26	0.27	0.26	0.28	1.07

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities to provide companies with an option to report selected financial assets and liabilities at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement shall be effective as of the beginning of each reporting entity s first fiscal year that begins after November 15, 2007. SFAS 159 will be effective for us on January 1, 2008. Because we did not elect the fair value measurement provision for any of our financial assets or liabilities, the adoption of SFAS 159 is not expected to have a material impact on our 2008 consolidated financial statements. Presently, we have not determined whether we will elect the fair value measurement provisions for future transactions.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company s financial position or results of operations.

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In September 2006, the FASB Emerging Issue Task Force (EITF) issued EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The EITF determined that for an endorsement split-dollar life insurance arrangement within the scope of the Issue, the employer should recognize a liability for future benefits in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or APB Opinion 12, Omnibus Opinion-1967, based on the substantive agreement with the employee. In March 2007, the FASB Emerging Issue Task Force (EITF) issued EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. The EITF determined that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. These Issues are effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying EITF 06-4 through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. As of December 31, 2007, the Company has split-dollar life insurance arrangements with two executives of the Company that have death benefits. The Company is currently evaluating the impact that the adoption of EITF 06-4 and EITF 06-10, but does not expect it to have a material effect on the Company s financial position or results of operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

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

Each of our bank subsidiaries have 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 cash equivalents, federal funds sold, maturities of investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and equivalents to meet our day-to-day needs. As of December 31, 2007, our cash and cash equivalents balances were $55.0 million, or 2.4% of total assets, compared to $59.7 million, or 2.7% of total assets, as of December 31, 2006. Our investment securities and Fed funds sold were $430.5 million as of December 31, 2007 and $540.9 million as of December 31, 2006.

As of December 31, 2007, $112.5 million, or 45.2%, of our securities portfolio, excluding mortgage-backed securities, matured within one year, and $83.4 million, or 33.5%, excluding mortgage-backed securities, matured after one year but within five years. As of December 31, 2006, $166.4 million, or 53.3%, of our securities portfolio, excluding mortgage-backed securities, matured within one year, and $99.0 million, or 31.7%, excluding mortgage-backed securities, matured after one year but within five years. As of December 31, 2007 and 2006, $210.6 million and $287.2 million, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

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Our commercial and real estate lending activities are concentrated in loans with maturities of less than five years with both fixed and adjustable rates. As of December 31, 2007 and 2006, approximately $995.2 million, or 61.9%, and $899.7 million, or 63.5%, respectively, of our loans matured within one year and/or had adjustable interest rates. Additionally, we maintain loan participation agreements with other financial institutions in which we could participate out loans for additional liquidity should the need arise.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2007, our total deposits were $1.59 billion, or 69.5% of total assets, compared to $1.61 billion, or 73.4% of total assets, as of December 31, 2006. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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 $88.2 million and $62.1 million on an unsecured basis as of December 31, 2007 and 2006, respectively. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowings were $251.8 million as of December 31, 2007 and $151.8 million as of December 31, 2006. The outstanding balance for December 31, 2007, included $116.0 million of short-term advances and $135.8 million of FHLB long-term advances. The outstanding balance for December 31, 2006, included $5.0 million of short-term advances and $146.8 million of FHLB long-term advances. Our FHLB borrowing capacity was $186.6 million and $323.6 million as of December 31, 2007 and 2006, respectively.

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.

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

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.

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For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2007, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 26 presents our sensitivity to net interest income as of December 31, 2007.

Table 26: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	(4.9)%
Up 100 basis points	(2.3)
Down 100 basis points	1.9
Down 200 basis points	0.9

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 December 31, 2007, our gap position was slightly liability sensitive with a one-year cumulative repricing gap of -5.2%, compared to -1.1% as of December 31, 2006. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rates is slightly lower than that of the liability base. As a result, our net interest income will have a slight negative affect in an environment of modestly rising rates. Our net interest income will have a slight positive affect in an environment of modestly declining rates.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their assumed 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 27 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2007.

Table 27: 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	$ 3,553	$	$	$	$	$	$	$ 3,553
Federal funds sold	76							76
Investment securities	19,214	35,886	29,401	77,901	78,318	115,601	74,078	430,399
Loans receivable	620,510	94,438	158,659	212,253	229,253	268,174	23,707	1,606,994
Total earning assets	643,353	130,324	188,060	290,154	307,571	383,775	97,785	2,041,022
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	24,519	49,037	73,556	147,112	39,704	105,060	143,489	582,477
Time deposits	116,417	193,875	189,236	214,860	50,086	33,121	141	797,736
Federal funds purchased	16,407							16,407
Securities sold under repurchase agreements	94,436				3,630	10,890	11,616	120,572
FHLB and other borrowed funds	173,039	25,324	225	13,426	494	37,794	1,448	251,750
Subordinated debentures	1	5,157	20,623	7	16	59	18,709	44,572
Total interest-bearing liabilities	424,819	273,393	283,640	375,405	93,930	186,924	175,403	1,813,514
Interest rate sensitivity gap	$ 218,534	$ (143,069)	$ (95,580)	$ (85,251)	$ 213,641	$ 196,851	$ (77,618)	$ 227,508
Cumulative interest rate	$ 218,534	$ 75,465	$ (20,115)	$ (105,366)	$ 108,275	$ 305,126	$ 227,508	

sensitivity gap							
Cumulative rate sensitive assets to rate sensitive liabilities	151.4%	110.8%	98.0%	92.2%	107.5%	118.6%	112.5%
Cumulative gap as a % of total earning assets	10.7%	3.7%	(1.0)%	(5.2)%	5.3%	14.9%	11.1%

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Item 8: CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Report on Internal Control Over Financial Reporting

The management of Home BancShares, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company s financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management determined that the Company s internal control over financial reporting as of December 31, 2007 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. The report, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2007, is included herein.

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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 audited the accompanying consolidated balance sheets of Home BancShares, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home BancShares, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December, 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home BancShares, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* and our report dated March 4, 2008, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ BKD, LLP

Little Rock, Arkansas
March 4, 2008

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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 audited Home BancShares, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Home BancShares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Home BancShares, Inc. and our report dated March 4, 2008, expressed an unqualified opinion thereon.

/s/ BKD, LLP

Little Rock, Arkansas
March 4, 2008

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Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	December 31, 2007	2006
Assets		
Cash and due from banks	$ 51,468	$ 53,004
Interest-bearing deposits with other banks	3,553	6,696
Cash and cash equivalents	55,021	59,700
Federal funds sold	76	9,003
Investment securities available for sale	430,399	531,891
Loans receivable	1,606,994	1,416,295
Allowance for loan losses	(29,406)	(26,111)
Loans receivable, net	1,577,588	1,390,184
Bank premises and equipment, net	67,702	57,339
Foreclosed assets held for sale	5,083	435
Cash value of life insurance	48,093	42,149
Investments in unconsolidated affiliates	15,084	12,449
Accrued interest receivable	14,321	13,736
Deferred tax asset, net	9,163	8,361
Goodwill	37,527	37,527
Core deposit and intangibles	7,702	9,458
Other assets	23,871	18,416
Total assets	$ 2,291,630	$ 2,190,648
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 211,993	$ 215,142
Savings and interest-bearing transaction accounts	582,477	582,425
Time deposits	797,736	809,627
Total deposits	1,592,206	1,607,194
Federal funds purchased	16,407	25,270
Securities sold under agreements to repurchase	120,572	118,825
FHLB borrowed funds	251,750	151,768
Accrued interest payable and other liabilities	13,067	11,509
Subordinated debentures	44,572	44,663
Total liabilities	2,038,574	1,959,229
Stockholders equity:		
Common stock, par value $0.01 in 2007 and 2006; shares authorized 50,000,000 in 2007 and 25,000,000 in 2006; shares issued and outstanding 17,250,036 in 2007 and 17,205,649 in 2006	173	172
Capital surplus	195,649	194,595
Retained earnings	59,489	41,544
Accumulated other comprehensive loss	(2,255)	(4,892)

Total stockholders equity	253,056	231,419
Total liabilities and stockholders equity	$ 2,291,630	$ 2,190,648

See accompanying notes.

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Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data)	Year Ended December 31, 2007	2006	2005
Interest income:			
Loans	$ 120,067	$ 100,152	$ 65,244
Investment securities			
Taxable	17,003	18,879	17,103
Tax-exempt	4,187	3,753	2,726
Deposits other banks	166	139	101
Federal funds sold	342	840	284
Total interest income	141,765	123,763	85,458
Interest expense:			
Interest on deposits	56,232	46,213	26,883
Federal funds purchased	816	689	399
FHLB and other borrowed funds	8,982	6,627	4,046
Securities sold under agreements to repurchase	4,746	4,420	2,657
Subordinated debentures	3,002	2,991	2,017
Total interest expense	73,778	60,940	36,002
Net interest income	67,987	62,823	49,456
Provision for loan losses	3,242	2,307	3,827
Net interest income after provision for loan losses	64,745	60,516	45,629
Non-interest income:			
Service charges on deposit accounts	11,202	9,447	8,319
Other services charges and fees	5,470	2,642	2,099
Trust fees	131	671	458
Data processing fees	784	799	668
Mortgage banking income	1,662	1,736	1,651
Insurance commissions	762	782	674
Income from title services	713	957	823
Increase in cash value of life insurance	2,448	304	256
Dividends from FHLB, FRB & bankers bank	911	659	315
Equity in (loss) income of unconsolidated affiliates	(86)	(379)	(592)
Gain on sale of equity investment			465
Gain on sale of SBA loans	170	72	529
Gain (loss) on sale of premises and equipment	136	163	324
Gain (loss) on securities, net		1	(539)
Other income	1,451	1,273	237
Total non-interest income	25,754	19,127	15,687
Non-interest expense:			

Salaries and employee benefits	30,496	29,313	23,901
Occupancy and equipment	9,459	8,712	6,869
Data processing expense	2,648	2,506	1,991
Other operating expenses	18,932	15,947	12,174
Total non-interest expense	61,535	56,478	44,935
Income before income taxes	28,964	23,165	16,381
Income tax expense	8,519	7,247	4,935
Net income available to all shareholders	20,445	15,918	11,446
Less: Preferred stock dividends		359	574
Income available to common shareholders	$ 20,445	$ 15,559	$ 10,872
Basic earnings per share	$ 1.19	$ 1.07	$ 0.92
Diluted earnings per share	$ 1.17	$ 1.00	$ 0.82

See accompanying notes.

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity

(In thousands, except share data (1))	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at January 1, 2005	$ 21	$	$ 266	$ 90,455	$ 17,295	$ (858)	$ (569)	$ 106,610
Comprehensive income (loss):								
Net income					11,446			11,446
Other comprehensive income (loss):								
Unrealized loss on investment securities available for sale, net of tax effect of $5,363						(7,566)		(7,566)
Reclassification adjustment for losses included in income, net of tax effect of $382						539		539
Unconsolidated affiliates unrecognized loss on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						(18)		(18)
Comprehensive income								4,401
Three for one stock split			78	(78)				
Reclassification for change in par value from $0.10 to $0.01 per share			(352)	352				
Issuance of 3,750,813 common shares pursuant to acquisition of TC Bancorp			125	45,186				45,311
Issuance of 162,039 Preferred B shares pursuant to acquisition of Marine Bancorp, Inc.		2		6,267				6,269
Issuance of 335,526 common shares pursuant to acquisition of Mountain View Bancshares, Inc.			3	4,247				4,250
Net issuance of 40,041 shares of common stock from exercise of stock options			1	456				457
Issuance of 15,366 shares of preferred stock A from exercise of stock options				2				2
Issuance of 7,040 shares of preferred stock B from exercise of stock options				130				130
Purchase of 16,289 shares of preferred stock A				(163)				(163)
Retirement of treasury stock				(569)			569	
Cash dividends Preferred Stock A, $0.25 per share					(520)			(520)
					(54)			(54)

Cash dividends per share	Preferred Stock B, $0.33						
Cash dividends per share	Common Stock, $0.07				(836)		(836)
Balances at December 31, 2005	21	2	121	146,285	27,331	(7,903)	165,857
Comprehensive income (loss):							
Net income					15,918		15,918
Other comprehensive income (loss):							
Unrealized gain on investment securities available for sale, net of tax effect of $1,926						2,994	2,994
Unconsolidated affiliates unrecognized gain on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						17	17
Comprehensive income							18,929
Conversion of 2,090,812 shares of preferred stock A to 1,650,489 shares of common stock, net of fractional shares	(21)		17	2			(2)
Conversion of 169,760 shares of preferred stock B to 509,280 shares of common stock		(2)	5	(3)			
Issuance of 2,875,000 shares of common stock from Initial Public Offering, net of offering costs of $4,545			29	47,176			47,205
Issuance of 14,617 shares of preferred stock A from exercise of stock options				2			2
See accompanying notes.							

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity Continued

(In thousands, except share data (1))	Preferred Stock A	Preferred Stock B	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Net issuance of 681 shares of preferred stock B from exercise of stock options				8				8
Net issuance of 57,016 shares of common stock from exercise of stock options				534				534
Tax benefit from stock options exercised				211				211
Share-based compensation				380				380
Cash dividends Preferred Stock A, $0.1458 per share					(303)			(303)
Cash dividends Preferred Stock B, $0.3325 per share					(56)			(56)
Cash dividends Common Stock, $0.09 per share					(1,346)			(1,346)
Balances at December 31, 2006			172	194,595	41,544	(4,892)		231,419
Comprehensive income (loss):								
Net income					20,445			20,445
Other comprehensive income (loss):								
Unrealized gain on investment securities available for sale, net of tax effect of $1,639						2,541		2,541
Unconsolidated affiliates unrecognized gain on investment securities available for sale, net of taxes recorded by the unconsolidated affiliate						96		96
Comprehensive income								23,082
Net issuance of 44,387 shares of common stock from exercise of stock options			1	354				355
Tax benefit from stock options exercised				244				244
Share-based compensation				456				456
Cash dividends Common Stock, $0.145 per share					(2,500)			(2,500)
Balances at December 31, 2007	$	$	$ 173	$ 195,649	$ 59,489	$ (2,255)	$	$ 253,056

(1) All share and per share amounts have been restated to

reflect the effect
of the 2005
three for one
stock split.

See accompanying notes.

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Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31, 2007	2006	2005
Operating Activities			
Net income	$ 20,445	$ 15,918	$ 11,446
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	4,555	4,541	3,624
Amortization/Accretion	1,884	2,490	2,582
Share-based compensation	456	380	
Tax benefits from stock options exercised	(244)	(211)	
Gain on sale of assets	(561)	(616)	(605)
Gain on sale of equity investment			(465)
Provision for loan losses	3,242	2,307	3,827
Deferred income tax benefit	(2,467)	(1,466)	(128)
Equity in (income) loss of unconsolidated affiliates	86	379	592
Increase in cash value of life insurance	(2,448)	(304)	(254)
Originations of mortgage loans held for sale	(93,028)	(87,611)	(89,638)
Proceeds from sales of mortgage loans held for sale	90,569	88,224	88,939
Changes in assets and liabilities:			
Accrued interest receivable	(585)	(2,578)	(741)
Other assets	(5,455)	(7,259)	4,788
Accrued interest payable and other liabilities	1,802	3,216	(3,549)
Net cash provided by operating activities	18,251	17,410	20,418
Investing Activities			
Net (increase) decrease in federal funds sold	8,927	(1,948)	3,556
Net (increase) decrease in loans	(195,998)	(215,356)	(152,155)
Purchases of investment securities available for sale	(171,469)	(187,144)	(157,440)
Proceeds from maturities of investment securities available for sale	276,943	188,638	201,472
Proceeds from sales of investment securities available for sale		1,000	58,945
Proceeds from maturities of investment securities held to maturity			100
Proceeds from sale of SBA loans	2,957	1,250	6,042
Proceeds from foreclosed assets held for sale	631	2,191	1,077
Purchases of premises and equipment, net	(14,782)	(9,955)	(5,973)
Purchase of bank owned life insurance	(3,496)	(35,000)	
Acquisition of financial institution, net funds disbursed			(31,349)
Investments in unconsolidated affiliates	(2,625)	(3,000)	(9,091)
Net cash used in investing activities	(98,912)	(259,324)	(84,816)

See accompanying notes.

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Home BancShares, Inc.
Consolidated Statements of Cash Flows (Continued)

(In thousands)	Year Ended December 31, 2007	2006	2005
Financing Activities			
Net increase (decrease) in deposits	(14,988)	180,086	15,332
Net increase (decrease) in securities sold under agreements to repurchase	1,747	15,107	36,705
Net increase (decrease) in federal funds purchased	(8,863)	(19,225)	36,545
Net increase (decrease) in FHLB and other borrowed funds	99,982	34,714	(13,333)
Proceeds from issuance of subordinated debentures			15,000
Repurchase of stock			(163)
Proceeds from initial public offering, net		47,205	
Proceeds from exercise of stock options	355	544	588
Tax benefits from stock options exercised	249	211	
Conversion of preferred stock A fractional shares		(2)	
Dividends paid	(2,500)	(1,705)	(1,410)
Net cash provided by financing activities	75,982	256,935	89,264
Net change in cash and cash equivalents	(4,679)	15,021	24,866
Cash and cash equivalents beginning of year	59,700	44,679	19,813
Cash and cash equivalents end of year	$ 55,021	$ 59,700	$ 44,679

See accompanying notes.

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Home BancShares, Inc.
Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, demand deposits with banks and interest-bearing deposits with other banks.

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Investment Securities

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available for sale, held to maturity, or trading at the time of purchase 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. The Company has no trading securities.

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), net of taxes. Securities that are held as available for sale are used as a part of HBI s 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.

Securities held to maturity are reported at amortized historical cost. Securities that management has the intent and ability to hold until maturity or on a long-term basis are classified as held to maturity.

Loans Receivable and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding. Loan origination fees and direct origination costs are capitalized and recognized as adjustments to yield on the related loans.

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 existing loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions to the allowance for loan losses are based on management s analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectibility, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

Loans considered impaired, under SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company applies this policy even if delays or shortfalls in payment are expected to be insignificant. All non-accrual loans and all loans that have been restructured from their original contractual terms are considered impaired loans. The aggregate amount of impairment of loans is utilized 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 such 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 collectibility of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, but 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 the Company reasonably expects to collect all principal and interest.

Foreclosed Assets Held for Sale

Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at the lower of carrying amount or fair value at the date of foreclosure, establishing a new cost basis.

Valuations are periodically performed by management, and the real estate and personal properties are carried at the lower of book value or fair value less cost to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Bank Premises and Equipment

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized by the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets estimated useful lives for book purposes are as follows:

Bank premises	15-40 years
Furniture, fixtures, and equipment	3-15 years

Investments in Unconsolidated Affiliates

The Company had a 20.4% and 20.1% investment in White River Bancshares, Inc. (WRBI) at December 31, 2007 and 2006, respectively. The Company s investment in WRBI at December 31, 2007 and 2006 totaled $13.8 million and $11.1 million, respectively. The investment in WRBI is accounted for on the equity method. The Company s share of WRBI operating loss included in non-interest income in 2007, 2006 and 2005 totaled $86,000, $379,000 and $592,000, respectively. The Company s share of WRBI unrealized loss on investment securities available for sale at December 31, 2007 and 2006 amounted to $92,000 and $2,000, respectively. Although the Company purchased 20% of the common stock of WRBI on January 3, 2005, WRBI did not begin operations until May 1, 2005. See the Acquisitions footnote related to the Company s acquisition of WRBI during 2005.

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

The summarized financial information below represents an aggregation of the Company s unconsolidated affiliates as of December 31, 2007 and 2006, and for the years then ended:

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	2007	2006	2005
		(In thousands)	
Assets	$580,753	$387,599	$229,072
Liabilities	513,257	330,640	176,511
Equity	67,496	56,959	52,561
Net income (loss)	(284)	(1,822)	(2,658)

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. Core deposit intangibles represent the estimated value related to customer deposit relationships in the Company s acquisitions. 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. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2007 and 2006, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*. The tests indicated no impairment of the Company s goodwill or core deposit intangibles.

Securities Sold Under Agreements to Repurchase

The Company sells securities under agreements to repurchase to meet customer needs for sweep accounts. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Derivative Financial Instruments

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the balance sheet at fair value. Historically the Company s policy has been not to invest in derivative type investments but as a result of the acquisition in June 2005, the Company acquired a derivative financial instrument on a $5.0 million subordinated debenture. The Company does not use the shortcut method and instead utilizes the period-by-period dollar-offset method in assessing hedge effectiveness. The hedge is considered to be highly effective.

In December 2007, the Company executed back-to-back interest rate swap agreements associated with one loan in the portfolio. Though the Company is not applying hedge accounting, the swaps are identical offsets of one another, thereby resulting in a net income impact of zero. They are being adjusted to the fair value in accordance with FASB 133. The notional amount of the loan was $14.5 million at December 31, 2007.

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Stock Options

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

Income Taxes

The Company utilizes 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. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

The Company and its subsidiaries file consolidated tax returns. Its subsidiaries provide for income taxes on a separate return basis, and remit to the Company amounts determined to be currently payable.

Earnings per Share

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

	2007	2006	2005
		(In thousands)	
Net income available to all shareholders	$ 20,445	$ 15,918	$ 11,446
Less: Preferred stock dividends		(359)	(574)
Income available to common shareholders	$ 20,445	$ 15,559	$ 10,872
Average shares outstanding	17,235	14,497	11,862
Effect of common stock options	290	157	78
Effect of preferred stock options		17	22
Effect of preferred stock conversions		1,252	1,927
Diluted shares outstanding	17,525	15,923	13,889
Basic earnings per share	$ 1.19	$ 1.07	$ 0.92
Diluted earnings per share	$ 1.17	$ 1.00	$ 0.82

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Pension Plan

As the result of the acquisition during December 2003 and September 2005, the Company has two noncontributory defined benefit plans covering certain employees from those acquisitions. The Company s policy is to accrue pension costs in accordance with Statement of Financial Accounting Standards No. 87, Employer s Accounting for Pensions, and to fund such pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended. The Company uses a measurement date of January 1.

The Company s defined benefit pension plans terminated in 2007.

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.

Investment securities Fair values for investment securities are based on quoted market values.

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.

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2. Acquisitions

On January 1, 2008, HBI acquired Centennial Bancshares, Inc., an Arkansas bank holding company. Centennial Bancshares, Inc. owned Centennial Bank, located in Little Rock, Arkansas which had total assets of $234.1 million, loans of $192.8 million and total deposits of $178.8 million on the date of acquisition. The consideration for the merger was $25.4 million, which was paid approximately 4.6%, or $1.2 million in cash and 95.4%, or $24.2 million, in shares of the Company s common stock. In connection with the acquisition, $3.0 million of the purchase price, consisting of $139,000 in cash and 130,052 shares of the Company s common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. The merger further provides for an earn out based upon 2008 earnings of up to a maximum of $4,000,000 which can be paid in cash or the Company s stock at the election of the accredited shareholders. As a result of this transaction, the Company recorded goodwill of $11.6 million and a core deposit intangible of $694,000.

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

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

On January 3, 2005, HBI purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in northwest Arkansas. In January 2006, White River Bancshares issued an additional $15.0 million of common stock. To maintain HBI s 20% ownership, it invested an additional $3.0 million in White River Bancshares at that time. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. of Brinkley, Arkansas. As a result, HBI made a $2.6 million investment in White River Bancshares on June 29, 2007 to maintain its 20% ownership. As of December 31, 2007, White River Bancshares had total assets of $536.4 million, loans of $442.4 million, and total deposits of $433.0 million. On March 3, 2008, White River Bancshares, Inc. repurchased HBI s 20% ownership for $19.9 million.

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

In February 2005, CB Bancorp merged into Home BancShares, and Community Bank thus became our wholly owned subsidiary.

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the dates of the acquisitions of TCBancorp, Marine Bancorp, Inc. and Mountain View Bancshares, Inc.:

	TCBancorp	Marine Bancorp, Inc.	Mountain View Bancshares, Inc.
		(In thousands)	
Cash and cash equivalents	$ 9,039	$ 6,378	$ 3,204
Federal funds sold	3,660	551	4,180
Investments	327,189	23,432	106,707
Loans	261,927	215,209	68,791
Other assets	31,609	11,980	19,644
Total assets acquired	633,424	257,550	202,526
Deposits	500,144	200,747	158,007
Securities sold under agreements to repurchase	45,754		
FHLB and other borrowed funds	20,884	34,564	
Subordinated debentures		5,155	
Accrued interest payable and other liabilities	1,928	1,521	441
Total liabilities assumed	568,710	241,987	158,448
Net assets acquired	$ 64,714	$ 15,563	$ 44,078

The following table presents condensed pro forma consolidated results of operations as if the acquisitions of TCBancorp, Marine Bancorp, Inc. and Mountain View Bancshares, Inc. had occurred at the beginning of each year. This information combines the historical results of operations of the Company, TCBancorp, Marine Bancorp, Inc. and Mountain View Bancshares, Inc. after the effect of purchase accounting adjustments. The unaudited pro forma information does not purport to be indicative of the results that would have been obtained if the operations had actually been combined during the period presented and is not necessarily indicative of operating results to be expected in future periods.

	2005 (In thousands, except per share data)
Net interest income	$ 56,184
Non-interest income	16,951
Total revenue	$ 73,135
Net income	$ 13,291
Basic earnings per share	$ 1.05
Diluted earnings per share	$ 0.93

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3. Investment Securities

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

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

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

Assets, principally investment securities, having a carrying value of approximately $210.6 million and $287.2 million at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $120.6 million and $118.8 million at December 31, 2007 and 2006, respectively.

The amortized cost and estimated fair value of securities at December 31, 2007, 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	$ 144,008	$ 143,073
Due after one year through five years	160,160	159,588
Due after five years through ten years	57,348	56,466
Due after ten years	72,756	71,272

Total	$ 434,272	$ 430,399

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.

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There were no securities classified as held to maturity at December 31, 2007 and 2006.

During the year ended December 31, 2007, no available for sale securities were sold. During the years ended December 31, 2006 and 2005, $1.0 million and $58.9 million in available for sale securities, respectively, were sold. The gross realized gains on such sales totaled $1,000 and $54,000 for years ended December 31, 2006 and 2005, respectively. The gross realized loss on such sales totaled $593,000 for the year ended December 31, 2005. The income tax expense/benefit related to net security gains and losses was 39.23% of the gross amounts for 2006 and 2005.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of paragraph 16 of SFAS No. 115, Staff Accounting Bulletin 59 and FASB Staff Position No. 115-1. Certain investment securities are valued less than their historical cost. These declines primarily resulted from increases in market interest rates during 2005 and 2006. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management s intent to hold these securities to maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary, impairment is identified.

For the year ended December 31, 2007, the Company had $4.9 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Included in the $4.9 million in unrealized losses are $2.5 million in unrealized losses, which were associated with government-sponsored securities and government-sponsored mortgage-back securities. No securities were deemed by management to have other than-temporary impairments for the years ended December 31, 2007 and 2006, besides securities for which an impairment was taken during 2004. The Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuers financial condition, or downgrades by rating agencies. In addition, approximately 70.3% 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 December 31, 2007 and 2006:

	December 31, 2007					
	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	$ 20,580	$ 35	$ 80,093	$ 837	$ 100,673	$ 872
Mortgage-backed securities	7,906	28	142,572	3,526	150,478	3,554
State and political subdivisions	29,469	460	18,452	352	47,921	812
Other securities			2,414	187	2,414	187
	$ 57,955	$ 523	$ 243,531	$ 4,902	$ 301,486	$ 5,425

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	December 31, 2006					
	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	$ 13,453	$ 22	$ 143,757	$ 2,905	$ 157,210	$ 2,927
Mortgage-backed securities	7,482	38	199,761	5,950	207,243	5,988
State and political subdivisions	7,822	54	23,390	442	31,212	496
Othersecurities			7,475	177	7,475	177
State and political subdivisions	$ 28,757	$ 114	$ 374,383	$ 9,474	$ 403,140	$ 9,588

4: Loans receivable and Allowance for Loan Losses

The various categories of loans are summarized as follows:

	December 31,	
	2007	2006
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 607,638	$ 465,306
Construction/land development	367,422	393,410
Agricultural	22,605	11,659
Residential real estate loans		
Residential 1-4 family	259,975	229,588
Multifamily residential	45,428	37,440
Total real estate	1,303,068	1,137,403
Consumer	46,275	45,056
Commercial and industrial	219,062	206,559
Agricultural	20,429	13,520
Other	18,160	13,757
Total loans receivable before allowance for loan losses	1,606,994	1,416,295
Allowance for loan losses	29,406	26,111
Total loans receivable, net	$ 1,577,588	$ 1,390,184

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

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Balance, beginning of year	$ 26,111	$ 24,175	$ 16,345

Loans charged off	(826)	(1,514)	(4,611)
Recoveries on loans previously charged off	879	1,143	850
Net charge-offs	53	(371)	(3,761)
Provision charged to operating expense	3,242	2,307	3,827
Allowance for loan losses of acquired institutions			7,764
Balance, end of year	$ 29,406	$ 26,111	$ 24,175

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At December 31, 2007 and 2006, accruing loans delinquent 90 days or more totaled $301,000 and $641,000, respectively. Non-accruing loans at December 31, 2007 and 2006 were $3.0 million and $3.9 million, respectively.

Real estate securing loans having a carrying value of $5.0 million and $1.5 million were transferred to foreclosed assets held for sale in 2007 and 2006, respectively. The Company is not committed to lend additional funds to customers whose loans have been modified, restructured, or foreclosed upon. During 2007, the Company sold foreclosed real estate with a carrying value of $376,000 and $1.8 million during 2007 and 2006, respectively, which resulted in gains of $255,000 and $380,000 during 2007 and 2006, respectively, which are included in other non-interest income.

During 2007, 2006 and 2005, the Company sold $2.8 million, $1.0 million and $5.5 million of the guaranteed portion of certain SBA loans, which resulted in gains of $170,000, $72,000 and $529,000 during 2007, 2006 and 2005, respectively.

Mortgage loans held for resale of approximately $4.8 million and $2.4 million at December 31, 2007 and 2006, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loan are funded. These commitments are derivative instruments and their fair values at December 31, 2007 and 2006 was not material.

At December 31, 2007 and 2006, impaired loans totaled $11.9 million and $11.2 million, respectively. As of December 31, 2007 and 2006, average impaired loans were $11.8 million and $7.2 million, respectively. All impaired loans had designated reserves for possible loan losses. Reserves relative to impaired loans at December 31, 2007, were $2.6 million and $2.1 million at December 31, 2006. Interest recognized on impaired loans during 2007 and 2006 was immaterial.

5: Goodwill and Core Deposits and Other Intangibles

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

	December 31,	
	2007	2006
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of year	$ 9,458	$ 11,200
Amortization expense	(1,756)	(1,742)
Balance, end of year	$ 7,702	$ 9,458

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The carrying basis and accumulated amortization of core deposits and other intangibles at December 31, 2007 and 2006 were:

	December 31,	
	2007	2006
	(In thousands)	
Gross carrying amount	$ 13,457	$ 13,457
Accumulated amortization	5,755	3,999
Net carrying amount	$ 7,702	$ 9,458

Core deposit and other intangible amortization for the years ended December 31, 2007, 2006 and 2005 was approximately $1.8 million, $1.7 million and $1.5 million, respectively. Including all of the mergers completed, HBI s estimated amortization expense of core deposits and other intangibles for each of the following five years is: 2008 $1.7 million; 2009 $1.7 million; 2010 $1.7 million; 2011 $963,000; and 2012 $527,000.

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

6: Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $435.5 million and $486.3 million at December 31, 2007 and 2006, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $22.8 million, $19.3 million and $11.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The following is a summary of the scheduled maturities of all time deposits at December 31, 2007 (in thousands):

One month or less	$ 116,417
Over 1 month to 3 months	193,875
Over 3 months to 6 months	189,236
Over 6 months to 12 months	214,860
Over 12 months to 2 years	50,086
Over 2 years to 3 years	20,057
Over 3 years to 5 years	13,064
Over 5 years	141
Total time certificates of deposit	$ 797,736

Deposits totaling approximately $185.6 million and $203.0 million at December 31, 2007 and 2006, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

7: FHLB Borrowed Funds

The Company s FHLB borrowed funds were $251.8 million and $151.8 million at December 31, 2007 and 2006, respectively. The outstanding balance for December 31, 2007 includes $116.0 million of short-term advances and $135.8 million of long-term advances. The outstanding balance for December 31, 2006 includes $5.0 million of short-term advances and $146.8 million of long-term advances. The long-term FHLB advances mature from the current year to 2020 with interest rates ranging from 2.019% to 5.575% and are secured by loans in the Company s loan portfolio.

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Additionally, the Company had $105.5 million and $41.5 million at December 31, 2007 and 2006, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at December 31, 2007 and 2006, respectively.

Maturities of borrowings with original maturities exceeding one year at December 31, 2007, are as follows (in thousands):

2008	$ 62,347
2009	3,812
2010	47,065
2011	68
2012	10,071
Thereafter	12,388
	$ 135,751

8: Subordinated Debentures

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

	2007	2006
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, 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	3,333	3,424
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total subordinated debt	$ 44,572	$ 44,663

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

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

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9: Income Taxes

The following is a summary of the components of the provision for income taxes:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Current:			
Federal	$ 9,710	$ 7,705	$ 4,224
State	1,271	1,008	839
Total current	10,981	8,713	5,063
Deferred:			
Federal	(2,079)	(1,226)	(107)
State	(383)	(240)	(21)
Total deferred	(2,462)	(1,466)	(128)
Provision for income taxes	$ 8,519	$ 7,247	$ 4,935

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows:

	Year Ended December 31,		
	2007	2006	2005
Statutory federal income tax rate	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(6.48)	(5.22)	(5.93)
Cash value of life insurance	(2.96)	(0.46)	(0.54)
State income taxes, net of federal benefit	1.99	2.15	2.17
Other	1.86	(0.19)	(0.57)
Effective income tax rate	29.41%	31.28%	30.13%

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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:

	December 31,	
	2007	2006
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 11,512	$ 10,219
Deferred compensation	397	244
Defined benefit pension plan		107
Stock options	328	155
Non-accrual interest income	562	489
Investment in unconsolidated subsidiary	519	485
Unrealized loss on securities	1,519	3,179
Other	148	170
Gross deferred tax assets	14,985	15,048
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	1,997	2,082
Core deposit intangibles	2,897	3,552
Market value of cash flow hedge	4	25
FHLB dividends	681	567
Other	243	461
Gross deferred tax liabilities	5,822	6,687
Net deferred tax assets	$ 9,163	$ 8,361

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The implementation of FIN 48 did not have any effect on the Company s financial statements.

The Company and its subsidiaries files income tax returns in the U.S. federal jurisdiction and the states of Arkansas and Florida. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2004. The Company s Federal tax return and its state tax returns are not currently under examination.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the year ended December 31, 2007, the Company did not recognize any interest or penalties. During the years ended December 31, 2006 and 2005, the amounts of interest and penalties the Company recognized were immaterial. The Company did not have any interest or penalties accrued at December 31, 2007 and 2006.

10: Common Stock and Stock Compensation Plans

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

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

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

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

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

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

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

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

On January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (R), Share-Based Payment (SFAS123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost is recognized beginning in 2006 includes: (a) the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, and (b) the compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results for prior periods have not been restated. Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was $584,000 as of December 31, 2007.

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The following table presents the required pro forma disclosures related to net income for the year ended December 31, 2005 for the options granted:

	Year Ended December 31, 2005
Basic pro forma	
Net income available to common shareholders as reported	$ 10,872
Less: Total stock-based employee compensation cost determined under the fair value based method, net of tax	249
Net income available to common shareholders pro forma	$ 10,623
Basic earnings per share as reported	$ 0.92
Basic earnings per share pro forma	0.90
Diluted pro forma	
Net income as reported	$ 11,446
Less: Total stock-based employee compensation cost determined under the fair value based method, net of tax	249
Net income pro forma	$ 11,197
Diluted earnings per share as reported	$ 0.82
Diluted earnings per share pro forma	0.81

As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the year ended December 31, 2007, are $456,000 and $277,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. Basic and diluted earnings per share for the year ended December 31, 2007, would have been $1.20 and $1.18, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $1.19 and $1.17, respectively. For purposes of pro forma disclosures as required by SFAS No. 123(R), the estimated fair value of stock options is amortized over the options vesting period. The intrinsic value of the stock options outstanding and vested at December 31, 2007 was $9.2 million and $6.2 million, respectively. The intrinsic value of the stock options exercised during 2007 was $647,000.

As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the year ended December 31, 2006, are $380,000 and $231,000 lower, respectively, than if the Company had continued to account for share-based compensation under the intrinsic method. Basic and diluted earnings per share for the year ended December 31, 2006, would have been $1.09 and $1.01, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $1.07 and $1.00, respectively. For purposes of pro forma disclosures as required by SFAS No. 123(R), the estimated fair value of stock options is amortized over the options vesting period. The intrinsic value of the stock options outstanding and vested at December 31, 2006 was $13.1 million and $8.3 million, respectively. The intrinsic value of the stock options exercised during 2006 was $425,000.

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

in the Company.

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The table below summarized the transactions under the Company s stock option plans (split adjusted) at December 31, 2007, 2006 and 2005 and changes during the years then ended:

	2007		2006		2005	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	1,032	$ 11.39	630	$ 10.07	453	$ 9.46
Granted	41	23.02	410	14.22	75	12.67
Converted options of preferred stock A			9	8.66		
Converted options of preferred stock B			71	6.36		
Options of acquired institution					168	10.80
Forfeited	(14)	12.27	(31)	12.90	(23)	8.78
Exercised	(45)	7.99	(57)	9.40	(43)	11.48
Outstanding, end of period	1,014	12.01	1,032	11.39	630	10.07
Exercisable, end of period	558	$ 9.80	560	$ 9.27	497	$ 9.50

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. The weighted-average fair value of options granted during 2007, 2006 and 2005 was $5.34, $3.39 and $3.90 per share (split adjusted), respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2007	2006	2005
Expected dividend yield	0.46%	0.59%	0.63%
Expected stock price volatility	9.44%	9.23%	10.00%
Risk-free interest rate	4.65%	4.80%	4.39%
Expected life of options	6.1 years	6.3 years	10.0 years

The expected divided yield is based on historical data. The expected volatility is based on published indexes of publicly traded bank holding companies with similar market capitalization. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted is derived using the simplified method and represents the period of time that options granted are expected to be outstanding. The simplified method will continue to be used until the Company has sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its equity shares have been publicly traded.

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

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$ 6.14 to $ 6.68	48	4.4	$ 6.38	48	$ 6.38
$ 7.33 to $ 8.66	203	4.3	7.43	203	7.43
$ 9.33 to $10.31	104	5.6	10.18	102	10.18
$11.34 to $11.67	63	7.4	11.41	60	11.40
$12.67 to $12.67	184	9.0	12.67	131	12.67
$13.18 to $13.18	318	8.2	13.18	3	13.18
$19.79 to $21.17	53	8.6	21.14	10	21.17
$21.89 to $22.12	20	9.3	22.05	1	21.89
$23.27 to $24.15	21	9.1	24.11		
	1,014			558	

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

During 2005, the board of directors of the Company passed a resolution amending the articles of incorporation to lower the par value from $0.10 to $0.01. This resulted in $352,000 reclassified from common stock to capital surplus in stockholders equity.

11. Preferred Stock A and Preferred Stock A Options

During 2003, the Company issued preferred stock A as a result of the CBB acquisition. The preferred stock A was non-voting, non-cumulative, callable and redeemable, and convertible to the Company s common stock. The preferred stock A yielded an annual non-cumulative dividend of $0.25 to be paid quarterly if and when authorized and declared by the Company s board of directors. Dividends had to be paid on the preferred stock A before any other class of the Company s stock.

The Preferred Stock A was convertible at the holder s option or redeemed by the Company at its option under the following terms and conditions (common stock split adjusted):

The Preferred Stock A was convertible at the holder s option, into HBI common stock upon the earlier of the expiration of thirty months after the effective date of the merger or 180 days after the date any of the HBI common stock is registered pursuant to the Securities Act of 1933 with the Securities and Exchange Commission in connection with an initial public offering of HBI common stock. Each share of Preferred Stock A to be converted and properly surrendered to the Company pursuant to the Company s instructions for such surrender, shall be converted into 0.789474 shares of HBI Common Stock, with fractional shares of the Preferred Stock A to be converted into cash at the rate of $12.67 times the fraction of shares held.

The Company could, at its option, redeem all of the Preferred Stock A at any time after the expiration of thirty months from the effective date of the merger or earlier if the HBI common stock becomes publicly traded and (a) the last reported trade is at least $12.67 per share for 20 consecutive trading days or (b) if the trades are quoted on a bid and ask price basis and the mean between the bid and ask price is at least $12.67 per share for 20 consecutive trading days.

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At December 31, 2005, the Company had 26,000 preferred stock A options outstanding. The preferred stock A options became 100% exercisable at the date of the CBB acquisition and are convertible to common stock under the same terms as the outstanding preferred stock A.

On August 1, 2006, the Company redeemed and converted the issued and outstanding shares of Home BancShares s Class A Preferred Stock into Home BancShares Common Stock. The holders of shares of Class A Preferred Stock, received 0.789474 of Home BancShares Common Stock for each share of Class A Preferred Stock owned, plus a check for the pro rata amount of the third quarter Class A Preferred Stock dividend accrued through July 31, 2006. The Class A Preferred shareholder s did not receive fractional shares, instead they received cash at a rate of $12.67 times the fraction of a share they otherwise would have been entitled to. Therefore, as of December 31, 2007 and 2006, there were no preferred stock A options outstanding.

There were no transactions under the Company s preferred stock A option plan during the year ended December 31, 2007. The table below summarizes the transactions under the Company s preferred stock A option plan at December 31, 2006 and 2005 and changes during the years then ended:

	2006		2005	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	26	$ 3.14	41	$ 2.04
Converted to common stock	(11)	6.84		
Exercised	(15)	0.17	(15)	0.17
Outstanding, end of period			26	3.14
Exercisable, end of period		$	26	$ 3.14

12. Preferred Stock B and Preferred Stock B Options

During 2005, the Company issued preferred stock B as a result of the MBI acquisition. The Class B Preferred Stock was a non-voting, non-cumulative, callable and redeemable, convertible preferred stock The Class B Preferred Stock yielded an annual non-cumulative dividend of $0.57 to be paid quarterly if and when authorized and declared by HBI s board of directors, and had priority in the payment of dividends over the HBI Common Stock and any class of capital stock created after the effective date of the merger, provided that dividends had first been paid on the Class A Preferred Stock.

The Class B Preferred Stock was redeemable by HBI at any time on the basis of three shares of HBI Common Stock for each share of Class B Preferred Stock. Holders of the Class B Preferred Stock could convert their shares of Class B Preferred Stock into shares of HBI Common Stock (three shares of HBI Common Stock for each share of Class B Preferred Stock), upon the occurrence of the earlier of July 6, 2006, or two hundred ten (210) days after the date an underwritten initial public offering of the HBI Common Stock is completed.

At December 31, 2005, the Company had 25,000 preferred stock B options outstanding. The preferred stock B options became 100% exercisable at the date of the MBI acquisition and are convertible to common stock under the same terms as the outstanding preferred stock B.

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On August 1, 2006, the Company redeemed and converted the issued and outstanding shares of Home BancShares s Class B Preferred Stock into Home BancShares Common Stock. The holders of shares of Class B Preferred Stock, received three shares of Home BancShares Common Stock for each share of Class B Preferred Stock owned, plus a check for the pro rata amount of the third quarter Class B Preferred Stock dividend accrued through July 31, 2006. Therefore, as of December 31, 2007 and 2006, there were no Preferred Stock B options outstanding.

There were no transactions under the Company s preferred stock B option plan during the year ended December 31, 2007. The table below summarizes the transactions under the Company s preferred stock B option plan at December 31, 2006 and 2005 and changes during the year then ended:

	2006		2005	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	25	$19.06		$
Converted to common stock	(24)	19.08		
Options of acquired institution			32	18.92
Exercised	(1)	18.41	(7)	18.41
Outstanding, end of period			25	19.06
Exercisable, end of period		$	25	$19.06

13. Non-Interest Expense

The table below shows the components of non-interest expense for years ended December 31:

	2007	2006	2005
		(In thousands)	
Salaries and employee benefits	$ 30,496	$ 29,313	$ 23,901
Occupancy and equipment	9,459	8,712	6,869
Data processing expense	2,648	2,506	1,991
Other operating expenses:			
Advertising	2,691	2,383	2,067
Amortization of intangibles	1,756	1,742	1,466
Electronic banking expense	2,359	789	427
Directors fees	843	774	505
Due from bank service charges	214	331	284
FDIC and state assessment	1,016	527	503
Insurance	901	1,030	504
Legal and accounting	1,206	1,025	941
Other professional fees	902	771	534
Operating supplies	983	940	745
Postage	663	663	580
Telephone	951	975	669
Other expense	4,447	3,997	2,949
Total other operating expenses	18,932	15,947	12,174
Total non-interest expense	$ 61,535	$ 56,478	$ 44,935

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14: Employee Benefit Plans

401(k) Plan

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. The Company matches employees contributions based on a percentage of salary contributed by participants. The plan also allows for discretionary employer contributions. The Company s expense for the plan was $423,000, $810,000 and $476,000 in 2007, 2006 and 2005, respectively, which is included in salaries and employee benefits expense.

Chairman s Retirement Plan

On April 20, 2007, the Company s board of directors approved a Chairman s Retirement Plan for John W. Allison, the Company s Chairman and CEO. The Chairman s Retirement Plan provides a supplemental retirement benefit of $250,000 a year for 10 consecutive years or until Mr. Allison s death, whichever occurs later. The benefits under the plan vest based on Mr. Allison s age beginning at age 61 and fully vest when Mr. Allison reaches age 65. The benefits will also become 100% vested if, before Mr. Allison reaches the age of 65, he dies, becomes disabled, is involuntarily terminated from the Company without cause, or there is a change in control of the Company. The vested benefits will be paid in monthly installments. The benefit payments will begin on the earlier of Mr. Allison reaching age 65 or the termination of his employment with the Company for any reason other than death. If Mr. Allison dies before the benefits commence or during the 10 year guaranteed benefit period, his beneficiary will receive any remaining payments due. If he dies after the guaranteed benefit period, no further benefits will be paid. An expense of $388,000 was accrued for 2007 for this plan.

Stock Appreciation Rights

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

Pension Plan

The following table sets forth the status of the Company s defined benefit pension plans:

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	December 31,		
	2007	2006	2005
		(In thousands)	
Benefit obligation	$	$ 2,578	$ 3,494
Fair value of plan assets		2,606	2,693
Funded status	$	$ 28	$ (801)
Accrued benefit cost	$	$ (152)	$ (552)
Unrecognized net (gain) or loss		(235)	(146)
Unrecognized prior service cost			117
Unrecognized net obligation			70
Weighted-average assumptions:			
Discount rate	%	5.8%	6.8
Actual return on plan assets		1.6	9.8
Expected return on plan assets		5.8	6.8
Rate of compensation increase			4.0
Benefit cost	$	$ 9	$ 196
Interest cost		150	268
Employer contributions	326		767
Employee contributions			
Benefits paid	2,023	198	1,095

The assets of the plans consisted primarily of equity securities and mutual funds. The measurement date for the plans is January 1. The plans have been frozen, and there have been no new participants in the plan and no additional benefits earned. Contributions are made based upon at least the minimum amounts required to be funded under provisions of the Employee Retirement Income Security Act of 1974, with the maximum contribution not to exceed the maximum amount deductible under the Internal Revenue Code.

The long-term rate of return on assets is determined by considering the historical returns for the current mix of investments in the Company s pension plan. In addition, consideration is given to the range of expected returns for the pension plan investment mix provided by the plan s investment advisors. The Company uses the historical information to determine if there has been a significant change in the pension plan s investment return history.

The discount rate was determined by projecting cash distributions from the plan and matching them with the appropriate corporate bond yields in a yield curve regression analysis.

The Company s defined benefit pension plans terminated and settled in 2007. The plans were settled by buying paid-up annuity contracts or making lump-sum payments.

15: Related Party Transactions

In the ordinary course of business, loans may be made to officers and directors and their affiliated companies at substantially the same terms as comparable transactions with other borrowers. At December 31, 2007 and 2006, related party loans were approximately $81.9 million and $53.0 million, respectively. New loans and advances on prior commitments made to the related parties were $66.3 million and $31.4 million for the years ended December 31, 2007 and 2006, respectively. Repayments of loans made by the related parties were $37.4 million and $34.2 million for the years ended December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, directors, officers, and other related interest parties had demand, noninterest-bearing deposits of $37.3 million and $52.6 million, respectively, savings and interest-bearing transaction accounts of $400,000 and $630,000, respectively, and time certificates of deposit of $9.3 million and $9.8 million, respectively.

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During 2007 and 2006, rent expense totaling $144,000 and $180,000, respectively, was paid to related parties.

The Company also received various fees from its investments in unconsolidated affiliates primarily for data processing and professional fees. During 2007 and 2006, these fees total $232,000 and $333,000, respectively. These fees are recorded in non-interest income.

16: Leases

The Company leases certain premises and equipment under noncancelable operating leases which are charged to expense over the lease term as it becomes payable. The Company s leases do not have rent holidays. In addition, any rent escalations are tied to the consumer price index or contain nominal increases and are not included in the calculation of current lease expense due to the immaterial amount. At December 31, 2007, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

2008	$ 1,116
2009	1,045
2010	1,012
2011	926
2012	897
Thereafter	4,359
	$ 9,355

17: Concentration of Credit Risks

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

18: Significant Estimates and Concentrations

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

19: 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.

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At December 31, 2007 and 2006, commitments to extend credit of $315.4 million and $227.5 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The maximum amount of future payments the Company could be required to make under these guarantees at December 31, 2007 and 2006, is $15.8 million and $16.1 million, respectively.

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

20: Financial Instruments

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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	December 31, 2007	
	Carrying Amount	Fair Value
	(In thousands)	
Financial assets:		
Cash and cash equivalents	$ 55,021	$ 55,021
Federal funds sold	76	76
Investment securities available for sale	430,399	430,399
Net loans receivable	1,577,588	1,581,168
Accrued interest receivable	14,321	14,321
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	$ 211,993	$ 211,993
Savings and interest-bearing transaction accounts	582,477	582,477
Time deposits	797,736	801,108
Federal funds purchased	16,407	16,407
Securities sold under agreements to repurchase	120,572	120,572
FHLB and other borrowed funds	251,750	253,074
Accrued interest payable	6,147	6,147
Subordinated debentures	44,572	46,485

	December 31, 2006	
	Carrying Amount	Fair Value
	(In thousands)	
Financial assets:		
Cash and cash equivalents	$ 59,700	$ 59,700
Federal funds sold	9,003	9,003
Investment securities available for sale	531,891	531,891
Net loans receivable	1,390,184	1,382,248
Accrued interest receivable	13,736	13,736
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	$ 215,142	$ 215,142
Savings and interest-bearing transaction accounts	582,425	582,425
Time deposits	809,627	806,530
Federal funds purchased	25,270	25,270
Securities sold under agreements to repurchase	118,825	118,825
FHLB and other borrowed funds	151,768	150,816
Accrued interest payable	6,869	6,869
Subordinated debentures	44,663	45,114

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21: Regulatory Matters

The Company s subsidiaries are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since, the Company s Arkansas bank subsidiaries are also under supervision of the Federal Reserve, they are further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. Under Florida state banking law, regulatory approval will be required if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. As the result of historical special dividends paid and leveraged capital positions, the Company s subsidiary banks do not have any significant undivided profits available for payment of dividends to the Company, without prior approval of the regulatory agencies at December 31, 2007.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2007, the Company meets all capital adequacy requirements to which it is subject.

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

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The Company s actual capital amounts and ratios along with the Company s subsidiary banks are presented in the following table.

	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 December 31, 2007						
Leverage ratios:						
Home BancShares	$255,979	11.44%	$ 89,503	4.00%	$ N/A	N/A%
First State Bank	54,537	9.18	23,763	4.00	29,704	5.00
Community Bank	34,189	8.90	15,366	4.00	19,207	5.00
Twin City Bank	61,178	8.87	27,589	4.00	34,486	5.00
Marine Bank	33,332	8.91	14,964	4.00	18,705	5.00
Bank of Mountain View	16,174	8.26	7,832	4.00	9,791	5.00
Tier 1 capital ratios:						
Home BancShares	$ 255,979	13.45%	$ 76,128	4.00%	$ N/A	N/A%
First State Bank	54,537	10.29	21,200	4.00	31,800	6.00
Community Bank	34,189	11.21	12,199	4.00	18,299	6.00
Twin City Bank	61,178	10.10	24,229	4.00	36,343	6.00
Marine Bank	33,332	10.20	13,071	4.00	19,607	6.00
Bank of Mountain View	16,174	13.84	4,675	4.00	7,012	6.00
Total risk-based capital ratios:						
Home BancShares	$279,840	14.70%	$152,294	8.00%	$ N/A	N/A%
First State Bank	61,188	11.54	42,418	8.00	53,023	10.00
Community Bank	38,036	12.47	24,402	8.00	30,502	10.00
Twin City Bank	68,754	11.35	48,461	8.00	60,576	10.00
Marine Bank	37,529	11.45	26,221	8.00	32,776	10.00
Bank of Mountain View	17,442	14.92	9,352	8.00	11,690	10.00
As of December 31, 2006						
Leverage ratios:						
Home BancShares	$235,878	11.29%	$ 83,571	4.00%	$ N/A	N/A%
First State Bank	46,811	8.69	21,547	4.00	26,934	5.00
Community Bank	26,235	7.94	13,217	4.00	16,521	5.00
Twin City Bank	50,375	7.51	26,831	4.00	33,539	5.00
Marine Bank	27,317	8.08	13,523	4.00	16,904	5.00
Bank of Mountain View	15,230	7.73	7,881	4.00	9,851	5.00
Tier 1 capital ratios:						
Home BancShares	$235,878	14.57%	$ 64,757	4.00%	$ N/A	N/A%
First State Bank	46,811	10.29	18,197	4.00	27,295	6.00
Community Bank	26,235	10.31	10,178	4.00	15,268	6.00
Twin City Bank	50,375	10.15	19,852	4.00	29,778	6.00
Marine Bank	27,317	9.59	11,394	4.00	17,091	6.00

Bank of Mountain View	15,230	14.09	4,324	4.00	6,485	6.00
Total risk-based capital ratios:						
Home BancShares	$256,186	15.83%	$129,469	8.00%	$ N/A	N/A%
First State Bank	52,519	11.54	36,408	8.00	45,510	10.00
Community Bank	29,471	11.58	20,360	8.00	25,450	10.00
Twin City Bank	56,586	11.40	39,709	8.00	49,637	10.00
Marine Bank	30,582	10.74	22,780	8.00	28,475	10.00
Bank of Mountain View	16,316	15.09	8,650	8.00	10,812	10.00

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22: Additional Cash Flow Information

In connection with 2005 acquisitions accounted for using the purchase method, the Company acquired approximately $1.0 billion in assets, assumed $960 million in liabilities, issued $56 million of equity and paid cash net of funds received of $31 million. The company paid interest and taxes during the years ended as follows:

	2007	2006	2005
		(In thousands)	
Interest paid	$74,500	$58,828	$34,282
Income taxes paid	9,820	7,820	6,000

23: Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities to provide companies with an option to report selected financial assets and liabilities at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement shall be effective as of the beginning of each reporting entity s first fiscal year that begins after November 15, 2007. SFAS 159 will be effective for the Company on January 1, 2008. Because the Company did not elect the fair value measurement provision for any of the Company s financial assets or liabilities, the adoption of SFAS 159 is not expected to have a material impact on the Company s 2008 consolidated financial statements. Presently, the Company has not determined whether it will elect the fair value measurement provisions for future transactions.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company s financial position or results of operations.

In September 2006, the FASB Emerging Issue Task Force (EITF) issued EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The EITF determined that for an endorsement split-dollar life insurance arrangement within the scope of the Issue, the employer should recognize a liability for future benefits in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or APB Opinion 12, Omnibus Opinion-1967, based on the substantive agreement with the employee. In March 2007, the FASB Emerging Issue Task Force (EITF) issued EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. The EITF determined that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. These Issues are effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying EITF 06-4 through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. As of December 31, 2007, the Company has split-dollar life insurance arrangements with two executives of the Company that have death benefits. The Company is currently evaluating the impact that the adoption of EITF 06-4 and EITF 06-10, but does not expect it to have a material effect on the Company s financial position or results of operations.

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Presently, the Company is not aware of any other changes from the Financial Accounting Standards Board that will have a material impact on the Company s present or future financial statements.

24: Subsequent Event

On January 18, 2008, the Company announced the adoption by its Board of Directors of a stock repurchase program. The program authorizes the Company to repurchase up to one million shares of its common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that the Company intends to repurchase. The repurchase program may be suspended or discontinued at any time without prior notice. 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 the Company s cash balances, which the Company believes are adequate to support the stock repurchase program and the Company s normal operations.

On March 3, 2008, White River Bancshares, Inc. repurchased the Company s 20% ownership for $19.9 million in cash. The repurchase by White River will result in one-time pre-tax gain of approximately $6.1 million or $0.20 diluted earnings per share for 2008.

The Company has not specifically allocated the use of these proceeds. The purpose may include paying down debt associated with subordinated debentures, providing investments in the Company s bank subsidiaries to support growth, including the development of additional banking offices or for general corporate purposes. Presently, the Company anticipates the additional funds will result in a modest accretion to the 2008 earnings per share of approximately $0.02 to $0.03.

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25: Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

(In thousands)	December 31, 2007	2006
Assets		
Cash and cash equivalents	$ 31,413	$ 44,439
Investment securities	6,334	4,716
Investments in wholly-owned subsidiaries	240,694	206,349
Investments in unconsolidated subsidiaries	15,084	12,449
Premises and equipment	257	3,770
Other assets	5,353	5,006
Total assets	$ 299,135	$ 276,729
Liabilities		
Subordinated debentures	$ 44,572	$ 44,663
Other liabilities	1,507	647
Total liabilities	46,079	45,310
Stockholders Equity		
Common stock	173	172
Capital surplus	195,649	194,595
Retained earnings	59,489	41,544
Accumulated other comprehensive loss	(2,255)	(4,892)
Total stockholders equity	253,056	231,419
Total liabilities and stockholders equity	$ 299,135	$ 276,729

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Condensed Statements of Income

	Years Ended December 31,		
(In thousands)	**2007**	**2006**	**2005**
Income			
Dividends from subsidiaries	$ 5,877	$ 7,044	$ 10,664
Other income	2,741	2,350	926
Total income	8,618	9,394	11,590
Expense	8,982	8,088	4,988
Income before income taxes and equity in undistributed net income of subsidiaries	(364)	1,306	6,602
(Benefit) provision for income taxes	(2,374)	(2,263)	(1,603)
Income before equity in undistributed net income of subsidiaries	2,010	3,569	8,205
Equity in undistributed net income of subsidiaries	18,435	12,349	3,241
Net income	$ 20,445	$ 15,918	$ 11,446

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Condensed Statements of Cash Flows

(In thousands)	Years Ended December 31, 2007	2006	2005
Cash flows from operating activities			
Net income	$ 20,445	$ 15,918	$ 11,446
Items not requiring (providing) cash			
Depreciation	14	120	138
Gain on sale of equity investment			(465)
Share-based compensation	456	380	
Tax benefits from stock options exercised	(244)	(211)	
Equity in undistributed income of subsidiaries	(18,435)	(12,349)	(3,241)
Equity in loss (income) of unconsolidated affiliates	86	379	592
Changes in other assets	(352)	(2,005)	(1,669)
Other liabilities	1,104	(236)	(320)
Net cash provided by (used in) operating activities	3,074	1,996	6,481
Cash flows from investing activities			
Purchases of premises and equipment	(92)	(65)	(276)
Investment in unconsolidated subsidiaries	(2,625)	(3,000)	(9,091)
Capital contribution to subsidiaries	(9,950)	(8,645)	(4,000)
Return of capital from subsidiaries	81	16,570	27,246
Purchase of subsidiaries			(48,988)
Proceeds from maturities of investment securities	382	284	
Purchase of investment securities	(2,000)		(5,000)
Net cash provided by (used in) investing activities	(14,204)	5,144	(40,109)
Cash flows from financing activities			
Net proceeds from stock issuance	355	47,747	425
Tax benefits from stock options exercised	249	211	
Issuance of subordinated debentures			15,000
Issuance of long-term borrowings			14,000
Repayment of long-term borrowings		(14,000)	
Dividends paid	(2,500)	(1,705)	(1,410)
Net cash provided by (used in) financing activities	(1,896)	32,253	28,015
Increase (decrease) in cash and cash equivalents	(13,026)	39,393	(5,613)
Cash and cash equivalents, beginning of year	44,439	5,046	10,659
Cash and cash equivalents, end of year	$ 31,413	$ 44,439	$ 5,046

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No items are reportable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this annual report was carried out under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. As a result of this evaluation, there were no significant changes in the Company s internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

Item 9B. OTHER INFORMATION

No items are reportable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNACE

Incorporated herein by reference from the Company s definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company s definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference from the Company s definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference from the Company s definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

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Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference from the Company s definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

(b) Listing of Exhibits.

Exhibit No.	
23.1	Consent of BKD, LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 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 Section 13 or 15(d) 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.

By: /s/ John W. Allison
John W. Allison
Chief Executive Officer and Chairman of the Board of Directors

Date: February 27, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on or about February 27, 2008.

/s/ John W. Allison	/s/ Ron W. Strother	/s/ Randy E. Mayor
John W. Allison Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	Ron W. Strother President, Chief Operating Officer and Director	Randy E. Mayor Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/s/ Robert H. Adcock, Jr.	/s/ Richard H. Ashley	/s/ Dale A. Bruns
Robert H. Adcock, Jr. Vice Chairman of the Board and Director	Richard H. Ashley Director	Dale A. Bruns Director
/s/ Richard A. Buckheim	/s/ S. Gene Cauley	/s/ Jack E. Engelkes
Richard A. Buckheim Director	S. Gene Cauley Director	Jack E. Engelkes Director
/s/ James G. Hinkle	/s/ Alex R. Lieblong	/s/ C. Randall Sims
James G. Hinkle Director	Alex R. Lieblong Director	C. Randall Sims Director
/s/ William G. Thompson		
William G. Thompson Director		