

HOME BANCSHARES INC  
Form 8-K/A  
August 09, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 8-K/A**

**(Amendment No. 3)**

**CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**Date of report (Date of earliest event reported) March 12, 2010**

**Home BancShares, Inc.**

(Exact name of registrant as specified in its charter)

Arkansas

(State or other jurisdiction of incorporation)

000-51904

(Commission File Number)

71-0682831

(IRS Employer Identification No.)

719 Harkrider, Suite 100, Conway, Arkansas

(Address of principal executive offices)

72032

(Zip Code)

(501) 328-4770

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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This amended Form 8-K/A (Amendment No. 3) is being filed because Centennial Bank recorded a preliminary one-time gain of \$9.7 million based upon the initial estimated fair value of the assets acquired and liabilities assumed of Old Southern. Subsequent to the initial fair value estimate calculations reported in the first quarter of 2010, additional information was obtained about the fair value of assets acquired and liabilities assumed as of March 12, 2010, which resulted in an adjustment to the initial fair value estimates. Most significantly, additional information (as of the acquisition date) was obtained about the collectability of a loss sharing item with the FDIC. This adjustment resulted in a \$2.5 million decrease to the first quarter initial FDIC indemnification asset and a related \$2.5 million decrease to the first quarter 2010 initial one-time gain of \$9.7 million. Thus, the new preliminary first quarter 2010 gain is \$7.3 million related to the fair value of the acquired assets and assumed liabilities of Old Southern.

#### **Explanatory Note**

On March 12, 2010, Home BancShares, Inc. (the Company) filed a Current Report on Form 8-K (the Original Report) to report that its wholly owned subsidiary, Centennial Bank (the Bank), had acquired the banking operations of Old Southern Bank (Old Southern), a Florida state-chartered bank headquartered in Orlando, Florida. Centennial Bank entered into a purchase and assumption agreement (Old Southern Agreement) with the Federal Deposit Insurance Corporation (FDIC), as receiver for Old Southern, on March 12, 2010, pursuant to which Centennial Bank acquired the loans and certain assets and assumed the deposits and certain liabilities of Old Southern. The Old Southern acquisition is collectively referred to herein as the Acquisition.

On March 18, 2010, the Company filed an amended Current Report on Form 8-K/A (Amendment No. 1) to report under Item 1.01 and Item 2.01 additional details of the terms and conditions of the Old Southern Agreement, a copy of which was included as Exhibit 2.1 to Amendment No. 1.

This Current Report on Form 8-K/A (Amendment No. 2) is being filed to amend and supplement the disclosure provided in the Original Report, as previously amended and supplemented by Amendment No. 1. This Amendment No. 2 provides an audited Statement of Assets Acquired and Liabilities Assumed, and updates the disclosures provided in Item 2.01 and 9.01 of the Original Report. All financial and other numeric measures of Old Southern as described below were based upon information as of March 12, 2010 or March 31, 2010 and may be subject to change.

Statements made in this Amendment, other than those concerning historical financial information, may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties. These forward-looking statements include, without limitation, statements regarding the Company's expectations concerning its financial condition, operating results, cash flows, liquidity and capital resources. A discussion of risks, uncertainties and other factors that could cause actual results to differ materially from management's expectations is set forth under the captions Cautionary Note Regarding Forward-Looking Statements, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections of our Form 10-K filed with the Securities and Exchange Commission (the Commission or SEC) for the year ended December 31, 2009.

#### **Item 2.01 Completion of Acquisition or Disposition of Assets**

The following discussion of assets acquired and liabilities assumed are presented at estimated fair value on the date of the Old Southern Agreement. The fair values of the assets acquired and liabilities assumed were determined as described in Note 2 to the Company's audited Statement of Assets Acquired and Liabilities Assumed, dated as of March 12, 2010, and the accompanying notes thereto, which is attached hereto as Exhibit 99.3 and incorporated herein by reference (the Audited Statement). These fair value estimates are based on the information available, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available. Centennial Bank and the FDIC are engaged in on-going discussions that may impact which assets and liabilities are ultimately acquired or assumed by the Bank and/or the purchase price. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The disclosure set forth in this Item 2.01 reflects the status of these items to the best of management's knowledge as of August 9, 2010.

The Old Southern acquisition consisted of assets with a fair value of \$342.6 million, including \$179.1 million of loans, \$30.4 million of investment securities, \$18.3 million of cash and cash equivalents, \$3.0 million of foreclosed assets, and \$2.1 million of other assets. Liabilities with a fair value of \$335.4 million were also assumed, including \$328.5 million of deposits and \$6.9 million of other liabilities. In addition to the excess of assets over liabilities, the Bank received \$30.7 million in cash from the FDIC and recorded a \$633,000 receivable due from the FDIC as compensation for the net liability that was assumed as a result of the acquisition. The Bank recorded \$2.4 million in core deposit intangibles and recognized a pre-tax, bargain purchase gain of \$7.3 million resulting in an after-tax gain of \$4.4 million.

In connection with the Acquisition, Centennial Bank entered into loss sharing agreements with the FDIC that cover \$282.0 million of assets, based upon the seller's records, including single family residential mortgage loans, commercial real estate, commercial and industrial loans, and foreclosed assets (collectively, covered assets). Centennial Bank acquired other Old Southern assets that are not covered by the loss sharing agreements with the FDIC including interest-bearing deposits with other banks, investment securities purchased at fair market value and other tangible assets. Pursuant to the terms of the loss sharing agreements, the covered assets are subject to a stated loss threshold of \$110.0 million whereby the FDIC will reimburse Centennial Bank for 80% of losses of up to \$110.0 million, and 95% of losses in excess of this amount. Centennial Bank will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC paid Centennial Bank a reimbursement under the loss sharing agreements. The FDIC's obligation to reimburse Centennial Bank for losses with respect to covered assets begins with the first dollar of loss incurred.

The following table summarizes the assets covered by the loss sharing agreements, the amount covered by the FDIC and the fair value:

	<b>March 12, 2010</b>	
	<b>Amount Covered by FDIC</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
Assets subject to stated threshold		
Loans receivable covered by loss share	\$ 273,166	\$ 179,065
Foreclosed assets held for sale covered by loss share	8,781	2,960

The amounts covered by the loss sharing agreements are the pre-acquisition book values of the underlying covered assets, the contractual balance of unfunded commitments that were acquired, and certain future net direct costs. The loss sharing agreement applicable to single family residential mortgage loans provides for FDIC loss sharing and Centennial Bank reimbursement to the FDIC, in each case as described above, for ten years. The loss sharing agreement applicable to all other covered assets provides for FDIC loss sharing for five years and Centennial Bank reimbursement of recoveries to the FDIC for eight years, in each case as described above.

The loss sharing agreements are subject to certain servicing procedures as specified in the agreements with the FDIC. The fair value of the loss sharing agreements was recorded as an indemnification asset at their estimated fair value of \$73.5 million on the acquisition date. The indemnification asset reflects the present value of the expected net cash reimbursement related to the loss sharing agreements described above. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. The transaction resulted in a pre-tax gain of \$7.3 million, which was included in non-interest income in the Company's March 31, 2010 Consolidated Statements of Income. Due to the difference in tax bases of the assets acquired and liabilities assumed, the Company recorded a deferred tax liability of \$2.8 million, resulting in an after-tax gain of \$4.4 million. Under the Internal Revenue Code, the gain will be recognized over the next six years.

An analysis of the likely short-term and long-term effects of the loss sharing agreements on the Company's cash flows and reported results is included in Item 9.01(a) below.

## **Item 9.01 Financial Statements and Exhibits**

### **(a) Financial Statements of Business Acquired**

As set forth in Item 2.01 above, on March 12, 2010, Centennial Bank acquired certain assets and assumed substantially all deposits and certain liabilities of Old Southern pursuant to the Old Southern Agreement. A narrative description of the anticipated effects of the Acquisition on the Company's financial condition, liquidity, capital resources and operating results is presented below. This discussion should be read in conjunction with the historical financial statements and the related notes of the Company, which have been filed with the SEC and the Audited Statement, which is attached hereto as Exhibit 99.3.

The Acquisition increased the Company's total assets and total deposits by approximately 12.8% and 17.9%, respectively, as compared with balances at December 31, 2009, and is expected to positively affect the Company's operating results, to the extent the Company earns more from interest earned on its assets than it pays in interest on deposits and other borrowings. The ability of the Company to successfully collect interest and principal on loans acquired and collect reimbursement from the FDIC on the related indemnification asset will also impact cash flows and operating results.

The Company considers that the determination of the initial fair value of loans acquired in the March 12, 2010 FDIC-assisted transaction and the initial fair value of the related FDIC indemnification asset involves a high degree of judgment and complexity. The carrying value of the acquired loans and the FDIC indemnification asset reflect management's best estimate of the amount to be realized on each of these assets. The Company estimated the acquisition date fair value of the acquired assets and assumed liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 805, Business Combinations (formerly Statement of Financial Accounting Standards ( SFAS ) No. 141(R), *Business Combinations*). However, the amount that the Company realizes on these assets could differ materially from the carrying value reflected in the attached Audited Statement primarily as a result of changes in the timing and amount of collections on the acquired loans in future periods. Because of the loss sharing agreement with the FDIC on these assets, as described in Item 2.01 above, the Company does not expect to incur significant losses. To the extent the actual values realized for the acquired loans differ from the estimated amounts; the indemnification asset will generally be impacted in an offsetting manner due to the loss sharing support from the FDIC.

### **Financial Condition**

In the Acquisition, Centennial Bank purchased \$179.1 million in loans receivable, at fair value, net of a \$94.1 million estimated discount to the outstanding principal balance, representing approximately 8.4% of the Company's total loans and leases (net of the allowance for loan losses) at March 31, 2010. Foreclosed assets acquired were \$3.0 million at fair value.

Centennial Bank acquired \$18.3 million in cash and cash equivalents in the transaction. In addition to the cash and cash equivalents acquired, Centennial Bank received \$30.7 million from the FDIC. Centennial Bank also acquired \$30.4 million in securities, at fair value. These assets provided additional liquidity to the Company.

The following table presents information with respect to the fair value of certain acquired earning assets and loans, as well as their book balance at acquisition date, contractual term and average effective yield.

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**Schedule of Earning Assets Acquired**

		<b>March 12, 2010</b>		
	<b>Initial</b>	<b>Fair Value</b>	<b>Average</b>	<b>Effective</b>
	<b>Value</b>	<b>(Dollars in thousands)</b>	<b>Months</b>	<b>Interest</b>
			<b>to</b>	<b>Rate</b>
			<b>Maturity</b>	
Earning assets				
Interest-bearing deposits with other banks	\$ 16,563	\$ 16,563		0.25%
Federal funds sold	3,079	3,079		0.25
Investment securities	30,401	30,401	44	3.76
Loans receivable covered by loss share:				
Commercial real estate				
Non-farm/non-residential	91,360	68,953	55	6.72
Construction/land development	118,192	69,966	28	6.82
Agricultural	5,436	2,896	13	7.24
Residential real estate				
Residential 1-4 family	17,391	12,167	56	7.33
Multifamily residential	5,567	4,424	84	7.67
Consumer	493	294	42	7.61
Commercial and industrial	34,727	20,365	32	6.97
Total loans	\$ 273,166	\$ 179,065		
Total earning assets	\$ 323,209	\$ 229,108		

The following table reflects the scheduled maturities of the acquired loans:

	<b>One Year or Less</b>	<b>Over One Year Through Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
Contractual maturities:				
Commercial real estate				
Non-farm/non-residential	\$ 8,844	\$ 36,865	\$ 23,244	\$ 68,953
Construction/land development	36,512	24,147	9,307	69,966
Agricultural	2,770	126		2,896
Residential real estate				
Residential 1-4 family	3,042	3,203	5,922	12,167
Multifamily residential		803	3,621	4,424
Consumer	19	275		294
Commercial and industrial	5,017	12,378	2,970	20,365
<b>Total</b>	<b>\$ 56,204</b>	<b>\$ 77,797</b>	<b>\$ 45,064</b>	<b>\$ 179,065</b>
Rate sensitivity:				
Fixed	\$ 23,969	\$ 43,100	\$ 6,603	\$ 73,672
Variable	32,235	34,697	38,461	105,393
<b>Total</b>	<b>\$ 56,204</b>	<b>\$ 77,797</b>	<b>\$ 45,064</b>	<b>\$ 179,065</b>

In the acquisition, Centennial Bank assumed \$328.5 million in deposits, at fair value. This amount represents approximately 14.8% of the Company's total deposits of \$2.22 billion at March 31, 2010. Demand and non-interest bearing, savings and interest bearing transaction accounts, and time deposits assumed were \$25.2 million, \$124.1 million and \$179.2 million, respectively.

In its assumption of the deposit liabilities, the Company believed that the customer relationships associated with these deposits have intangible value. The Company applied FASB ASC 805, which prescribes the accounting for goodwill and other intangible assets such as core deposit intangibles, in a business combination. The Bank determined the estimated fair value of the core deposit intangible asset totaled \$2.4 million, which will be amortized utilizing a straight line method over an estimated economic life of 6 years. In determining the estimated life and valuation, deposits were analyzed based on factors such as type of deposit, deposit retention, interest rates, age of deposit relationships, and the maturities of time deposits.

Future amortization of this core deposit intangible asset over the estimated life will decrease results of operations, net of any potential tax effect. Future capital will be reduced by the amount of expected amortization, net of any tax effect. Since amortization is a noncash item, it will have no effect upon future liquidity and cash flows. For the calculation of regulatory capital, this core deposit intangible asset is disallowed and is a reduction to equity capital. It is expected that the results of disallowing this intangible asset should not materially affect the Company's or Centennial Bank's regulatory capital ratios.

The core deposit intangible asset is subject to significant estimates by management of the Company related to the value and the life of the asset. These estimates could change over time. The Company will review the valuation of this asset periodically to ensure that no impairment has occurred. If any impairment is subsequently determined, the Company will record the impairment as an expense in its Consolidated Statement of Income.

***Nonperforming Loans***

ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, applies to a loan with evidence of deterioration of credit quality since origination, for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. ASC Topic 310-30 prohibits carrying over or creating an allowance for loan losses upon initial recognition for loans that fall under its scope. The Company evaluated loans purchased in conjunction with the Old Southern acquisition for impairment in accordance with the provisions of ASC Topic 310-30. Purchased covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. All loans acquired in this transaction were deemed to be covered impaired loans. These loans were not classified as nonperforming assets at March 31, 2010, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

The FDIC determined a measurement date whereby the stated loss threshold was established. A summary of past due and non-accrual loans covered by the loss sharing agreements at March 31, 2010 follows:

**Past Due and Non-Accrual Loans**

	<b>March 31, 2010</b>
	<b>Assets Covered by FDIC Loss Share (In thousands)</b>
Non-accrual loans	\$
Loans past due 90 days or more (principal or interest payments)	17,304
Total	\$ 17,304

*Operating Results and Cash Flows.* The Company's management has from time to time become aware of acquisition opportunities and has performed various levels of review related to potential acquisitions in the past. This Acquisition was attractive to the Company for a variety of reasons, including the:

ability to expand into an opportunistic market and increase Home BancShares' market share in Florida;

anticipated profitability in the pricing of the acquired loan portfolio including the indemnification asset;

attractiveness of immediate deposit growth with low cost of funds given that over the past several years, organic deposit growth has been exceptionally difficult as financial institutions compete for deposits. This acquisition allowed us to immediately increase deposits at an attractive cost;

opportunities to enhance income and efficiency due to duplications of effort. The Company has operated efficiently, and expects to enhance income by centralizing some duties and removing duplications of effort.

Based on these and other factors, including the level of FDIC support related to the acquired loans and foreclosed assets, the Company believes that this acquisition will have an immediate positive impact on its earnings.

The Old Southern transaction had an immediate accretive impact to the Company's financial results as it recognized a day 1 pre-tax gain upon acquisition of \$7.3 million. The transaction resulted in an after-tax gain of \$4.4 million. Based on March 31, 2010 information, total assets acquired make up 11.2%, or \$342.6 million, of the Company's total assets of \$3.08 billion, and total deposits assumed make up 14.8%, or \$328.5 million, of the Company's total deposits of \$2.22 billion. The Company believes that the transaction will improve the Company's net interest income, as the Bank earns more from interest earned on its loans and investments than it pays in interest on deposits and borrowings.

The extent to which the Bank's operating results may be adversely affected by the acquired loans is largely offset by the loss sharing agreements and the related discounts reflected in the estimated fair value of these assets at the acquisition date. In accordance with the provisions of ASC Topic 310-30, the fair values of the acquired loans reflect an estimate of expected credit losses related to these assets. As a result, the Company's operating results would only be adversely affected by loan losses to the extent that such losses exceed the expected credit losses reflected in the fair value of these assets at the acquisition date. In addition, to the extent that the stated interest rate on acquired loans was not considered a market rate of interest at the acquisition date, appropriate adjustments to the acquisition-date fair values were recorded. These adjustments mitigate the risk associated with the acquisition of loans earning a below-market rate of return.

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The long-term effects that the Company may experience will depend primarily on the ability of the borrowers under the various loans covered by the loss sharing agreements to make payments over time. As the loss sharing agreements cover up to a 10-year period (5 years for commercial loans and other assets), changing economic conditions will likely impact the timing of future charge-offs and the resulting reimbursements from the FDIC. The Company believes that any recapture of interest income and recognition of cash flows from the borrowers or received from the FDIC (as part of the FDIC indemnification asset) may be recognized unevenly over this period, as the Company exhausts its collection efforts under its normal practices. In addition, the Company recorded substantial discounts related to the purchase of these covered assets. A portion of these discounts may be accretable to income over the economic life of the loans and will be dependent upon the timing and success of the Company's collection efforts on the covered assets.

*Liquidity and Capital Resources.* The transaction significantly enhanced the liquidity position of the Bank. The Company acquired \$18.3 million in cash and cash equivalents as well as \$30.4 million of investment securities. These securities provide monthly cash flows in the form of principal and interest payments and are readily marketable. In addition, the FDIC also transferred \$30.7 million in cash to Centennial Bank to compensate for the net liability that resulted from the transfer of Old Southern assets and liabilities adjusted for the Bank's discount bid.

Deposits in the amount of \$328.5 million were also assumed. Of this amount, 45.4%, or \$149.3 million, were in the form of highly liquid transaction accounts. Certificates of deposit and other time deposits comprised 54.6%, or \$179.2 million, of total deposits.

At December 31, 2009, the Company was considered well-capitalized under relevant regulatory ratios. The Company remains well-capitalized after taking into consideration the results of the transaction. The Company had the following capital ratios at March 31, 2010 (includes the effects of this FDIC-assisted transaction) and December 31, 2009:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Tier 1 leverage ratio	17.20%	17.42%
Tier 1 risk-based capital ratio	19.37	20.76
Total risk-based capital ratio	20.63	22.02

At December 31, 2009, the Bank was considered well-capitalized under relevant regulatory ratios. The Bank remains well-capitalized after taking into consideration the results of the transaction and \$33.0 million additional capital injected by the Company. The Bank had the following capital ratios at March 31, 2010 (includes the effects of this FDIC-assisted transaction) and December 31, 2009:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Tier 1 leverage ratio	11.74%	10.21%
Tier 1 risk-based capital ratio	13.21	12.21
Total risk-based capital ratio	14.47	13.47

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## Financial Statements

Attached hereto as Exhibit 99.3 and incorporated by reference into this Item 9.01(a) is an audited Statement of Assets Acquired and Liabilities Assumed by Centennial Bank (a wholly owned subsidiary of Home BancShares, Inc.) related to its acquisition of Old Southern at March 12, 2010 and the accompanying notes thereto.

Report of Independent Registered Public Accounting Firm

Statement of Assets Acquired and Liabilities Assumed at March 12, 2010

Notes to Statement of Assets Acquired and Liabilities Assumed

The Company has omitted certain financial information of Old Southern required by Rule 3-05 of Regulation S-X and the related pro forma financial information under Article 11 of Regulation S-X in accordance with a request for relief submitted to the Commission in accordance with the guidance provided in Staff Accounting Bulletin 1:K, Financial Statements of Acquired Troubled Financial Institutions (SAB:1K). SAB 1:K provides relief from the requirements of Rule 3-05 in certain instances, such as the transaction, where a registrant engages in an acquisition of a significant amount of assets of a troubled financial institution that involves pervasive federal assistance and audited financial statements of the troubled financial institution that are not reasonably available.

(d) Exhibits

Exhibit 2.1 Purchase and Assumption Agreement Whole Bank All Deposits, by and among the Federal Deposit Insurance Corporation, receiver of Old Southern Bank, Orlando, Florida, the Federal Deposit Insurance Corporation, and Centennial Bank, dated as of March 12, 2010 (filed as Exhibit 2.1 to the Form 8-K/A on March 18, 2010, and incorporated herein by reference).

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm.

Exhibit 99.1 Press Release: Home BancShares, Inc. Announces Opportunistic Florida Acquisition (filed as Exhibit 99.1 to the Form 8-K/A on March 18, 2010, and incorporated herein by reference).

Exhibit 99.2 Supplemental materials to Press Release dated March 12, 2010 (filed as Exhibit 99.2 to the Form 8-K/A on March 18, 2010, and incorporated herein by reference).

Exhibit 99.3 Report of Independent Registered Public Accounting Firm  
Statement of Assets Acquired and Liabilities Assumed at March 12, 2010  
Notes to Statement of Assets Acquired and Liabilities Assumed

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**SIGNATURES**

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

Home BancShares, Inc.

(Registrant)

Date: August 9, 2010

/s/ Randy Mayor  
Randy Mayor  
Chief Financial Officer