AMERITRADE HOLDING CORP
Form S-3/A
November 10, 2003

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As filed with the Securities and Exchange Commission on November 7, 2003

Registration No. 333-110170

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 1
to

Form S-3

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

Ameritrade Holding Corporation

(Exact name of registrant as specified in its charter)

Delaware	**82-0543156**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

4211 South 102nd Street
Omaha, Nebraska 68127
(402) 331-7856
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

John R. MacDonald

Chief Financial Officer
Ameritrade Holding Corporation
4211 South 102nd Street
Omaha, Nebraska 68127
(402) 331-7856
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joseph P. Collins, Esq. **Michael L. Hermsen, Esq.** **Mayer, Brown, Rowe & Maw LLP** **190 South LaSalle Street** **Chicago, Illinois 60603-3441** **(312) 782-0600**	**Robert Evans III, Esq.** **Abigail Arms, Esq.** **Shearman & Sterling LLP** **599 Lexington Avenue** **New York, NY 10022** **(212) 848-4000**

Approximate date of commencement of the proposed sale to the public: As soon as practicable after this Registration Statement becomes effective. If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class Of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock, par value $.01 per share	50,755,037	$13.225	$671,235,364	$54,303(3)

(1) Calculated as the average of the high and low prices as of October 27, 2003, a date within five business days prior to the date of the filing of this registration statement.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act.
(3) Previously Paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on any date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 7, 2003.

44,134,815 Shares

Common Stock

The shares of Common Stock are being sold by the selling stockholders. We will not receive any of the proceeds from the shares of Common Stock sold by the selling stockholders.

We have indicated to the underwriters an intention to purchase directly from the selling stockholders, concurrently with the underwritten offering, 7,500,000 shares of Common Stock in a private, non-underwritten transaction at the net price sold in the underwritten offering.

Our Common Stock is traded on The Nasdaq National Market under the symbol AMTD. The last sale price as reported on NASDAQ on November 6, 2003, was $12.30 per share.

The underwriters have an option to purchase a maximum of 6,620,222 additional shares from the selling stockholders to cover over-allotments of shares.

Investing in our Common Stock involves risks. See Risk Factors on page 7.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of Common Stock will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Citigroup**
Deutsche Bank Securities

Merrill Lynch & Co.

Raymond James

The date of this prospectus is , 2003.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement and the information incorporated by reference in them may contain forward-looking statements within the meaning of the federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, you can identify these statements by our use of forward-looking words such as may, will, should, anticipate, estimate, expect, plan, believe, predict, potential and intend. You should be aware tha any other forward-looking statements in these documents only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual results to be materially different from our expectations include, but are not limited to:

a significant downturn in the securities markets over a short period of time or a sustained decline in securities prices and trading volumes;

the effects of our competitors pricing;

changes in revenues and profit margin due to cyclical securities markets and interest rates;

computer system failures;

trading volumes in excess of our capacity;

evolving regulation and changing industry customs and practices adversely affecting us;

the effects of our principal stockholders, who are parties to a stockholders agreement, owning a significant percentage of our stock;

product and service decisions and intensified competition;

adverse results of litigation; and

other risks and uncertainties set forth under the heading Risk Factors on page 7 of this prospectus.

We undertake no obligation to update or revise publicly any forward looking statements, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information appearing elsewhere in this prospectus or incorporated by reference into this prospectus, including the section entitled Risk Factors. Unless the context otherwise requires, references in this prospectus to Ameritrade, we, us or our or similar terms refer to Ameritrade Holding Corporation and its consolidated subsidiaries. Common Stock amounts referenced in this prospectus do not include the over-allotment option.

Ameritrade Holding Corporation

Our Business

We are a leading provider of securities brokerage services and technology-based financial services to retail investors and business partners, predominantly through the Internet. Our services appeal to a broad market of independent, value conscious retail investors, traders, financial planners and institutions. We use our low-cost platform to offer brokerage services to retail investors and institutions under a commission structure that is generally lower and simpler than that of most of our competitors.

We have been an innovator in electronic brokerage services since being established in 1971. We were the first brokerage firm to offer the following products and services to retail clients: touch-tone trading; trading over the Internet; unlimited, streaming, free real-time quotes; extended trading hours; direct access; and commitment on the speed of execution. Since initiating online trading, we have substantially increased our number of brokerage accounts, average daily trading volume and total assets in client accounts. As of September 26, 2003, we had approximately 3 million client accounts, compared to 98,000 as of September 26, 1997. We have also built and continue to invest in a proprietary trade processing platform that is both cost efficient and highly scalable, significantly lowering our operating costs per trade. In addition, we have made significant and effective investments in building the Ameritrade brand.

For the fiscal year ended September 26, 2003, we had net revenues of $713 million and net income of $137 million.

Our Market Opportunity

The retail brokerage industry is comprised of companies that employ two primary delivery channels: online delivery and offline delivery utilizing financial consultants. The number of client accounts in the online segment of the retail brokerage industry has grown rapidly over the past five years. A number of factors have contributed to this growth, including:

- Increased consumer acceptance of and confidence in the Internet as a reliable, secure and cost-effective medium for financial transactions;
- The availability of financial information online, including research, real-time quotes, charts, news and company information;
- The growth in high-speed Internet access by US households;
- The appeal of online trading to investors based on lower commissions, greater range of investment alternatives and greater control over investment decisions; and
- The growth in equity ownership by individual investors.

Our Competitive Strengths

- *We are a Market Leader with Strong Brand Awareness.* We are a leader in the online brokerage industry. For each of the quarters in fiscal 2003, we ranked number one in average online equity trades per day when compared to our publicly traded competitors. Due to our market position, industry experience and advertising efforts, we have developed a strong brand identity and a suite of products and services that is widely recognized in the retail brokerage market. Since introducing the

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Ameritrade brand in October 1997, we have invested approximately $660 million in advertising programs designed to further enhance our brand recognition. Our brand recognition enables us to attract new clients and retain existing clients, as well as to accelerate the adoption of new products and services. Over the past six years, we have added over 1.8 million accounts through internal growth.

We Deliver a Superior Value Proposition to Our Clients. A large segment of the overall investor base is self-directed and price conscious, and can receive superior service at substantially reduced commissions, through our services. We provide our clients with simple, transparent pricing without per share charges and minimum trade volumes. In addition, we provide them with convenient access to information and advanced trading tools, as well as superior execution and an enjoyable investing experience. As a result, we are able to compete effectively with both online and offline brokerage service providers for new clients.

We are a Low Cost Provider. Due to our primary focus on the online brokerage model, we are one of the most operationally efficient providers of brokerage services in the industry. Our scalable technology infrastructure provides for highly automated trade execution and service delivery. As a result, during the last two quarters ended June 27, 2003 and September 26, 2003 our pre-tax margins, which averaged approximately 45%, were the highest of any of our publicly traded competitors and we have positioned ourselves to maintain profitability even in difficult markets.

We have a Sophisticated, Scalable Technology Infrastructure. We have been a technological innovator throughout our history, and have developed and integrated a sophisticated, scalable technology infrastructure. This infrastructure enables us to provide superior features, speed, reliability and execution for our clients, as well as generate significant operating leverage. We continue to expand and enhance our feature set and service delivery, enabling our clients to optimize their trading experience. In addition, we continue to improve the scalability of our infrastructure. Our current capacity for trades is approximately 350,000 trades per day. Because of the scalability of our system, we believe that we would be able to increase capacity to approximately 600,000 trades per day at an estimated cost of $10 million.

We Possess Strong Acquisition Execution and Integration Capabilities. We have pursued a highly effective acquisition strategy and have demonstrated a strong ability to execute acquisitions and integrate them quickly and successfully. The largest of these transactions was the September 2002 merger with Datek Online Holdings Corp. Our acquisitions have significantly accelerated our growth rate, resulting in greater leverage from scale economies than we would have otherwise achieved without the acquisitions. In addition, we have been able to extract significant operating synergies from our acquisitions, resulting in even higher post-acquisition profit margins and returns on investment. For example, following the Datek merger we realized $188 million of pre-tax synergies in fiscal 2003 and expect an incremental $57 million in pre-tax synergies in fiscal 2004.

Our Strategy

Our business strategy is to continue to capitalize on the projected growth of the online brokerage industry in the United States and Canada and leverage our low-cost infrastructure to grow market share and profitability. We strive to enhance the client experience while delivering greater value to stockholders. Elements of our strategy include the following:

Continue to strengthen our market position in the active trader segment;

Increase revenue from existing clients by increasing our share of their financial assets;

Leverage our infrastructure to generate additional economies of scale; and

Pursue acquisitions to increase our growth opportunities.

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Address

We maintain a Web site where additional information concerning our business can be found. The address of that Web site is www.amtd.com. We make available free of charge on our Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

Other than this prospectus and any registration statement of which it forms a part, each in electronic format as filed with the SEC, the information on any Web site is not a part of this prospectus or any registration statement of which it forms a part.

Our address is 4211 South 102nd Street, Omaha, NE 68127. Our telephone number is (402) 331-7856.

Recent Developments

On November 7, 2003, we announced the following for the month of October:

- 32,000 new accounts (20,000 net new accounts) for the month;
- average trades per day of 170,000 for the month; and
- client assets of $61.1 billion as of the end of the month.

On November 6, 2003, we announced that we entered into a definitive agreement to acquire Bidwell & Company. In connection with this purchase, we expect to pay approximately $55 million in cash and the transaction is expected to close in early 2004, subject to applicable regulatory approvals.

On October 23, 2003, we redeemed all of the approximately $46.3 million in aggregate principal amount outstanding of our 5.75% convertible subordinated notes due August 1, 2004 for $46.8 million in cash.

On October 2, 2003, we announced the signing of a definitive agreement to acquire approximately 11,500 online accounts from BrokerageAmerica LLC. The transaction is expected to close during the first half of fiscal 2004.

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The Offering

Issuer	Ameritrade Holding Corporation
Common Stock offered to public by selling stockholders	44,134,815 shares (1)
Over-allotment option from selling stockholders	6,620,222 shares
Common Stock to be repurchased from the selling stockholders concurrently with this offering	7,500,000 shares
Common Stock to be outstanding after the offering (2)	422,284,514 shares
Use of proceeds	We will not receive any of the proceeds from the sale of the shares. The selling stockholders will receive all of the net proceeds from the sale of shares of our Common Stock offered by this prospectus.
Nasdaq symbol	AMTD

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(1) This amount consists of the number of shares set forth across from the following groups of selling stockholders:

entities affiliated with Bain Capital	19,154,717 shares
entities affiliated with Silver Lake Partners	12,998,437 shares
entities affiliated with TA Associates, Inc.	8,712,558 shares
members of the Ricketts family	3,269,103 shares

(2) After the repurchase from the selling stockholders of 7,500,000 shares of Common Stock by us in a private transaction concurrently with the offering.

The number of shares to be outstanding after this offering is based on the number of shares of Common Stock outstanding as of September 26, 2003 less the shares to be repurchased by us concurrently with this offering. The total number of shares to be outstanding after this offering does not reflect:

- Approximately 30.1 million shares of our Common Stock issuable upon exercise of outstanding stock options as of September 26, 2003 (of which approximately 13.9 million are exercisable and approximately 16.2 million are not exercisable). The outstanding options have a weighted average life of 7.4 years and a weighted average exercise price of $6.06 per share; and

- Approximately 29.3 million shares of our Common Stock available for future issuance under our existing stock option plans as of September 26, 2003.

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SUMMARY FINANCIAL INFORMATION

The following table sets forth, for the periods and at the dates indicated, our consolidated financial data. The information set forth below is qualified by reference to and should be read in conjunction with our audited consolidated financial statements and the related notes in our Annual Report on Form 10-K for the year ended September 26, 2003, which is incorporated by reference in this prospectus.

	Fiscal Year Ended*				
	Sept. 24, 1999	Sept. 29, 2000	Sept. 28, 2001	Sept. 27, 2002(2)	Sept. 26, 2003(2)
	(In thousands, except per share amounts and operating data)				
Consolidated Statements of Operations Data:					
Revenues:					
Commissions and clearing fees	$188,082	$ 389,742	$ 269,384	$ 252,526	$ 472,760
Interest revenue	116,162	242,819	191,530	116,345	168,794
Other	10,213	21,890	37,763	74,182	89,511
Total revenues	314,457	654,451	498,677	443,053	731,065
Client interest expense	42,435	74,019	43,947	12,260	17,811
Net revenues	272,022	580,432	454,730	430,793	713,254
Expenses:					
Employee compensation and benefits	74,353	144,883	144,820	133,897	176,792
Communications	18,591	36,394	39,896	36,091	46,250
Occupancy and equipment costs	14,992	45,249	60,523	55,294	54,552
Depreciation and amortization	6,753	21,624	36,033	27,945	31,708
Professional services	32,953	56,135	41,787	25,088	31,398
Interest on borrowings	4,463	16,412	11,067	5,110	5,076
(Gain)/loss on disposal of property		(552)	999	403	(5,093)
Other	34,401	34,662	27,364	29,605	48,829
Advertising	67,408	241,163	147,975	72,471	90,394
Gain on sale of investments			(9,692)		
Restructuring and asset impairment charges		4,726	38,268	63,406	5,991
Debt conversion expense			62,082		
Total expenses	253,914	600,696	601,122	449,310	485,897
Pre-tax income (loss)	18,108	(20,264)	(146,392)	(18,517)	227,357
Provision for (benefit from) income taxes	6,569	(6,638)	(55,215)	10,446	90,715
Net income (loss)	$ 11,539	$ (13,626)	$ (91,177)	$ (28,963)	$ 136,642
Basic earnings (loss) per share	$ 0.07	$ (0.08)	$ (0.49)	$ (0.13)	$ 0.32
Diluted earnings (loss) per share	$ 0.07	$ (0.08)	$ (0.49)	$ (0.13)	$ 0.32
Weighted average shares outstanding basic	174,342	175,025	185,830	227,327	427,376
Weighted average shares outstanding diluted	175,745	175,025	185,830	227,327	432,480
Operating Data:					
Average client trades per day	49,305	114,332	101,998	83,890	142,612
Number of core accounts(1)	560,000	1,233,000	1,794,000	2,842,000	3,014,000
Assets in client accounts (in billions)	$ 22.9	$ 36.0	$ 26.1	$ 33.9	$ 54.8

(1) Includes core brokerage account base only. Non-core accounts (primarily clearing accounts, stock option administration accounts and bank referral accounts) are not included.

(2) The Datek acquisition was effected September 9, 2002.

* Fiscal 2000 was a 53-week year. All other periods presented are 52-week years. Certain reclassifications have been made to prior years to conform to the current year presentation.

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	As of				
	Sept. 24, 1999	Sept. 29, 2000	Sept. 28, 2001	Sept. 27, 2002(1)	Sept. 26, 2003(1)
Consolidated Balance Sheet Data:					
Cash and segregated investments	$1,019,370	$ 338,307	$2,068,391	$5,863,507	$ 8,127,044
Receivable from clients and correspondents, net	1,526,801	2,926,981	971,823	1,419,469	2,202,170
Total assets	3,037,083	3,798,236	3,653,871	9,800,841	14,404,268
Payable to clients and correspondents	2,057,346	2,618,157	2,777,916	6,374,644	9,611,243
Notes payable and convertible subordinated notes	200,000	275,000	70,145	47,645	46,295
Stockholders equity	220,463	264,168	371,433	1,098,399	1,235,774

(1) The Datek acquisition was effected September 9, 2002.

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RISK FACTORS

You should carefully consider the risks described below before making an investment in our Common Stock.

Stock Market Volatility and Other Securities Industry Risks Have Adversely Affected Our Business.

Substantially all of our revenues are derived from securities brokerage and clearing and execution services. Like other securities brokerage businesses, we are directly affected by economic and political conditions, broad trends in business and finance and changes in volume and price levels of securities transactions. We are particularly affected by volatility in technology and Internet-related stocks because significant numbers of our clients invest in these types of stocks. Since May 2000, the U.S. securities markets have been very volatile, which has reduced trading volume and net revenues. The terrorist attacks in the United States on September 11, 2001, the invasion of Iraq in 2003 and other events also resulted in substantial market volatility and accompanying reductions in trading volume and net revenues. In addition, any general economic downturn would adversely affect trading volumes and net revenues. For example, in 2002 we experienced reduced trading volumes and net revenues that adversely affected our profitability. Severe market fluctuations or weak economic conditions could reduce our trading volume and net revenues and adversely affect our profitability.

The Market Price of Our Common Stock Could Fluctuate Significantly.

Our Common Stock, and the U.S. securities markets in general, have experienced significant price fluctuations in recent years. The market prices of securities of Internet-related companies, in particular, have been especially volatile. The price of our Common Stock could decrease substantially. In addition, because the market price of our Common Stock tends to fluctuate significantly, we may become the object of securities class action litigation which may result in substantial costs and a diversion of management s attention and resources.

Substantial Competition Could Reduce Our Market Share and Harm Our Financial Performance.

The market for electronic brokerage services is young, rapidly evolving and intensely competitive. We expect the competitive environment to continue in the future. We face direct competition from numerous online brokerage firms, including Charles Schwab & Co., Inc., E*TRADE Group, Inc., TD Waterhouse Group, Inc., Harris*direct* and Scottrade, Inc. We also encounter competition from the broker-dealer affiliates of established full-commission brokerage firms as well as from financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services. Some of our competitors have greater financial, technical, marketing and other resources, offer a wider range of services and financial products, and have greater name recognition and a more extensive client base than we do. We believe that the general financial success of companies within the online securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do. In addition, our clearing operations compete with numerous firms that provide clearing and execution services to the securities industry. We may not be able to compete effectively with current or future competitors.

Systems Failures and Delays Could Harm Our Business.

We receive and process trade orders through a variety of electronic channels, including the Internet, wireless web, personal digital assistants and our interactive voice response system. These methods of trading are heavily dependent on the integrity of the electronic systems supporting them. Our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events. Though all of our core computer systems and applications are fully redundant and distributed over two sites, it may take up to four hours to restore full functionality in the event of an unforeseen disaster. Extraordinary trading volumes could cause

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our computer systems to operate at an unacceptably low speed or even fail. While we have invested significant amounts in the last few years to upgrade the reliability and scalability of our systems, there can be no assurance that our systems will be sufficient to handle such extraordinary trading volumes. In the past, we experienced periods of extremely high trading volume that caused individual system components or processes to fail, resulting in the temporary unavailability of our Web site for online trading and delays in our telephone systems. On some other occasions, high trading volume caused significant delays in executing trading orders, resulting in some clients orders being executed at prices they did not anticipate. From time to time, we have reimbursed our clients for losses incurred in connection with systems failures and delays. We are also subject to a putative class action lawsuit regarding claimed systems failures and delays. Systems failures and delays may occur again in the future and could cause, among other things, unanticipated disruptions in service to our clients, slower system response time resulting in transactions not being processed as quickly as our clients desire, decreased levels of client service and client satisfaction, and harm to our reputation. If any of these events were to occur, we could suffer:

- a loss of clients or a reduction in the growth of our client base;
- increased operating expenses;
- financial losses;
- additional litigation or other client claims; and
- regulatory sanctions or additional regulatory burdens.

Capacity Constraints of Our Systems Could Harm Our Business.

If our business increases, we may need to expand and upgrade our transaction processing systems, network infrastructure and other aspects of our technology. Many of our systems are, and much of our infrastructure is, designed to accommodate additional growth without redesign or replacement; however, we may need to continue to make significant investments in additional hardware and software to accommodate growth. We may not be able to project accurately the rate, timing or cost of any increases in our business, or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner. Failure to make necessary expansions and upgrades to our systems and infrastructure could lead to failures and delays, which could cause a loss of clients or a reduction in the growth of the client base, increased operating expenses, financial losses, additional litigation or client claims, and regulatory sanctions or additional regulatory burdens.

Regulatory and Legal Uncertainties Could Harm Our Business.

The securities industry is subject to extensive regulation and broker-dealers are subject to regulations covering all aspects of the securities business. The SEC, NASD and other self-regulatory organizations and state and foreign regulators can, among other things, censure, fine, issue cease-and-desist orders to, suspend or expel a broker-dealer or any of its officers or employees. While we neither actively solicit new accounts nor have established offices outside the United States and Canada, our websites are accessible world-wide over the Internet and we currently have account holders located outside the United States and Canada. These accounts make up approximately 3% of our accounts and are spread across many jurisdictions. Any adverse action by foreign regulators with respect to regulatory compliance by us in foreign jurisdictions could adversely affect our revenues from clients in such country or region.

Our ability to comply with applicable laws and rules is largely dependent on our internal system to ensure compliance, as well as our ability to attract and retain qualified compliance personnel. We could be subject to disciplinary or other actions in the future due to claimed noncompliance, which could have a material adverse effect on our operations and profitability.

In August 2002, NASD directed our broker-dealer subsidiaries, iClearing LLC and Ameritrade, Inc., to cease permitting cash account clients to utilize the proceeds from the sale of fully-paid for securities to purchase other securities in advance of the actual receipt of proceeds from the settlement of the sale of the

fully-paid for securities (the specified trades). NASD is conducting an investigation related to the specified trades. NASD Staff has advised that it has made a preliminary determination to recommend disciplinary action against Ameritrade, Inc., Datek Online Financial Services, LLC and iClearing based on allegations that the specified trades violated Regulation T of the Board of Governors of the Federal Reserve System and NASD Conduct Rules. If NASD elects to bring disciplinary proceedings, NASD may seek censures, fines, suspensions or other sanctions. We are discussing possible settlement with NASD. We are unable to predict the outcome of this matter. An adverse resolution could harm our business.

Recently, various regulatory and enforcement agencies have been reviewing mutual fund trading, regulatory reporting obligations, best execution practices, and advertising claims as they relate to the brokerage industry. These reviews could result in enforcement actions or new regulations, which could adversely affect our operations.

In addition, we use the Internet as a major distribution channel to provide services to our clients. A number of regulatory agencies have recently adopted regulations regarding client privacy and the use of client information by service providers. Additional laws and regulations relating to the Internet may be adopted in the future, including regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations is expensive and time consuming and could limit our ability to use the Internet as a distribution channel.

The Success of Our Business Will Depend on Continued Development and Maintenance of the Internet Infrastructure.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. Our success will depend upon the development and maintenance of the Internet s infrastructure to cope with this increased traffic. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure and could face similar outages and delays in the future. Outages and delays are likely to affect the level of Internet usage and the processing of transactions on our Web site. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards to handle increased levels of activity.

Our Principal Stockholders Own a Significant Percentage of Our Common Stock, Which Limits the Ability of Other Stockholders to Influence Corporate Matters.

Prior to the offering, J. Joe Ricketts, our Chairman and Founder, members of his family and trusts held for their benefit (collectively, the Ricketts holders) own approximately 25.5% of our Common Stock and investment funds affiliated with Bain Capital, Silver Lake Partners and TA Associates (collectively, the Datek holders) collectively own approximately 29.6% of our Common Stock. The Ricketts holders and the Datek holders are parties to a stockholders agreement, which terminates in 2007, that obligates the parties to vote their shares in favor of a board of directors, of which three are to be designated by the Ricketts holders, three are to be designated by the Datek holders and three are to be independent directors selected with the agreement of the parties. The agreement also obligates the parties to vote in favor of specified merger and sale of the company transactions that are approved by the requisite directors and to vote against specified merger and sale of the company transactions unless they are approved by the requisite directors. Accordingly, these stockholders have significant influence over the outcome of any corporate transaction or other matters submitted to our stockholders for approval, including the election of directors, mergers, consolidations and the sale of all or substantially all of our assets, and also could prevent or cause a change in control. The interests of these stockholders may differ from the interests of other stockholders. In addition, third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership or the provisions of the stockholders agreement.

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The Terms of the Stockholders Agreement, Our Charter Documents and Delaware Law May Inhibit a Takeover That Stockholders May Consider Favorable.

Provisions in the stockholders agreement among the Ricketts holders and the Datek holders, our certificate of incorporation and bylaws and Delaware law will make it difficult for any party to acquire control of us in a transaction not approved by the requisite number of directors. These provisions include:

- the presence of a classified board of directors;
- the ability of the board of directors to issue and determine the terms of preferred stock;
- advance notice requirements for inclusion of stockholder proposals at stockholder meetings; and
- the anti-takeover provisions of Delaware law.

These provisions could delay or prevent a change of control or change in management that might provide stockholders with a premium to the market price of their Common Stock.

We Will Need to Introduce New Products and Services to Remain Competitive.

Our future success depends in part on our ability to develop and enhance our products and services. There are significant technical and financial risks in the development of new or enhanced products and services, including the risk that we will be unable to effectively use new technologies or adapt our services to emerging industry standards, or develop, introduce and market enhanced or new products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

Changes in Payments for Routing Our Clients Orders Could Adversely Affect Our Business.

We have arrangements with several execution agents to receive cash payments in exchange for routing trade orders to these firms for execution. Competition between execution agents and the implementation of order handling rules and decimalization of stock prices have made it less profitable for execution agents to offer order flow payments to broker-dealers. On a per trade basis, our payment for order flow revenue has decreased significantly over the past several years. These payments may continue to decrease on a per trade basis, which could have a material adverse effect on our revenues and profitability.

Our Networks May be Vulnerable to Security Risks.

The secure transmission of confidential information over public networks is a critical element of our operations. We have not experienced significant network security problems in the past. However, our networks may in the future be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use our confidential information or our clients confidential information or cause interruptions or malfunctions in our operations. We may be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We may not be able to implement security measures that will protect against all security risks.

Failure to Comply With Net Capital Requirements Could Adversely Affect Our Business.

The SEC, NASD and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Net capital is a measure, defined by the SEC, of a broker-dealer s readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. All of our broker-dealer subsidiaries are required to comply with the net capital requirements. If we fail to maintain the required net capital, the SEC could suspend or revoke our registration, or NASD could expel us from membership, which could ultimately lead to our liquidation. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital,

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operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to maintain or expand our business.

Our Clearing Operations Expose Us to Liability for Errors in Clearing Functions.

Ameritrade, Inc. provides clearing and execution services to each of our brokerage businesses, as well as to independent broker-dealers, depository institutions, registered investment advisors and financial planners. Clearing and execution services include the confirmation, receipt, settlement and delivery functions involved in securities transactions. Clearing brokers also assume direct responsibility for the possession and control of client securities and other assets and the clearance of client securities transactions. Self-clearing securities firms are subject to substantially more regulatory control and examination than brokers that rely on others to perform those functions. Errors in performing clearing functions, including clerical and other errors related to the handling of funds and securities held by us on behalf of clients and introducing brokers, could lead to civil penalties imposed by applicable authorities as well as losses and liability in related lawsuits brought by clients and others.

We Are Exposed to Credit Risk.

We make margin loans to clients collateralized by client securities and periodically borrow and lend securities to cover trades. A significant portion of our net revenues is derived from interest on margin loans. To the extent that these margin loans exceed client cash balances maintained with us, we must obtain financing from third parties. We may not be able to obtain this financing on favorable terms or in sufficient amounts. By permitting clients to purchase securities on margin, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by us could fall below the amount of a client s indebtedness. In addition, in accordance with regulatory guidelines, we collateralize borrowings of securities by depositing cash or securities with lenders. Sharp changes in market values of substantial amounts of securities and the failure by parties to the borrowing transactions to honor their commitments could have a material adverse effect on our revenues and profitability.

Acquisitions Involve Risks That Could Adversely Affect Our Business.

We intend to pursue strategic acquisitions of businesses and technologies. Acquisitions may entail numerous risks, including:

- difficulties in the integration of acquired operations, services and products;
- diversion of management s attention from other business concerns;
- assumption of unknown material liabilities of acquired companies;
- amortization of acquired intangible assets, which could reduce future reported earnings;
- potential loss of clients or key employees of acquired companies; and
- dilution to existing stockholders.

As part of our growth strategy, we regularly consider, and from time to time engage in discussions and negotiations regarding, strategic transactions such as acquisitions, mergers and combinations, within our industry. The purchase price for possible acquisitions may be paid in cash, through the issuance of Common Stock or other of our securities, borrowings or a combination of these methods.

We cannot be certain that we will be able to continue to identify and to consummate strategic transactions and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. For example, in many cases we begin negotiations that we subsequently decide to suspend or terminate for a variety of reasons. However, opportunities may arise from time to time that we will evaluate. Any transactions that we consummate would involve risks and uncertainties to us. These risks could cause the failure of any anticipated benefits of an acquisition to be realized, which could have a material adverse effect on our revenues and profitability.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of Common Stock by the selling stockholders. The selling stockholders will receive all of the net proceeds from the sale of the shares of Common Stock in this offering.

PRICE RANGE OF COMMON STOCK

The following table sets forth, for the periods indicated, the high and low sales prices per share of our Common Stock as reported on the Nasdaq National Market:

	High	Low
Fiscal Year 2002		
First Quarter	$ 7.27	$ 3.80
Second Quarter	$ 6.93	$ 5.06
Third Quarter	$ 6.87	$ 3.82
Fourth Quarter	$ 4.58	$ 2.95
Fiscal Year 2003		
First Quarter	$ 5.73	$ 3.30
Second Quarter	$ 6.40	$ 3.83
Third Quarter	$ 8.93	$ 4.88
Fourth Quarter	$13.24	$ 7.15
Fiscal Year 2004		
First Quarter through November 6, 2003	$14.67	$11.16

Dividends

We have not declared or paid cash dividends on our Common Stock. We currently intend to retain all of our earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Our revolving credit agreement currently prohibits the payment of cash dividends. The payment of any future dividends will be at the discretion of our Board of Directors, subject to the provisions of the revolving credit agreement, and will depend upon a number of factors, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business, general business conditions and such other factors as the Board of Directors may deem relevant.

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CAPITALIZATION

The following table sets forth the consolidated capitalization of Ameritrade at September 26, 2003 (i) on a historical basis and (ii) on a pro forma as adjusted basis to reflect:

Ameritrade s purchase of 7.5 million shares concurrently with the offering of Common Stock from the selling stockholders in a private transaction;

Ameritrade s repurchase of its outstanding 5.75% convertible subordinated notes due August 1, 2004 on October 23, 2003; and

This table should be read in conjunction with the section entitled Selected Financial Information included elsewhere in this prospectus.

	As of September 26, 2003	
	Actual	**Pro Forma As Adjusted**
	(In thousands, except share amounts)	
Convertible subordinated notes	$ 46,295	
Stockholders equity:		
Preferred Stock, $0.01 par value; 100,000,000 shares authorized, none issued		
Common Stock, $.01 par value, 650,000,000 shares authorized; 2003 435,081,860 shares issued; Pro forma as adjusted xxx,xxx,xxx shares issued	4,351	
Additional paid-in capital	1,188,444	
Retained earnings	58,172	
Treasury stock, common, at cost 2003 5,297,346 shares; Pro forma as adjusted x,xxx,xxx	(41,452)	
Deferred compensation	708	
Accumulated other comprehensive income	25,551	
Total stockholders equity	1,235,774	
Total capitalization	$ 1,282,069	

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SELECTED FINANCIAL INFORMATION

The information set forth below is qualified by reference to and should be read in conjunction with our audited consolidated financial statements and the related notes in our Annual Report on Form 10-K for the year ended September 26, 2003, which is incorporated by reference in this prospectus.

	Fiscal Year Ended*				
	Sept. 24, 1999	Sept. 29, 2000	Sept. 28, 2001	Sept. 27, 2002(2)	Sept. 26, 2003(2)
	(In thousands, except per share amounts and operating data)				
Consolidated Statements of Operations Data:					
Revenues:					
Commissions and clearing fees	$188,082	$ 389,742	$ 269,384	$ 252,526	$ 472,760
Interest revenue	116,162	242,819	191,530	116,345	168,794
Other	10,213	21,890	37,763	74,182	89,511
Total revenues	314,457	654,451	498,677	443,053	731,065
Client interest expense	42,435	74,019	43,947	12,260	17,811
Net revenues	272,022	580,432	454,730	430,793	713,254
Expenses:					
Employee compensation and benefits	74,353	144,883	144,820	133,897	176,792
Communications	18,591	36,394	39,896	36,091	46,250
Occupancy and equipment costs	14,992	45,249	60,523	55,294	54,552
Depreciation and amortization	6,753	21,624	36,033	27,945	31,708
Professional services	32,953	56,135	41,787	25,088	31,398
Interest on borrowings	4,463	16,412	11,067	5,110	5,076
(Gain)/loss on disposal of property		(552)	999	403	(5,093)
Other	34,401	34,662	27,364	29,605	48,829
Advertising	67,408	241,163	147,975	72,471	90,394
Gain on sale of investments			(9,692)		
Restructuring and asset impairment charges		4,726	38,268	63,406	5,991
Debt conversion expense			62,082		
Total expenses	253,914	600,696	601,122	449,310	485,897
Pre-tax income (loss)	18,108	(20,264)	(146,392)	(18,517)	227,357
Provision for (benefit from) income taxes	6,569	(6,638)	(55,215)	10,446	90,715
Net income (loss)	$ 11,539	$ (13,626)	$ (91,177)	$ (28,963)	$ 136,642
Basic earnings (loss) per share	$ 0.07	$ (0.08)	$ (0.49)	$ (0.13)	$ 0.32
Diluted earnings (loss) per share	$ 0.07	$ (0.08)	$ (0.49)	$ (0.13)	$ 0.32
Weighted average shares outstanding basic	174,342	175,025	185,830	227,327	427,376
Weighted average shares outstanding diluted	175,745	175,025	185,830	227,327	432,480
Operating Data:					
Average client trades per day	49,305	114,332	101,998	83,890	142,612
Number of core accounts(1)	560,000	1,233,000	1,794,000	2,842,000	3,014,000
Assets in client accounts (in billions)	$ 22.9	$ 36.0	$ 26.1	$ 33.9	$ 54.8

(1) Includes core brokerage account base only. Non-core accounts (primarily clearing accounts, stock option administration accounts and bank referral accounts) are not included.

(2) The Datek acquisition was effected September 9, 2002.

* Fiscal 2000 was a 53-week year. All other periods presented are 52-week years. Certain reclassifications have been made to prior years to conform to the current year presentation.

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	As of				
	Sept. 24, 1999	Sept. 29, 2000	Sept. 28, 2001	Sept. 27, 2002(1)	Sept. 26, 2003(1)
Consolidated Balance Sheet Data:					
Cash and segregated investments	$1,019,370	$ 338,307	$2,068,391	$5,863,507	$ 8,127,044
Receivable from clients and correspondents, net	1,526,801	2,926,981	971,823	1,419,469	2,202,170
Total assets	3,037,083	3,798,236	3,653,871	9,800,841	14,404,268
Payable to clients and correspondents	2,057,346	2,618,157	2,777,916	6,374,644	9,611,243
Notes payable and convertible subordinated notes	200,000	275,000	70,145	47,645	46,295
Stockholders equity	220,463	264,168	371,433	1,098,399	1,235,774

(1) The Datek acquisition was effected September 9, 2002.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide securities brokerage and clearing execution services to our clients through our principal retail and clearing broker-dealer, Ameritrade, Inc. Substantially all of our net revenues are derived from our brokerage activities and clearing and execution services.

Our primary focus is serving retail clients by providing services at prices that are generally lower than most of our competitors. Our brokerage clients are able to trade securities with us through a variety of channels, principally the Internet. We provide our clients with investment news and information as well as educational services. We also provide clearing and execution services to our brokerage operations as well as to unaffiliated broker-dealers.

Our largest sources of revenue are commissions earned from our brokerage activities and associated securities transaction clearing fees. Our other principal source of revenue is net interest revenue. Net interest revenue is the difference between interest revenues and client interest expense. Interest revenues are generated by charges to clients on margin balances maintained in brokerage accounts and the investment of cash from operations and cash segregated in compliance with federal regulations in short-term marketable securities. Client interest expense consists of amounts paid or payable to clients based on credit balances maintained in brokerage accounts. We also receive payment for order flow, which results from arrangements we have with many execution agents to receive cash payments in exchange for routing trade orders to these firms for execution and is included in commissions and clearing fees on the Statement of Operations.

Our largest operating expense generally is employee compensation and benefits. Employee compensation and benefits expense includes salaries, bonuses, group insurance, contributions to benefit programs, recruitment and other related employee costs. Communications expense includes telecommunications, postage, news and quote costs. Occupancy and equipment costs include the costs of leasing and maintaining our office spaces and the lease expenses on computer and other equipment. Depreciation and amortization includes depreciation on property and equipment, as well as amortization of intangible assets. Professional services expense includes costs paid to outside firms for assistance with legal, accounting, technology, marketing and general management issues. Interest on borrowings consists of interest expense on our convertible subordinated notes and other borrowings. Other operating expenses include commissions and clearance expenses, trade execution fees, provision for losses, client execution price adjustments, travel expenses and other miscellaneous expenses. In addition, our costs related to the processing of client confirmations, statements and other communications are included in this category. Advertising costs are expensed as incurred and include production and placement of advertisements in various media, including online, television, print and direct mail. Advertising expenses may increase or decrease significantly from period to period.

We believe that the online securities brokerage market is currently impacted by four significant trends that may affect our financial condition and results of operations. First, price is an important component of the value proposition for the online securities brokerage market. This trend has resulted in the implementation of various strategies such as tiered pricing, account maintenance fees, order handling fees and per share charges. Second, technology has increased in importance, as delivery channels such as the Internet have become more prevalent. The vast majority of our trades and an increasing percentage of our client support activities are now placed through electronic media, primarily the Internet. This increased use of electronic media has helped to decrease operating expenses per trade over the past several years and we believe this trend will continue. Third, the increasing recognition of the need for scale and required investment in technology have resulted in consolidation in the industry. Finally, we believe the intense advertising and promotional efforts by our major competitors and us are making it increasingly difficult for new entrants to make a competitive impact without substantial financial resources to invest in building a brand.

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Our fiscal year ends on the last Friday in September. References to fiscal year in this document or in the information incorporated herein by reference are to the approximate twelve-month period ended on any such Friday. For example, fiscal 2003 refers to the fiscal year ended September 26, 2002.

Results of Operations

Fiscal Year Ended September 26, 2003 Compared to Fiscal Year Ended September 27, 2002

Net Revenues

Commissions and clearing fees increased 87 percent to $472.8 million for fiscal 2003 from $252.5 million for fiscal 2002, primarily due to the full year impact of adding 876,000 core accounts in the fourth quarter of fiscal 2002 as a result of the Datek merger, increased client trading activity and increased commissions and clearing fees per trade. Average trades per day increased 70 percent to 142,612 for fiscal 2003 from 83,890 in fiscal 2002. Clients averaged approximately 12.3 trades per account during fiscal 2003, compared to approximately 10.8 trades per account for fiscal 2002. Commissions and clearing fees per trade increased to $13.21 in fiscal 2003 from $11.99 for fiscal 2002, due primarily to the implementation of a new pricing schedule effective October 19, 2002 and an increase in the average number of contracts per options trade, partially offset by slightly lower payment for order flow revenue per trade during fiscal 2003 compared to fiscal 2002. Under the new pricing schedule, commissions for online equity trades are $10.99 for both market and limit orders, regardless of the number of shares bought or sold with no additional order handling fees. Under the previous pricing schedule, commissions for online equity market orders were $8.00, while online equity limit orders were $13.00. Flat commission pricing was also implemented for Interactive Voice Response system trades, at $14.99 per trade (previously $12.00 for market orders and $17.00 for limit orders). Broker-assisted trades are now $24.99 for market orders, with an additional $5.00 fee for limit orders. We expect average commissions and clearing fees per trade to range from approximately $12.60 to $13.60 per trade during fiscal 2004, depending on the mix of trading activity, level of payment for order flow revenue and other factors.

In August 2002, NASD, Inc. directed our broker-dealer subsidiaries, iClearing LLC and Ameritrade, Inc., to cease permitting cash account clients to utilize the proceeds from the sale of fully-paid for securities to purchase other securities in advance of the actual receipt of proceeds from the settlement of the sale of the fully-paid for securities (the specified trades). We have completed the changes to our systems and procedures required to address this restriction. While trading activity in cash accounts that we had identified as engaging in specified trades decreased substantially in the second and third fiscal quarters, we have not been able to quantify the impact of the restrictions on the Company s revenues and earnings. We believe that clients modification to their trading activity, conversion to margin accounts or closing of cash accounts as a result of the restrictions for the most part occurred by the end of the third fiscal quarter.

Net interest revenue increased 45 percent to $151.0 million for fiscal 2003 from $104.1 million for fiscal 2002. Average total client and correspondent receivables increased 34 percent in fiscal 2003 compared to fiscal 2002, due primarily to the Datek merger. Average segregated cash increased by 149 percent in fiscal 2003 from fiscal 2002, due primarily to the Datek merger. The increased interest income resulting from the higher client and correspondent receivables and segregated cash was partially offset by a decrease of 58 basis points in the average interest rate charged on client receivables, a decrease of 63 basis points in the average interest rate earned on segregated cash and an increase of 120 percent in average amounts payable to clients and correspondents in fiscal 2003 from fiscal 2002. We generally expect net interest revenue to grow as our account base grows. However, it will also be affected by changes in interest rates and fluctuations in the levels of client margin borrowing and deposits.

Other revenues increased 21 percent to $89.5 million for fiscal 2003 from $74.2 million for fiscal 2002, due primarily to increased account maintenance, clearing and other fee income resulting from the Datek merger.

Expenses

Employee compensation and benefits expense increased 32 percent to $176.8 million for fiscal 2003 compared to $133.9 million for fiscal 2002. Although full-time equivalent employees decreased 19 percent to 1,732 at the end of fiscal 2003 from 2,150 at the end of fiscal 2002, the average number of full-time equivalent employees during fiscal 2003 increased by approximately nine percent compared to fiscal 2002 as a result of the Datek merger. We currently expect the number of full-time equivalent employees to range between 1,750 and 1,850 during fiscal 2004, depending on market conditions. During fiscal 2003, we incurred approximately $9.5 million of expense for bonuses based on synergies achieved in the Datek merger; and approximately $4.3 million of compensation expense for stock appreciation rights (SARs) assumed in the Datek merger, due to increases in our stock price and costs of a cash-out offer to SAR holders during fiscal 2003. As of September 26, 2003, there were approximately 42,000 SARs outstanding with a weighted average exercise price of $4.71 per share, compared with approximately 3.8 million SARs outstanding at September 27, 2002. Due to the variable accounting required for SARs, fluctuations in our stock price will cause fluctuations in the related compensation expense in future periods for the remaining SARs outstanding.

Communications expense increased 28 percent to $46.3 million for fiscal 2003 compared to $36.1 million for fiscal 2002, due primarily to increased expense for quotes, market information and telecommunications costs associated with additional accounts and transaction processing volumes resulting from the Datek merger.

Occupancy and equipment costs decreased one percent to $54.6 million for fiscal 2003 from $55.3 million for fiscal 2002, due to facilities and equipment reductions in existing Ameritrade locations, partially offset by facilities added in the Datek merger.

Depreciation and amortization increased 13 percent to $31.7 million for fiscal 2003 from $27.9 million for fiscal 2002, due primarily to amortization of intangible assets recorded in the Datek merger, partially offset by lower depreciation expense due to the effect of tangible assets that have become fully depreciated.

Professional services expense increased 25 percent to $31.4 million for fiscal 2003, from $25.1 million for fiscal 2002. This increase was primarily due to increased usage of consulting services during fiscal 2003 in connection with the Datek merger integration.

Interest on borrowings was approximately $5.1 million for both fiscal 2003 and fiscal 2002. Lower average borrowings on our revolving credit agreement were offset by interest expense associated with the forward contracts on our Knight investment in fiscal 2003. We had no borrowings outstanding on our revolving credit agreement during fiscal 2003.

Loss (gain) on disposal of property includes approximately $5.9 million of gain recognized on the sale/ leaseback of our Kansas City data center facility in fiscal 2003. The remaining $3.5 million of gain on the sale/ leaseback is being recognized over the five-year term of the leaseback in accordance with sale/ leaseback accounting.

Other operating expenses increased 65 percent to $48.8 million for fiscal 2003 compared to $29.6 million for fiscal 2002, due primarily to increased clearing, execution and account maintenance expenses resulting from the increased transaction volume and accounts added through the Datek merger.

Advertising expenses increased 25 percent to $90.4 million for fiscal 2003 from $72.5 million for fiscal 2002. The increased level of advertising expenditures was principally due to our introduction of a new suite of products and services and new pricing schedule during the first quarter of fiscal 2003. We expect approximately $80 million to $120 million of advertising expenditures for fiscal 2004, depending on market conditions.

Restructuring and asset impairment charges in fiscal 2003 consist of approximately $4.8 million in severance costs related to the closing of TradeCast and the integration of the Datek and Ameritrade technology organizations, and approximately $1.2 million of non-cancelable lease costs in connection with

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the closing of TradeCast. Restructuring and asset impairment charges in fiscal 2002 consisted of a $63.4 mi>

Advertising	629	558
Amortization of intangibles	439	425
Electronic banking expense	530	118
Directors fees	174	204
Due from bank service charges	56	70
FDIC and state assessment	260	125
Insurance	244	223
Legal and accounting	319	282
Other professional fees	170	134
Operating supplies	226	229
Postage	164	163
Telephone	228	220
Other expense	1,008	948
Total other operating expenses	4,447	3,699
Total non-interest expense	$14,741	$13,619

12: 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.

13: Significant Estimates and Concentrations

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

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14: Commitments and Contingencies

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of their customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as they do in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At March 31, 2007 and December 31, 2006, commitments to extend credit of $256.7 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, some of which are long-term, is dependent upon the credit worthiness of the borrower. The maximum amount of future payments the Company could be required to make under these guarantees at March 31, 2007 and December 31, 2006, is $10.5 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.

15: Regulatory Matters

The Company s subsidiaries are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since, the Company s Arkansas bank subsidiaries are also under supervision of the Federal Reserve, they are further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. Under Florida state banking law, regulatory approval will be required if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. As the result of special dividends paid by the Company s subsidiary banks during 2005 to help provide cash for the Marine Bancorp, Inc. and Mountain View Bancshares, Inc. acquisitions, the Company s subsidiary banks did not have any significant undivided profits available for payment of dividends to the Company, without prior approval of the regulatory agencies at March 31, 2007.

The Federal Reserve Board s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) and undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of March 31, 2007, each of the five subsidiary banks met the capital standards for a well-capitalized institution. The Company s Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio was 11.18%, 14.32%, and 15.58%, respectively, as of March 31, 2007.

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16: Additional Cash Flow Information

The Company paid interest and taxes during the three months ended as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Interest paid	$ 18,739	$ 12,903
Income taxes paid	350	

17: 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. 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 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 March 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 will have on the financial position and results of operation of the Company.

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.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Home BancShares, Inc.
Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. as of March 31, 2007 and the related condensed consolidated statements of income, statements of changes in stockholders equity and cash flows for the three-month periods ended March 31, 2007 and 2006. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006 and the related consolidated statements of income, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP

Little Rock, Arkansas
May 7, 2007

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

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on March 20, 2007, which includes the audited financial statements for the year ended December 31, 2006. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a financial holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our five wholly owned bank subsidiaries. As of March 31, 2007, we had, on a consolidated basis, total assets of $2.20 billion, loans receivable of $1.48 billion, total deposits of $1.63 billion, and shareholders equity of $236.9 million.

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

Key Financial Measures

	As of and for the Three Months Ended March 31,	
	2007	2006
	(Dollars in thousands, except per share data)	
Total assets	$ 2,203,576	$ 1,970,910
Loans receivable	1,475,376	1,246,146
Total deposits	1,628,260	1,507,443
Net income	4,761	3,516
Basic earnings per share	0.28	0.28
Diluted earnings per share	0.27	0.24
Diluted cash earnings per share (1)	0.29	0.26
Annualized net interest margin FTE	3.42%	3.53%
Efficiency ratio	62.52	66.68
Annualized return on average assets	0.88	0.74
Annualized return on average equity	8.30	8.51

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

Overview

Our net income increased $1.3 million, or 35.4%, to $4.8 million for the three-month period ended March 31, 2007, from $3.5 million for the same period in 2006. On a diluted earnings per share basis, our net earnings increased 12.5% to $0.27 for the three-month period ended March 31, 2007, as compared to $0.24 for the same period in 2006.

The increase in earnings for the three months ended March 31, 2007 is primarily associated with organic growth of our bank subsidiaries.

Our annualized return on average equity was 8.30% and 8.51% for the three months ended March 31, 2007 and 2006, respectively. While net income for the three months ended March 31, 2007 increased, return on average equity decreased as a result of the $65.2 million increase in average stockholders equity from the net proceeds of our initial public offering and retained earnings for the twelve months.

Our annualized return on average assets was 0.88% and 0.74% for the three months ended March 31, 2007 and 2006, respectively. The increase was primarily due to the $1.3 million increase in net income for the three months ended March 31, 2007, compared to the same period in 2006.

Our annualized net interest margin, on a fully taxable equivalent basis, was 3.42% and 3.53% for the three months ended March 31, 2007 and 2006, respectively. However, our net interest margin for the three months ended March 31, 2007 was unchanged from the previous quarter. Competitive pressures and a slightly inverted yield curve put pressure on our net interest margin causing the decline from March 31, 2006 to March 31, 2007.

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 62.52% and 66.68% for three months ended March 31, 2007 and 2006, respectively. 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 efficiencies.

Our total assets increased $12.9 million, an annualized growth of 2.4%, to $2.20 billion as of March 31, 2007, from $2.19 billion as of December 31, 2006. Our loan portfolio increased $59.1 million, an annualized growth of 16.9%, to $1.48 billion as of March 31, 2007, from $1.42 billion as of December 31, 2006. Shareholders equity increased $5.4 million, an annualized growth of 9.5%, to $236.9 million as of March 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 the retained earnings for the three months.

As of March 31, 2007, our non-performing loans increased to $6.2 million, or 0.42%, of total loans from $4.5 million, or 0.32%, of total loans as of December 31, 2006. The allowance for loan losses as a percent of non-performing loans decreased to 436.2% as of March 31, 2007, compared to 574.4% from December 31, 2006. While these ratios reflect a slight decrease in asset quality, we still consider our asset quality to be sound.

Critical Accounting Policies

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

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

Investments. Securities available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity and other comprehensive income (loss). Securities that are held as available for sale are used as a part of our asset/liability management strategy.

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Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale.

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

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

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

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

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

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.

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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 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. As of March 31, 2007, White River Bancshares had total assets of $357.8 million, loans of $316.3 million, and total deposits of $279.4 million.

During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. As a result, we anticipate making a $2.6 million additional investment in White River Bancshares to maintain our 20% ownership. This additional investment is subject to regulatory approval.

In our continuing evaluation of our growth plans for the Company, we believe our best prospects include bank acquisitions and de novo branching. Bank acquisitions provide us the greatest opportunity for immediate earnings per share improvement. However, the current market multiples for bank acquisitions make it difficult to accomplish an acquisition without dilution to tangible book value. In comparison, de novo branching usually creates dilution to earnings per share in the short term but does not create the burden of tangible book value dilution. We will continue to evaluate what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

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, the Company opened its second branch location in the Florida community of Key West. Presently, the Company has one Florida de novo branch location in Key Largo scheduled to open in the second quarter of 2007 and four pending de novo branch locations in the Arkansas communities of Searcy (2), Bryant, and Quitman.

During the second quarter of 2007, the Company will consolidate two of its Cabot branch locations into one new financial center.

Results of Operations

Our net income increased $1.3 million, or 35.4%, to $4.8 million for the three-month period ended March 31, 2007, from $3.5 million for the same period in 2006. On a diluted earnings per share basis, our net earnings increased 12.5% to $0.27 for the three-month period ended March 31, 2007, as compared to $0.24 for the same period in 2006. The increase in earnings is primarily associated 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.

Net interest income on a fully taxable equivalent basis increased $1.3 million, or 8.3%, to $16.7 million for the three-month period ended March 31, 2007, from $15.4 million for the same period in 2006. This increase in net interest income was the result of a $6.5 million increase in interest income offset by $5.2 million increase in interest expense. The $6.5 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 $4.2 million, and our earning assets repricing in the higher interest rate environment resulted in a $2.3 million increase in interest income for the three-month period ended March 31, 2007. The $5.2 million increase in interest expense for the three-month period ended March 31, 2007, is primarily the result of organic growth of our bank subsidiaries and of our interest bearing liabilities repricing in the higher interest rate environment. The higher level of interest-bearing liabilities resulted in additional interest expense of $1.6 million. The repricing of our interest bearing liabilities in the higher interest rate environment resulted in a $3.6 million increase in interest expense for the three-month period ended March 31, 2007.

Net interest margin, on a fully taxable equivalent basis, was 3.42% in the first quarter of 2007 compared to 3.53% in the first quarter of 2006, a decrease of eleven basis points. The Company s first quarter 2007 net interest margin of 3.42% was unchanged from the fourth quarter of 2006. During 2006, competitive pressures and a slightly inverted yield curve put pressure on the Company s net interest margin. While the current competitive pressures have eased somewhat during 2007, the Company s net interest margin on a linked quarter basis was still projected to decline as a result of the $35 million purchase of bank owned life insurance late in the fourth quarter of 2006. Yet, the Company was able to rise above this expectation by achieving strong loan growth that was funded by both the run off in the investment portfolio and sensibly priced interest-bearing liabilities.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month periods ended March 31, 2007 and 2006, as well as changes in fully taxable equivalent net interest margin for the three-month periods ended March 31, 2007, compared to the same period in 2006.

Table 1: Analysis of Net Interest Income

	Three Months Ended March 31,	
	2007	**2006**
	(Dollars in thousands)	
Interest income	$ 34,184	$ 27,734
Fully taxable equivalent adjustment	610	583
Interest income fully taxable equivalent	34,794	28,317
Interest expense	18,122	12,928
Net interest income fully taxable equivalent	$ 16,672	$ 15,389
Yield on earning assets fully taxable equivalent	7.13%	6.50%
Cost of interest-bearing liabilities	4.23	3.39
Net interest spread fully taxable equivalent	2.90	3.11
Net interest margin fully taxable equivalent	3.42	3.53

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Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	March 31, 2007 vs. 2006 (In thousands)	
Increase in interest income due to change in earning assets	$	4,160
Increase in interest income due to change in earning asset yields		2,317
Increase in interest expense due to change in interest-bearing liabilities		1,646
Increase in interest expense due to change in interest rates paid on interest-bearing liabilities		3,548
Increase in net interest income	$	1,283

Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three-month periods ended March 31, 2007 and 2006. 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

	Three Months Ended March 31,					
	2007			2006		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earning assets						
Interest-bearing balances due from banks	$ 3,793	$ 49	5.24%	$ 3,706	$ 41	4.49%
Federal funds sold	18,031	235	5.29	14,477	159	4.45
Investment securities taxable	407,373	4,586	4.57	430,121	4,725	4.46
Investment securities non-taxable	97,785	1,581	6.56	92,627	1,510	6.61
Loans receivable	1,450,789	28,343	7.92	1,224,871	21,882	7.25
Total interest-earning assets	1,977,771	34,794	7.13	1,765,802	28,317	6.50
Non-earning assets	219,924			169,399		
Total assets	$ 2,197,695			$ 1,935,201		
				~~[a]		
LIABILITIES AND SHAREHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Interest-bearing transaction and savings deposits	$ 592,101	$ 4,335	2.97%	$ 520,287	$ 2,739	2.14%
Time deposits	820,942	9,798	4.84	715,790	6,790	3.85
Total interest-bearing deposits	1,413,043	14,133	4.06	1,236,077	9,529	3.13
Federal funds purchased	15,397	205	5.40	26,469	304	4.66
Securities sold under agreement to repurchase	115,754	1,224	4.29	99,344	870	3.55
FHLB and other borrowed funds	148,897	1,811	4.93	137,796	1,476	4.34
Subordinated debentures	44,654	749	6.80	44,746	749	6.79
Total interest-bearing liabilities	1,737,745	18,122	4.23	1,544,432	12,928	3.39
Non-interest bearing liabilities	214,461			213,135		

Non-interest-bearing deposits						
Other liabilities	12,718			10,067		
Total liabilities	1,964,924			1,767,634		
Shareholders equity	232,771			167,567		
Total liabilities and shareholders equity	$ 2,197,695			$ 1,935,201		
Net interest spread			2.90%			3.11%
Net interest income and margin		$ 16,672	3.42		$ 15,389	3.53

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month period ended March 31, 2007 compared to the same period in 2006, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

	Three Months Ended March 31, 2007 over 2006		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in:			
Interest income:			
Interest-bearing balances due from banks	1	7	8
Federal funds sold	43	33	76
Investment securities taxable	(254)	115	(139)
Investment securities non-taxable	83	(12)	71
Loans receivable	4,287	2,174	6,461
Total interest income	4,160	2,317	6,477
Interest expense:			
Interest-bearing transaction and savings deposits	417	1,179	1,596
Time deposits	1,091	1,917	3,008
Federal funds purchased	(142)	43	(99)
Securities sold under agreement to repurchase	157	197	354
FHLB and other borrowed funds	125	210	335
Subordinated debentures	(2)	2	
Total interest expense	1,646	3,548	5,194
Increase (decrease) in net interest income	$ 2,514	$ (1,231)	$ 1,283

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 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.

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The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio.

Our provision for loan losses increased $336,000, or 69.4%, to $820,000 for the three-month period ended March 31, 2007, from $484,000 for the same period in 2006. The increase in the provision is primarily associated with growth in the loan portfolio during the first quarter of 2007.

Non-Interest Income. Total non-interest income was $6.2 million for the three-month period ended March 31, 2007 compared to $4.4 million for the same period in 2006. 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 loss of unconsolidated affiliates and other income.

Table 5 measures the various components of our non-interest income for the three-month periods ended March 31, 2007 and 2006, respectively, as well as changes for the three-month period ended March 31, 2007 compared to the same period in 2006.

Table 5: Non-Interest Income

	Three Months Ended March 31,		**2007 Change from 2006**	
	2007	**2006**		
	(Dollars in thousands)			
Service charges on deposit accounts	$ 2,588	$ 2,052	$ 536	26.1%
Other service charges and fees	1,500	611	889	145.5
Trust fees	24	152	(128)	(84.2)
Data processing fees	218	193	25	13.0
Mortgage banking income	348	411	(63)	(15.3)
Insurance commissions	289	284	5	1.8
Income from title services	156	237	(81)	(34.2)
Increase in cash value of life insurance	598	51	547	1,072.5
Dividends from FHLB, FRB & bankers bank	227	106	121	114.2
Equity in loss of unconsolidated affiliates	(114)	(116)	2	(1.7)
Gain on sale of SBA loans		34	(34)	(100.0)
Gain on sale of premises and equipment, net	14	2	12	600.0
Other income	357	384	(27)	(7.0)
Total non-interest income	$ 6,205	$ 4,401	$ 1,804	41.0%

Non-interest income increased $1.8 million, or 41.0%, to $6.2 million for the three-month period ended March 31, 2007 from $4.4 million for the same period in 2006. The primary factors that resulted in the increase include:

The $536,000 increase in service charges on deposit accounts was primarily a result of organic growth of our other bank subsidiaries .

The $889,000 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 $128,000 decrease in trust fees for the three-month period ended March 31, 2007 was primarily the result of the vendor retaining a significant portion of our trust fees. The out-sourcing of the trust management resulted in a $215,000 reduction of non-interest expense for the three-month period ended March 31, 2007 when compared to first quarter of the previous year. This non-interest expense reduction includes $169,000 related to salaries and employee benefits.

Our community banks purchased $35 million of additional bank owned life insurance on December 14, 2006. The $547,000 increase in cash surrender value is primarily related to these new policies.

The $121,000 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 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 has been operating at a loss as a result of their status as a start up company. White River s acquisition of Brinkley Bancshares, Inc. should put them in a profitable position going forward.

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, insurance, legal and accounting fees, operating supplies and telephone.

Table 6 below sets forth a summary of non-interest expense for the three-month periods ended March 31, 2007 and 2006, as well as changes for the three-month period ended March 31, 2007 compared to the same period in 2006.

Table 6: Non-Interest Expense

	Three Months Ended March 31,		2007 Change from 2006	
	2007	2006		
	(Dollars in thousands)			
Salaries and employee benefits	$ 7,440	$ 7,348	$ 92	1.3%
Occupancy and equipment	2,210	2,005	205	10.2
Data processing expense	644	567	77	13.6
Other operating expenses:				
Advertising	629	558	71	12.7
Amortization of intangibles	439	425	14	3.3
Electronic banking expense	530	118	412	349.2
Directors fees	174	204	(30)	(14.7)
Due from bank service charges	56	70	(14)	(20.0)
FDIC and state assessment	260	125	135	108.0
Insurance	244	223	21	9.4
Legal and accounting	319	282	37	13.1
Other professional fees	170	134	36	26.9
Operating supplies	226	229	(3)	(1.3)
Postage	164	163	1	0.6
Telephone	228	220	8	3.6
Other expense	1,008	948	60	6.3
Total non-interest expense	$ 14,741	$ 13,619	$ 1,122	8.2%

Non-interest expense increased $1.1 million, or 8.2%, to $14.7 million for the three-month period ended March 31, 2007, from $13.6 million for the same period in 2006. The increase 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 $412,000 increase in electronic banking expense for the three months ended March 31, 2007. The electronic banking increase was primarily the result of additional costs associated with our ability to retain more of the interchange fee income.

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. This will result in an estimated increase of $400,000 and $550,000 to non-interest expense for 2007 and 2008, respectively. 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.

Income Taxes. The provision for income taxes increased $357,000, or 22.5%, to $1.9 million for the three-month period ended March 31, 2007, from $1.6 million as of March 31, 2006. The effective income tax rate was 29.0% for the three-month period ended March 31, 2007, compared to 31.1% for the same period in 2006. The declining effective income tax rate is primarily associated with our purchase of $35 million in additional bank owned life insurance in the fourth quarter of 2006, which resulted in additional tax-free non-interest income.

Financial Conditions as of and for the Quarter Ended March 31, 2007 and 2006

Our total assets increased $12.9 million, an annualized growth of 2.4%, to $2.20 billion as of March 31, 2007, from $2.19 billion as of December 31, 2006. Our loan portfolio increased $59.1 million, an annualized growth of 16.9%, to $1.48 billion as of March 31, 2007, from $1.42 billion as of December 31, 2006. Shareholders equity increased $5.4 million, an annualized growth of 9.5%, to $236.9 million as of March 31, 2007, compared to $231.4 million as of December 31, 2006. Asset and loan increases are

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primarily associated with organic growth of our bank subsidiaries. The increase in stockholders equity was primarily the result of retained earnings for the three months.

Loan Portfolio

Our loan portfolio averaged $1.45 billion during the three-month period ended March 31, 2007. Total loans were $1.48 billion as of March 31, 2007, compared to $1.42 billion as of December 31, 2006. 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.

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

Table 7: Loan Portfolio

	As of March 31, 2007	**As of December 31, 2006**
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 519,680	$ 465,306
Construction/land development	369,022	393,410
Agricultural	33,245	11,659
Residential real estate loans:		
Residential 1-4 family	231,788	229,588
Multifamily residential	39,329	37,440
Total real estate	1,193,064	1,137,403
Consumer	42,345	45,056
Commercial and industrial	205,531	206,559
Agricultural	16,986	13,520
Other	17,450	13,757
Total loans receivable before allowance for loan losses	1,475,376	1,416,295
Allowance for loan losses	26,934	26,111
Total loans receivable, net	$ 1,448,442	$ 1,390,184

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 March 31, 2007, commercial real estate loans totaled $921.9 million, or 62.5% 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.

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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 March 31, 2007, we had $271.1 million, or 18.4% of our loan portfolio, in residential real estate loans, which is comparable to the $267.0 million, or 18.9% of our loan portfolio, as of December 31, 2006.

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 March 31, 2007, our installment consumer loan portfolio totaled $42.3 million, or 2.9% of our total loan portfolio, which is comparable to the $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 five 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 90 days past due. Inventory financing will range between 50% and 60% depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of March 31, 2007, commercial and industrial loans outstanding totaled $205.5 million, or 13.9% of our loan portfolio, which is comparable to $206.6 million, or 14.6% of our loan portfolio, as of December 31, 2006.

Non-Performing Assets

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

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

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Table 8 sets forth information with respect to our non-performing assets as of March 31, 2007 and December 31, 2006. As of these dates, we did not have any restructured loans within the meaning of Statement of Financial Accounting Standards No. 15.

Table 8: Non-performing Assets

	As of March 31, 2007	As of December 31, 2006
	(Dollars in thousands)	
Non-accrual loans	$ 5,059	$ 3,905
Loans past due 90 days or more (principal or interest payments)	1,116	641
Total non-performing loans	6,175	4,546
Other non-performing assets		
Foreclosed assets held for sale	327	435
Other non-performing assets	1	13
Total other non-performing assets	328	448
Total non-performing assets	$ 6,503	$ 4,994
Allowance for loan losses to non-performing loans	436.18%	574.37%
Non-performing loans to total loans	0.42	0.32
Non-performing assets to total assets	0.30	0.23

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 $6.2 million as of March 31, 2007, compared to $4.5 million as of December 31, 2006 for an increase of $1.7 million. Two borrowers accounted for $1.3 million of this increase. Both were restored to a performing status during the second quarter of 2007.

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $88,000 and $152,000 for the three-month periods ended March 31, 2007 and 2006, respectively, would have been recorded. Interest income recognized on the non-accrual loans for the three-month periods ended March 31, 2007 and 2006 was considered immaterial.

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. At March 31, 2007 and December 31, 2006, impaired loans totaled $8.8 million and $11.2 million, respectively. As of March 31, 2007, average impaired loans were $10.0 million compared to $5.7 million as of March 31, 2006.

As a result of the building boom in northwest Arkansas, this market is beginning to show signs of over-development. More specifically, the number of residential real estate lots and commercial real estate projects available exceed the current demand. For example, The Skyline Report published in February 2007 by the University of Arkansas, reported that the current absorption rate implies that the supply of remaining lots in northwest Arkansas active subdivisions is sufficient for 47.0 months. 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. During the first quarter of 2007, we downgraded an $11 million acquisition and development loan in the northwest Arkansas market obtained through one of our loan participations with White River Bancshares, Inc. The developer is experiencing cash flow problems but is currently paying as agreed. We will continue to monitor this loan and downgrade the credit and reserve accordingly if determined to be necessary. At March 31, 2007, we had approximately $21.3 million in loan participations with our consolidated affiliate White River Bancshares, Inc. in northwest Arkansas.

Allowance for Loan Losses

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

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

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

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

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 $386,000, or 79.4%, to $100,000 for the three months ended March 31, 2007, compared to the same period in 2006. Total recoveries decreased $159,000, or 60.7%, to $103,000 for the three months ended March 31, 2007, compared to the same period in 2006. The changes in charge-offs and recoveries are a reflection of our conservative stance on asset quality.

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Table 9 shows the allowance for loan losses, charge-offs and recoveries as of and for the three-month periods ended March 31, 2007 and 2006.

Table 9: Analysis of Allowance for Loan Losses

	As of March 31,	
	2007	**2006**
	(Dollars in thousands)	
Balance, beginning of period	$ 26,111	$ 24,175
Loans charged off		
Real estate:		
Commerical real estate loans:		
Non-farm/non-residential		106
Construction/land development		2
Agricultural		8
Residential real estate loans:		
Residential 1-4 family	10	54
Multifamily residential		
Total real estate	10	170
Consumer	59	70
Commercial and industrial	31	237
Agricultural		
Other		9
Total loans charged off	100	486
Recoveries of loans previously charged off		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	16	8
Construction/land development	1	
Agricultural		
Residential real estate loans:		
Residential 1-4 family	24	97
Multifamily residential		
Total real estate	41	105
Consumer	36	10
Commercial and industrial	19	21
Agricultural		
Other	7	126
Total recoveries	103	262
Net (recoveries) loans charged off	(3)	224
Provision for loan losses	820	484

Balance, March 31	$ 26,934	$ 24,435
Net (recoveries) charge-offs to average loans	%	0.07%
Allowance for loan losses to period-end loans	1.83	1.96
Allowance for loan losses to net (recoveries) charge-offs	(221,375)	2,690

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

The changes for the period ended March 31, 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 10 presents the allocation of allowance for loan losses as of March 31, 2007 and December 31, 2006.

Table 10: Allocation of Allowance for Loan Losses

	As of March 31, 2007		As of December 31, 2006	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
		(Dollars in thousands)		
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 10,021	35.2%	$ 9,130	32.8%
Construction/land development	7,334	25.0	7,494	27.8
Agricultural	910	2.3	505	0.8
Residential real estate loans:				
Residential 1-4 family	3,076	15.7	3,091	16.2
Multifamily residential	572	2.7	909	2.6
Total real estate	21,913	80.9	21,129	80.2
Consumer	920	2.9	861	3.2
Commercial and industrial	3,121	13.9	3,237	14.6
Agricultural	486	1.1	456	1.0
Other	11	1.2	11	1.0
Unallocated	483		417	
Total	$ 26,934	100.0%	$ 26,111	100.0%

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

Investments and Securities

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

market prices of comparable securities. As of March 31, 2007, 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 may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale. Available-for-sale securities were $476.5 million as of March 31, 2007, compared to $531.9 million as of December 31, 2006. The estimated duration of our securities portfolio was 2.8 years as of March 31, 2007.

As of March 31, 2007, $209.2 million, or 43.9%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $219.8 million, or 41.3%, of our available-for-sale securities as of December 31, 2006. To reduce our income tax burden, $102.2 million, or 21.4%, of our available-for-sale securities portfolio as of March 31, 2007, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $103.4 million, or 19.4%, of our available-for-sale securities as of December 31, 2006. Also, we had approximately $153.1 million, or 32.1%, invested in obligations of U.S. Government-sponsored enterprises as of March 31, 2007, compared to $196.2 million, or 36.9%, of our available-for-sale securities as of December 31, 2006.

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

Table 11 presents the carrying value and fair value of investment securities as of March 31, 2007 and December 31, 2006.

Table 11: Investment Securities

	As of March 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
Available-for-Sale				
U.S. government-sponsored enterprises	$ 155,656	$ 71	$ (2,638)	$ 153,089
Mortgage-backed securities	214,256	71	(5,133)	209,194
State and political subdivisions	101,251	1,402	(449)	102,204
Other securities	12,196		(149)	12,047
Total	$ 483,359	$ 1,544	$ (8,369)	$ 476,534

	As of December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
Available-for-Sale				
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

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Deposits

Our deposits averaged $1.63 billion for the three-month period ended March 31, 2007. Total deposits increased $21.1 million, or an annualized growth of 5.3%, to $1.63 billion as of March 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 March 31, 2007 and December 31, 2006 brokered deposits were $42.8 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 those years.

Table 12 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month periods ended March 31, 2007 and 2006.

Table 12: Average Deposit Balances and Rates

	Three Months Ended March 31,			
	2007		2006	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest- bearing transaction accounts	$ 214,461	%	$ 213,135	%
Interest-bearing transaction accounts	534,610	3.14	435,517	2.22
Savings deposits	57,491	1.42	84,770	1.68
Time deposits:				
$100,000 or more	472,219	5.00	355,514	4.40
Other time deposits	348,723	4.62	360,276	3.30
Total	$ 1,627,504	3.52%	$ 1,449,212	2.67%

FHLB and Other Borrowings

Our FHLB and other borrowings were $127.8 million as of March 31, 2007. The outstanding balance for March 31, 2007 consists of FHLB long-term advances. Our FHLB and other borrowings were $151.8 million as of December 31, 2006. The outstanding balance for December 31, 2006, includes $5.0 million of short-term advances and $146.8 million of long-term advances. Long-term borrowings consist of long-term FHLB borrowings. Our remaining FHLB borrowing capacity was $346.2 million and $323.6 million as of March 31, 2007 and December 31, 2006, respectively.

Subordinated Debentures

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

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Table 13 reflects subordinated debentures as of March 31, 2007 and December 31, 2006, which consisted of guaranteed payments on trust preferred securities with the following components:

Table 13: Subordinated Debentures

	As of March 31, 2007	As of December 31, 2006
	(In thousands)	
Subordinated debentures, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, due 2030, fixed at 10.60%, callable 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	3,401	3,424
Subordinated debentures, due 2033, floating rate of 3.15% above the three- month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total	$ 44,640	$ 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.

Shareholders Equity

Stockholders equity was $236.9 million at March 31, 2007 compared to $231.4 million at December 31, 2006, an annualized increase of 9.5%. As of March 31, 2007 our equity to asset ratio was 10.7%, compared to 10.6% as of December 31, 2006. Book value per common share was $13.75 at March 31, 2007 compared to $13.45 at December 31, 2006, a 9.0% annualized increase. The increases in stockholders equity and book value per share were primarily the result of retained earnings during the prior three months.

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 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. We received net proceeds of approximately $6.3 million from this sale of shares after deducting sales commissions.

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Preferred Stock Conversion. During the third quarter of 2006, the Company s 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.

After the exercise of the over-allotment and the conversion of the preferred stock, Home BancShares outstanding common stock increased by approximately 2.5 million shares.

Cash Dividends. We declared cash dividends on our common stock of $0.025 and $0.020 per share for the three-month periods ended March 31, 2007 and 2006, respectively.

Liquidity and Capital Adequacy Requirements

Risk-Based Capital. We as well as our bank subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Furthermore, we are deemed by federal regulators to be a source of financial strength for White River Bancshares, despite owning 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 March 31, 2007 and December 31, 2006, we met all regulatory capital adequacy requirements to which we were subject.

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Table 14 presents our risk-based capital ratios as of March 31, 2007 and December 31, 2006.

Table 14: Risk-Based Capital

	As of March 31, 2007	As of December 31, 2006
	(Dollars in thousands)	
Tier 1 capital		
Shareholders equity	$ 236,857	$ 231,419
Qualifying trust preferred securities	43,000	43,000
Goodwill and core deposit intangibles, net	(43,158)	(43,433)
Unrealized loss on available-for-sale securities	4,120	4,892
Total Tier 1 capital	240,819	235,878
Tier 2 capital		
Qualifying allowance for loan losses	21,092	20,308
Total Tier 2 capital	21,092	20,308
Total risk-based capital	$ 261,911	$ 256,186
Average total assets for leverage ratio	$ 2,154,537	$ 2,089,130
Risk weighted assets	$ 1,681,528	$ 1,618,849
Ratios at end of period		
Leverage ratio	11.18%	11.29%
Tier 1 risk-based capital	14.32	14.57
Total risk-based capital	15.58	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 15 presents actual capital amounts and ratios as of March 31, 2007 and December 31, 2006, for our bank subsidiaries and us.

Table 15: Capital and Ratios

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provision**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in thousands)			
As of March 31, 2007						
Leverage ratios:						
Home BancShares	$240,819	11.18%	$ 86,161	4.00%	$ N/A	N/A%
First State Bank	48,424	8.56	22,628	4.00	28,285	5.00
Community Bank	30,758	8.86	13,886	4.00	17,358	5.00
Twin City Bank	51,135	7.57	27,020	4.00	33,775	5.00
Marine Bank	30,725	8.46	14,527	4.00	18,159	5.00
Bank of Mountain View	15,467	7.77	7,962	4.00	9,953	5.00
Tier 1 capital ratios:						
Home BancShares	$240,819	14.32%	$ 67,268	4.00%	$ N/A	N/A%
First State Bank	48,424	10.29	18,824	4.00	28,236	6.00
Community Bank	30,758	11.46	10,736	4.00	16,104	6.00
Twin City Bank	51,135	10.26	19,936	4.00	29,904	6.00
Marine Bank	30,725	9.82	12,515	4.00	18,773	6.00
Bank of Mountain View	15,467	13.26	4,666	4.00	6,999	6.00
Total risk-based capital ratios:						
Home BancShares	$261,911	15.58%	$134,486	8.00%	$ N/A	N/A%
First State Bank	54,331	11.54	37,664	8.00	47,081	10.00
Community Bank	34,166	12.73	21,471	8.00	26,839	10.00
Twin City Bank	57,377	11.51	39,880	8.00	49,850	10.00
Marine Bank	34,083	10.89	25,038	8.00	31,298	10.00
Bank of Mountain View	16,672	14.29	9,334	8.00	11,667	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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Non-GAAP Financial Measurements

We had $46.5 million, $47.0 million, and $48.3 million total goodwill, core deposit intangibles and other intangible assets as of March 31, 2007, December 31, 2006 and March 31, 2006, 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 16 through 20, respectively.

Table 16: Diluted Cash Earnings Per Share

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share data)	
GAAP net income	$ 4,761	$ 3,516
Intangible amortization after-tax	267	258
Cash earnings	$ 5,028	$ 3,774
GAAP diluted earnings per share	$ 0.27	$ 0.24
Intangible amortization after-tax	0.02	0.02
Diluted cash earnings per share	$ 0.29	$ 0.26

Table 17: Tangible Book Value Per Share

	As of March 31, 2007	As of December 31, 2006
	(Dollars in thousands, except per share data)	
Book value per common share: A/B	$ 13.75	$ 13.45
Tangible book value per common share: (A-C-D)/B	11.05	10.72
(A) Total shareholders equity	$ 236,857	$ 231,419
(B) Common shares outstanding	17,222	17,206
(C) Goodwill	37,527	37,527
(D) Core deposit and other intangibles	9,019	9,458

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Table 18: Cash Return on Average Assets

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(Dollars in thousands)	
Return on average assets: A/C	0.88%	0.74%
Cash return on average assets: B/(C-D)	0.95	0.81
(A) Net income	$ 4,761	$ 3,516
(B) Cash earnings	5,028	3,774
(C) Average assets	2,197,695	1,935,201
(D) Average goodwill, core deposits and other intangible assets	46,765	48,559

Table 19: Cash Return on Average Tangible Equity

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(Dollars in thousands)	
Return on average shareholders equity: A/C	8.30%	8.51%
Return on average tangible equity: B/(C-D)	10.96	12.86
(A) Net income	$ 4,761	$ 3,516
(B) Cash earnings	5,028	3,774
(C) Average shareholders equity	232,771	167,567
(D) Average goodwill, core deposits and other intangible assets	46,765	48,559

Table 20: Tangible Equity to Tangible Assets

	As of March 31, 2007	As of December 31, 2006
	(Dollars in thousands)	
Equity to assets: B/A	10.75%	10.56%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	8.82	8.60
(A) Total assets	$2,203,576	$2,190,648
(B) Total shareholders equity	236,857	231,419
(C) Goodwill	37,527	37,527
(D) Core deposit and other intangibles	9,019	9,458

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Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank 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 has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loans customers are expected to expire without being drawn upon, therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of March 31, 2007, our cash and cash equivalents were $61.0 million, or 2.8% of total assets, compared to $59.7 million, or 2.7% of total assets, as of December 31, 2006. Our investment securities and federal funds sold were $487.2 million as of March 31, 2007 and $540.9 million as of December 31, 2006.

We may occasionally use our federal funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have federal funds lines with three other financial institutions pursuant to which we could have borrowed up to $62.1 million on an unsecured basis as of March 31, 2007 and December 31, 2006. 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 $127.8 million as of March 31, 2007 and $151.8 million as of December 31, 2006. The outstanding balance for March 31, 2007 included $127.8 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 $346.2 million and $323.6 million as of March 31, 2007 and December 31, 2006.

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

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

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.

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 March 31, 2007, our gap position was relatively neutral with a one-year cumulative repricing gap of -1.0%, 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 approximately that of the liability base. As a result, our net interest income should not have a material positive or negative affect in the current rate environment.

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

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Table 21 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of March 31, 2007.

Table 21: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 2,962	$	$	$	$	$	$	$ 2,962
Federal funds sold	10,685							10,685
Investment securities	14,955	33,095	26,389	58,239	104,655	107,391	131,810	476,534
Loans receivable	651,165	87,156	117,334	198,222	194,784	200,271	26,464	1,475,396
Total earning assets	679,767	120,251	143,723	256,461	299,439	307,662	158,274	1,965,577
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	24,572	49,142	73,713	147,427	42,980	113,664	155,095	606,593
Time deposits	107,701	160,644	188,184	240,234	59,847	36,338	3	792,951
Federal funds purchased	25,450							25,450
Securities sold under repurchase agreements	101,640				3,708	11,123	11,864	128,335
FHLB and other borrowed funds	60,249	7,114	21,416	7,629	6,937	12,772	11,725	127,842
Subordinated debentures	1	5,158	5	9	20,639	76	18,752	44,640
Total interest-bearing liabilities	319,613	222,058	283,318	395,299	134,111	173,973	197,439	1,725,811
Interest rate sensitivity gap	$ 360,154	$ (101,807)	$ (139,595)	$ (138,838)	$ 165,328	$ 133,689	$ (39,165)	$ 239,766
Cumulative interest rate	$ 360,154	$ 258,347	$ 118,752	$ (20,086)	$ 145,242	$ 278,931	$ 239,766	

sensitivity gap							
Cumulative rate sensitive assets to rate sensitive liabilities	212.7%	147.7%	114.4%	98.4%	110.7%	118.3%	113.9%
Cumulative gap as a % of total earning assets	18.3	13.1	6.0	(1.0)	7.4	14.2	12.2

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. 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 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 June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, which provides clarification for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 31, 2006. The Company adopted the Interpretation during the first quarter of 2007 without 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 March 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 will have on the financial position and results of operation of the Company.

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.

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Item 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal controls over financial reporting during the quarter ended March 31, 2007, which have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

See the discussion of our risk factors in the Form 10-K, as filed with the SEC.

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

Not applicable.

Item 3: Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5: Other Information

Not applicable

Item 6: Exhibits

10.1 Home BancShares Inc. Chairman s Retirement Plan

15 Awareness of Independent Registered Public Accounting Firm

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

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

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

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

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SIGNATURES

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

	HOME BANCSHARES, INC. (Registrant)
Date: May 4, 2007	/s/ John W. Allison John W. Allison, Chief Executive Officer
Date: May 4, 2007	/s/ Randy E. Mayor Randy E. Mayor, Chief Financial Officer

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