HOME BANCSHARES INC
Form 10-Q
August 09, 2006

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

(Mark One)

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

or

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

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

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

(501) 328-4770

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

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

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

Yes o No þ

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

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

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

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

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

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

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

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

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PART I: FINANCIAL INFORMATION
Item 1: Financial Statements

Home BancShares, Inc.
Consolidated Balance Sheets

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

three for one
stock split.

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Consolidated Statements of Cash Flows

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Investments in Unconsolidated Affiliates

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

The Company has invested funds representing 100% ownership in four statutory trusts which issue trust preferred securities. The Company s investment in these trusts was $1.3 million at June 30, 2006 and December 31, 2005, respectively. Under generally accepted accounting principles, these trusts are not consolidated.

The summarized financial information below represents an aggregation of the Company s unconsolidated affiliates as of June 30, 2006 and 2005, and for the three-month and six-month periods then ended:

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

Interim financial information

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

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

Earnings per Share

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

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

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

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2. Acquisitions

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

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

On January 3, 2005, HBI purchased 20% of the common stock of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares is a newly formed corporation, which owns all of the stock of Signature Bank of Arkansas, with branch locations in the northwest Arkansas area. At June 30, 2006 and December 31, 2005, White River Bancshares had approximately $266.9 million and $184.7 million in total assets, $208.3 million and $131.3 million in total loans and $194.0 million and $130.3 million in total deposits, respectively. In January 2006, White River Bancshares issued an additional $15.0 million of their common stock. To maintain a 20% ownership, the Company made an additional investment in White River Bancshares of $3.0 million in January 2006.

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

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3. Investment Securities

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

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

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

Assets, principally investment securities, having a carrying value of approximately $393.0 million and $276.1 million at June 30, 2006 and December 31, 2005, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $121.8 million and $103.7 million at June 30, 2006 and December 31, 2005, respectively.

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

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4: Loans receivable and Allowance for Loan Losses

The various categories of loans are summarized as follows:

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

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

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

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

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

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

Mortgage loans held for resale of approximately $4.3 million and $3.0 million at June 30, 2006 and December 31, 2005, respectively, are included in residential 1 4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis.

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

5: Goodwill and Core Deposit Intangibles

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

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

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

The carrying amount of the Company s goodwill was $37.5 million at June 30, 2006 and December 31, 2005. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

6: Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $432.4 million and $403.0 million at June 30, 2006 and December 31, 2005, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $8.6 million and $4.4 million at June 30, 2006 and 2005, respectively.

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

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7: FHLB and Other Borrowed Funds

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

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

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

8: Subordinated Debentures

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

	June 30, 2006	December 31, 2005
	(In thousands)	
Subordinated debentures, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2008 without penalty	$ 20,619	$ 20,619
Subordinated debentures, due 2030, fixed at 10.60%, callable in 2010 with a penalty ranging from 5.30% to 0.53% depending on the year of prepayment, callable in 2020 without penalty	3,469	3,516
Subordinated debentures, due 2033, floating rate of 3.15% above the three- month LIBOR rate, reset quarterly, callable in 2008 without penalty	5,155	5,155
Subordinated debentures, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter, callable in 2010 without penalty	15,465	15,465
Total subordinated debt	$ 44,708	$ 44,755

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

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

9: Income Taxes

The following is a summary of the components of the provision for income taxes for the three-month and six-month periods ended June 30:

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

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

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

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The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

June 30,