HOME BANCSHARES INC
Form DEF 14A
February 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Home BancShares, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which the transaction applies:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HOME BANCSHARES, INC.

719 Harkrider Street, Suite 100

Conway, Arkansas 72032

(501) 328-4770

Internet Site: *www.homebancshares.com*

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 16, 2015

The Annual Meeting of Shareholders of Home BancShares, Inc. (the Company) will be held on April 16, 2015, at 6:30 p.m. (CDT) at the Centennial Valley Country Club Events Center, located at 1600 Centennial Club Drive, Conway, Arkansas, for the following purposes:

(1) To elect directors for a term of one year.

(2) To provide an advisory (non-binding) vote approving the Company s compensation of its named executive officers.

(3) To ratify the appointment of BKD, LLP as the Company s independent registered public accounting firm for the next fiscal year.

(4) To transact such other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record on February 27, 2015, will be entitled to vote at the meeting or any adjournments thereof. A list of shareholders will be available for inspection at the office of the Company at 719 Harkrider Street, Suite 100, Conway, Arkansas, 72032, beginning two business days after the date of this notice and continuing through the meeting. The stock transfer books will not be closed.

The 2014 Annual Report to Shareholders is included in this publication.

By Order of the Board of Directors

C. RANDALL SIMS
Chief Executive Officer and President

Conway, Arkansas

March 6, 2015

YOUR VOTE IS IMPORTANT

PLEASE EXECUTE YOUR PROXY WITHOUT DELAY

HOW TO VOTE IF YOU ARE A SHAREHOLDER OF RECORD

Your vote is important. You can save the Company the expense of a second mailing by voting promptly. Shareholders of record can vote by telephone, on the Internet, by mail or by attending the Annual Meeting and voting by ballot as described below. (Please note: if you are a beneficial owner of shares held in the name of a bank, broker or other holder, please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you.)

The Internet and telephone voting procedures are designed to authenticate shareholders by use of a control number and to allow you to confirm that your instructions have been properly recorded. ***If you vote by telephone or on the Internet, you do not need to return your proxy card.*** *Telephone and Internet voting facilities for shareholders of record will be available 24 hours a day and will close at 1:00 a.m. Central time on April 16, 2015.*

VOTE BY TELEPHONE

You can vote by calling the toll-free telephone number on your proxy card. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

VOTE ON THE INTERNET

You also can choose to vote on the Internet by visiting the website for Internet voting printed on your proxy card. Easy-to-follow prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you vote on the Internet, you can also request electronic delivery of future proxy materials.

VOTE BY MAIL

If you choose to vote by mail, simply mark your proxy, date and sign it, and return it to Computershare in the postage-paid envelope provided. If the envelope is missing, please mail your completed proxy card to Home BancShares, Inc., c/o Computershare, P. O. Box 43101, Providence, Rhode Island, 02940-5067.

VOTING AT THE ANNUAL MEETING

The method by which you vote will not limit your right to vote at the Annual Meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a legal proxy, executed in your favor, from the holder of record to be able to vote at the Meeting.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting. If you sign and return your proxy card but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board of Directors.

HOME BANCSHARES, INC.

719 Harkrider Street, Suite 100

Conway, Arkansas 72032

(501) 328-4770

Internet Site: *www.homebancshares.com*

PROXY STATEMENT

This Proxy Statement and the accompanying proxy card are being mailed in connection with the solicitation of proxies by the Board of Directors (the Board) of Home BancShares, Inc. (the Company) for use at the Annual Meeting of Shareholders. This Proxy Statement and the accompanying proxy card are being first mailed to shareholders of the Company on or about March 6, 2015.

This introductory section is a summary of selected information from this Proxy Statement and may not contain all of the information that is important to you. To better understand the nominees being solicited for directors and the proposals that are submitted for a vote, you should carefully read this entire document and other documents to which we refer.

The proxies being solicited by this Proxy Statement are being solicited by the Company. The expense of soliciting proxies, including the cost of preparing, assembling and mailing the material submitted with this Proxy Statement, will be paid by the Company. The Company will also reimburse brokerage firms, banks, trustees, nominees and other persons for the expense of forwarding proxy material to beneficial owners of shares held by them of record. Solicitations of proxies may be made personally or by telephone, electronic communication or facsimile, by directors, officers and regular employees, who will not receive any additional compensation in respect of such solicitations.

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to be Held on April 16, 2015:

The Notice and Proxy Statement and the Annual Report on Form 10-K

are available at www.edocumentview.com/homb.

ABOUT THE ANNUAL MEETING

When and Where Is the Annual Meeting?

Date:	Thursday, April 16, 2015
Time:	6:30 p.m., Central Daylight Time
Location:	Centennial Valley Country Club Events Center, 1600 Centennial Club Drive, Little Rock, Arkansas

What Matters Will Be Voted Upon at the Annual Meeting?

At our Annual Meeting, shareholders will be asked to:

- consider and vote on a proposal to elect the nominees listed in this proxy statement as directors for a term of one year;
- consider and vote on a proposal to approve, on an advisory (non-binding) basis, the Company s compensation of its named executive officers;
- consider and vote on a proposal to ratify the appointment of BKD, LLP as the Company s independent registered public accounting firm for the next fiscal year; and
- transact such other business as may properly come before the meeting or any adjournments thereof.

Who Is Entitled to Vote?

Only shareholders of record at the close of business on the record date, February 27, 2015, are entitled to receive the Notice of Annual Meeting and to vote the shares of common stock that they held on that date at the Meeting or at any postponement or adjournment of the Meeting. Each outstanding share entitles its holder to cast one vote on each matter to be voted on. As of the close of business on February 27, 2015, there were 67,575,879 shares of the Company s common stock outstanding.

Who Can Attend the Meeting?

All shareholders as of the record date, or their duly appointed proxies, may attend the Meeting, and each may be accompanied by one guest. Seating is limited and will be on a first-come, first-served basis. Registration will begin at 5:30 p.m., and seating will be available at approximately 6:00 p.m.

No cameras, electronic devices, large bags, briefcases or packages will be permitted at the Meeting.

Please note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Meeting.

What Constitutes a Quorum?

The presence at the Meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business. As of the record date, 67,575,879 shares of common stock of the Company were outstanding. Proxies received, but marked as abstentions and broker non-votes, will be included in the calculation of the number of shares considered to be present at the Meeting.

Can a Shareholder Nominate a Director?

The Nominating and Corporate Governance Committee (Nominating Committee) of the Board of Directors will consider a candidate properly and timely recommended for directorship by a shareholder or group of shareholders of the Company. The recommendation must be submitted by one or more shareholders that have beneficially owned, individually or as a group, 2% or more of the outstanding common stock for at least one year as of the date the recommendation is submitted. Shareholder recommendations must be submitted to the Secretary of the Company in writing via certified U.S. mail not less than 120 days prior to the first anniversary of the date of the Proxy Statement relating to the Company s previous Annual Meeting. Shareholder recommendations for the Annual Meeting of Shareholders in 2016 must be received by the Company by November 5, 2015. Recommendations must be addressed as follows:

Home BancShares, Inc.

Attn: Corporate Secretary

P.O. Box 966

Conway, Arkansas 72033

DIRECTOR CANDIDATE RECOMMENDATION

Generally, candidates for a director position should possess:

- relevant business and financial expertise and experience, including an understanding of fundamental financial statements;
- the highest character and integrity and a reputation for working constructively with others;
- sufficient time to devote to meetings and consultation on Board matters; and
- freedom from conflicts of interest that would interfere with their performance as a director.

The full text of our Policy Regarding Director Recommendations by Stockholders and Nominating and Corporate Governance Committee Directorship Guidelines and Selection Policy are published on our website at *www.homebancshares.com* and can be found under the caption Investor Relations / Corporate Profile / Governance Documents.

How Can I Communicate Directly with the Board?

Shareholder communications to the Board of Directors, any committee of the Board of Directors, or any individual director must be sent in writing via certified U.S. mail to the Corporate Secretary at the following address:

Home BancShares, Inc.

Attn: Corporate Secretary

P.O. Box 966

Conway, Arkansas 72033

Our Stockholder Communications Policy is published on the Company s website at *www.homebancshares.com* and can be found under the caption Investor Relations / Corporate Profile / Governance Documents.

How Do I Vote?

The enclosed proxy card indicates the number of shares you own. There are four ways to vote:

By Internet at the website shown on your proxy card; we encourage you to vote this way.

By toll-free telephone at the number shown on your proxy card.

By completing and mailing your proxy card.

By written ballot at the Meeting.

If you vote by Internet or telephone, your vote must be received by 1:00 a.m. Central time on April 16, 2015. If your shares are held in street name, the instructions from your broker or nominee will indicate whether Internet or telephone voting is available and, if so, will provide details regarding how to use those systems. If you complete and properly sign the accompanying proxy card and return it to the Company, or tender your vote via telephone or the Internet, it will be voted as you direct. *If you do not indicate your voting preferences, Randy E. Mayor and Brian S. Davis will vote your shares* FOR *all of the director nominees,* FOR *Proposal 2 and* FOR *Proposal 3.*

If You Vote by Telephone or on the Internet, You Do NOT Need to Return Your Proxy Card.

If you plan to attend the Meeting, you may deliver your completed proxy card in person. However, if your shares are held in street name and you wish to vote your shares by written ballot at the Meeting, you will need to request and obtain a legal proxy from your broker, bank or other nominee (the stockholder of record) giving you the right to vote the shares at the Annual Meeting, complete such legal proxy and present it to the Company at the Meeting. Even if you plan to attend the Meeting, we recommend that you submit your proxy card or voting instructions in advance so that your vote will be counted if you later decide not to attend the Meeting.

A proxy duly executed and returned by a shareholder, and not revoked prior to or at the Meeting, will be voted in accordance with the shareholder s instructions on such proxy.

If My Shares Are Held By a Broker or Nominee, Do I Need to Instruct the Broker or Nominee How to Vote My Shares?

Yes. If you hold shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Under current stock exchange rules, brokers who do not have instructions from their customers may not use their discretion in voting their customers shares on certain specific matters which are not considered to be routine matters, including the election of directors, executive compensation and other significant matters. The proposals in this Proxy Statement to elect directors and to approve on an advisory basis the Company s executive compensation are not considered to be routine matters. ***Thus, if you do not give your broker or nominee specific instructions with respect to each of these matters, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval.*** Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

The ratification of BKD, LLP as the Company s independent registered public accounting firm is considered a routine matter, and therefore, if you do not give your broker or nominee specific instructions with respect to this proposal, your broker or nominee will have the discretionary authority to vote your shares on this proposal.

What Are the Board s Recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board s recommendation is set forth together with each proposal in this Proxy Statement. In summary, the Board recommends a vote:

For the election of the nominated slate of directors (see pages 6-36).

For the approval, on an advisory (non-binding) basis, of the Company s compensation of its named executive officers (see page 37).

For the ratification of the appointment of BKD, LLP as the Company s independent registered public accounting firm (see pages 38-40).

What Other Business May Be Brought Before the Meeting?

As of the date of this Proxy Statement, the Board knows of no other business that may properly be, or is likely to be, brought before the Annual Meeting. With respect to any other matter that properly comes before the Meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, at their own discretion.

What Vote Is Required to Approve Each Proposal?

Election of Directors. The affirmative vote of a plurality of the votes cast in person or by proxy at the Annual Meeting is required for the election of directors. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more of the directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Other Proposals. For each other proposal, the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting, assuming a quorum is present, will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have no effect on the outcome of the vote.

The authorized common stock of the Company consists of 100,000,000 shares at $0.01 par value. As of the close of business on February 27, 2015, there were 67,575,879 shares eligible to vote.

Can I Change My Vote After I Return the Proxy Card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date. The powers of the proxy holders will be suspended if you attend the Meeting in person and so request, although attendance at the Meeting will not by itself revoke a previously granted proxy.

What Should I Do If I Receive More Than One Set Of Voting Materials?

You may receive more than one set of voting materials, including multiple copies of this Proxy Statement and multiple proxies or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account. If you are a registered owner and your shares are registered in more than one name, you will receive more than one proxy card. Please vote each proxy and instruction card that you receive.

Where Can I Find The Voting Results Of The Annual Meeting?

The Company will publish final voting results of the Annual Meeting in a Current Report on Form 8-K filed with the Securities and Exchange Commission within four business days after the Annual Meeting on April 16, 2015.

What Do I Need To Do Now?

First, read this Proxy Statement carefully. Then, if you are a registered owner of shares of our common stock as of February 27, 2015, you should, as soon as possible, submit your proxy by executing and returning the proxy card or by voting by telephone or on the Internet. If you are the beneficial owner of shares held in street name, then you should follow the voting instructions of your broker or other nominee. Your shares will be voted in accordance with the directions you specify. If you submit an executed proxy card to the Company but fail to specify voting directions, your shares will be voted in accordance with the recommendations of the Board of Directors.

You Should Carefully Read this Proxy Statement in its Entirety.

PROPOSAL ONE ELECTION OF DIRECTORS

Our Restated Articles of Incorporation provide that the number of directors shall not be less than two nor more than fifteen, with the exact number to be fixed by the shareholders or the Board. The Board of Directors proposes that the nominees for directors described below be elected for a term of one year and until their successors are duly elected and qualified. All nominees are currently serving as directors.

Each of the nominees has consented to serve the term for which he is nominated. If any nominee becomes unavailable for election, which is not anticipated, the directors proxies will vote for the election of such other person as the Board may nominate, unless the Board resolves to reduce the number of directors to serve on the Board and thereby reduce the number of directors to be elected at the meeting.

The Board of Directors Recommends that Shareholders Vote

FOR

Each of the Nominees Listed Herein

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The names of the Company s directors and executive officers as of February 28, 2015, and their respective ages and positions are listed in the table below.

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	68	Chairman of the Board	Chairman of the Board
C. Randall Sims	60	Chief Executive Officer, President and Director	Director
Randy E. Mayor	50	Chief Financial Officer, Treasurer, and Director	Chief Financial Officer and Director
Tracy M. French	53	Director	Chief Executive Officer, President and Director
Brian S. Davis	49	Chief Accounting Officer and Investor Relations Officer	
Kevin D. Hester	51	Chief Lending Officer	Chief Lending Officer and Director
Milburn Adams	72	Director	Director

Robert H. Adcock, Jr.	66	Vice Chairman of the Board	Vice Chairman of the Board
Richard H. Ashley	59	Director	Director
Dale A. Bruns	72	Director	Director
Richard A. Buckheim	71	Director	Advisory Director
Jack E. Engelkes	65	Director	Director
James G. Hinkle	66	Director	
Alex R. Lieblong	64	Director	Advisory Director
Thomas J. Longe	52	Director	
Robert F. Birch, Jr.	65		Regional President
Russell D. Carter, III	39		Regional President
Jim F. Haynes, Jr.	48		Regional President

NOMINEES FOR DIRECTOR

The director nominees consist of the thirteen current members of the Board, two of which were appointed after the 2014 annual meeting. The biography of each of the nominees below contains information regarding the person s service as a director, business experience, including but not limited to director positions held currently or at any time during the last five years, and the experiences, qualifications, attributes or skills that caused the Nominating Committee and the Board to determine that the person should serve as a director.

During 2008 and 2009, the Company combined the charters of the Company s former bank subsidiaries First State Bank, Community Bank, Twin City Bank, Marine Bank, Bank of Mountain View and Centennial Bank (of Little Rock) into a single charter and adopted Centennial Bank as the common name. As used in the following biographies and elsewhere in this Proxy Statement, any reference to our former bank subsidiaries or to any of the six banks named in this paragraph refers to the Company s separately chartered bank subsidiary or subsidiaries as they existed prior to the merger of the banks into a single charter.

John W. Allison **Director Since 1998**

John W. Allison is the co-founder and has been Chairman of the Board of Home BancShares since 1998. He also serves on the Asset/Liability Committee of Home BancShares. From 1998 to 2009, he served as Chief Executive Officer of Home BancShares. Mr. Allison has more than 30 years of banking experience, including service as Chairman of First National Bank of Conway from 1983 until 1998, and as a director of First Commercial Corporation from 1985 (when First Commercial acquired First National Bank of Conway) until 1998. At various times during his tenure on First Commercial s board, Mr. Allison served as the Chairman of that company s Executive Committee and as Chairman of its Asset Quality Committee. Prior to its sale to Regions Financial Corporation in 1998, First Commercial was a publicly traded company and the largest bank holding company headquartered in Arkansas, with approximately $7.3 billion in assets. Mr. Allison is a successful business owner with extensive experience in the management of banks and bank holding companies. As the co-founder and former Chief Executive Officer of Home BancShares, he has intimate knowledge of the issues facing our management, and he has been a guiding figure in the development of Home BancShares and its growth strategy. He is also the largest individual shareholder of Home BancShares, which the Board of Directors believes aligns his interests with those of our shareholders.

C. Randall Sims **Director Since 1998**

C. Randall Sims is Chief Executive Officer and President of Home BancShares. Mr. Sims has served as Chief Executive Officer of Home BancShares since 2009 and as a director of Home BancShares and Centennial Bank (formerly First State Bank) since 1998. From 1998 to 2009, he served as Secretary of Home BancShares. He currently serves as a member of the Asset/Liability Committee. From 1998 to January 2015, Mr. Sims served as the Chief Executive Officer and President of Centennial Bank (formerly First State Bank). Prior to joining First State Bank, Mr. Sims was an executive vice president with First National Bank of Conway. He holds a Juris Doctor degree from the University of Arkansas at Little Rock School of Law and a Bachelor of Arts degree in accounting and business administration from Ouachita Baptist University in Arkadelphia, Arkansas. He attended the Graduate School of Banking at the University of Wisconsin and is an honor graduate of the American Bankers Association National Commercial Lending School held at the University of Oklahoma. Mr. Sims formerly served as a Trustee at the University of Central Arkansas and was Chairman of the Conway Christian School Board for 17 years. He is currently serving on the Board of Trustees at Ouachita Baptist University. Mr. Sims educational background in accounting, business, law and banking provides him a wide-ranging set of skills for the management of a public company such as Home BancShares. As Chief Executive Officer and President of Home BancShares and a long-time director and executive officer of both Home BancShares and Centennial Bank, he has extensive banking and executive experience and brings knowledge of the day-to-day management of the Company as well as expertise in many areas, including financial, corporate governance, risk assessment, and operational matters.

Randy E. Mayor **Director Since 2009**

Randy E. Mayor joined Home BancShares in 1998 as Executive Vice President and Finance Officer and became our first Chief Financial Officer in 2004. Mr. Mayor has been Chief Financial Officer and Treasurer of Home BancShares since 2004 and a director of Home BancShares since 2009. He currently serves as Chairman of the Asset/Liability Committee. Since 1998, he has also served as Chief Financial Officer and as a director of Centennial Bank (formerly First State Bank). Mr. Mayor is a certified public accountant and has more than 27 years of banking experience. From 1988 to 1998, he held various positions at First National Bank of Conway, a subsidiary of First Commercial, including Senior Vice President and Finance Officer from 1992 to 1998. He holds a bachelor of business administration degree from the University of Central Arkansas and is a graduate of the American Bankers Association National Commercial Lending School held at the University of Oklahoma. Mr. Mayor has extensive experience in financial and accounting matters relating to banks and bank holding companies. As our first and only Chief Financial Officer, he provides an in-depth understanding of the Company s financial condition on a current and historical basis, as well as experience with internal controls, risk assessment, and management of the financial affairs of a public company.

Milburn Adams **Director Since 2011**

Milburn Adams has been a director of Home BancShares since October 2011 and a director of Centennial Bank (formerly First State Bank) since 2004. He was appointed to the Audit Committee and the Compensation Committee of Home BancShares in January 2012. Prior to Mr. Adams service with First State Bank, he spent 13 years with the Arkansas Department of Education, serving as an Area Supervisor of Special Education and Director of Evaluation and Admissions at the Arkansas School for the Deaf. This experience was followed by 19 years of service in the manufactured home business. From 1982 to 1986, he was responsible for the administration, sales, manufacturing, and distribution of manufactured homes throughout an eight state area as General Manager of Squire Homes. Mr. Adams was the President of Spirit Homes, Inc. of Conway, Arkansas, from 1986 to 1997. He served as a Division President of Cavalier Homes, Inc. from 1997 to 2000, when Spirit Homes was acquired by Cavalier Homes, Inc. of Alabama. Mr. Adams is an experienced business person, managing and operating several businesses in the central Arkansas area and has substantial knowledge of the banking business through his over ten years of service on the board of our bank subsidiary.

Robert H. Adcock, Jr. **Director From 1998 to 2003 and Since 2007**

Robert H. Adcock, Jr. has been a director and Vice Chairman of Home BancShares since July 2007. He also serves on the Audit Committee, Asset/Liability Committee and Nominating and Corporate Governance Committee of Home BancShares. Mr. Adcock is a co-founder of Home BancShares with Mr. Allison. He previously served as a director and Vice Chairman of Home BancShares from 1998 to 2003. In June 2003, Mr. Adcock stepped down from the Board of Directors of Home BancShares to become the Arkansas State Bank Commissioner. He was reappointed as Vice Chairman of Home BancShares in July 2007 upon completion of his four-year term as Arkansas State Bank Commissioner. Mr. Adcock retired from the First National Bank of Conway, Arkansas, in 1996 after more than 20 years of service. He presently operates a farming operation in Gould (Lincoln County), Arkansas, and has many real estate holdings in the Conway, Arkansas, area. Mr. Adcock has an extensive background in banking, and as a co-founder of Home BancShares, he has a vast knowledge of the Company and our markets. His experience as Arkansas State Bank Commissioner gives him particular insight into regulatory matters affecting the Company and the bank, as well as contacts in the banking industry throughout Arkansas.

Richard H. Ashley **Director Since 2004**

Richard H. Ashley has been a director of Home BancShares since 2004 and served as Vice Chairman from 2006 to July 2007. He also serves on the Asset/Liability Committee and the Compensation Committee of Home BancShares. He has served as a director of Centennial Bank since February 2009. He served as a director of the former Twin City Bank from 2000 until its charter was merged into Centennial Bank in 2009, and as Chairman of Twin City Bank from 2002 to 2009. From 2007 to 2009, he was a director of Entergy Arkansas, Inc., an electric public utility company. Mr. Ashley is President and owner of the Ashley Company, a privately held company involved in land development and investment in seven states throughout the United States since 1978. Mr. Ashley has extensive experience and knowledge with respect to real estate and real estate financing, which is a significant part of our lending. He has substantial banking experience through his over 14 years of service on the boards of Centennial Bank and our former subsidiary bank, Twin City Bank. In addition, his service on the Compensation Committee of Home BancShares has enhanced his knowledge of public company executive compensation matters.

Dale A. Bruns **Director Since 2004**

Dale A. Bruns has been a director of Home BancShares since 2004 and a director of Centennial Bank (formerly First State Bank) since 1998. Mr. Bruns also served as a director of the former Twin City Bank from 2000 to 2009. Mr. Bruns is the Chairman of the Compensation Committees for Home BancShares and Centennial Bank, and is a member of the Nominating and Corporate Governance Committee and the Asset/Liability Committee of Home BancShares. Prior to his service with First State Bank, he served as a director of the First National Bank of Conway from 1985 to 1998. Mr. Bruns has owned and operated several McDonald s restaurants located in Central Arkansas. He is also the owner of Central Arkansas Sign Company, Inc. He currently serves on the board of the Arkansas McDonald s Self Insurance Trust. He is a past member of the McDonald s National Operator advisory board of directors. Mr. Bruns is an experienced business person, owning and operating multiple businesses. He has significant experience in the banking industry and knowledge of our local markets, having served as a bank director in central Arkansas for over 29 years. As Chairman of our Compensation Committee for the past nine years, he has substantial knowledge of issues relating to public company oversight of executive compensation matters.

Richard A. Buckheim **Director Since 2005**

Richard A. Buckheim has been a director of Home BancShares since 2005. He also serves on the Compensation Committee of Home BancShares. From 2000 until December 2008 when the Marine Bank charter was merged into Centennial Bank (formerly First State Bank), he served as Chairman of the Board of Marine Bank and served on the bank s compensation committee. He currently serves as Regional Chairman of Centennial Bank for the bank s Florida region. Mr. Buckheim formerly owned two restaurants in Key West, Florida. Prior to moving to Key West, he founded and served as President of Buckheim and Rowland, Inc., a Michigan-based advertising and marketing company with offices in Ann Arbor and Detroit, Michigan, New York, New York, and Melbourne, Florida. Mr. Buckheim has extensive experience in banking and a particular knowledge of our South Florida market area through his service as Chairman of our former bank subsidiary, Marine Bank. He also provides a valuable background in advertising and marketing, as well as executive experience, as former president of the multistate advertising and marketing company that he founded and as a former business owner.

Jack E. Engelkes **Director Since 2004**

Jack E. Engelkes has been a director of Home BancShares since 2004 and a director of Centennial Bank (formerly First State Bank) since 1998. He also serves as Chairman of the Audit Committee and a member of the Compensation Committee of Home BancShares. From 1995 to 1998, he served as a director of First National Bank of Conway. Since 1990, Mr. Engelkes has served as managing partner in the accounting firm of Engelkes and Felts, Ltd. He has been a director of the Conway Regional Medical Center since 2005 and served as Chairman of the Conway Regional Medical Center Board during 2011 and 2012. He also served as Chairman of the Board of Conway Regional Health Foundation in 2006. In addition, Mr. Engelkes has been a director of the Conway Development Corporation since

2000. Mr. Engelkes holds a bachelor s degree in Business and Economics from Hendrix College in Conway. Mr. Engelkes is a certified public accountant and has extensive

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knowledge and experience in accounting, auditing and financial reporting. He has a strong understanding of the banking business, and particularly the Company, through his combined service over the past 19 years as a director of Home BancShares, our subsidiary bank and First National Bank of Conway. Based on that service and his other directorships, he offers valuable experience with respect to corporate governance and compensation matters.

Tracy M. French **Director Since January 2015**

Tracy M. French was appointed to serve as a director of Home BancShares and as Chief Executive Officer and President of Centennial Bank on January 16, 2015. Prior to that time, Mr. French served as a regional president for Centennial Bank since 2009. He was the President and Chief Executive Officer and a director of our former bank subsidiary, Community Bank, from 2002 to 2009. Mr. French has over 30 years of banking experience. He is a graduate of the University of Arkansas at Fayetteville and the Southwestern Graduate School of Banking at Southern Methodist University. Based on his extensive banking and management experience, Mr. French provides significant strategic and operational insights into the management of the Company and our bank subsidiary.

James G. Hinkle **Director Since 2005**

James G. Hinkle has been a director of Home BancShares since 2005. Mr. Hinkle currently serves as a member of the Audit Committee of Home BancShares and has previously served on our Asset/Liability Committee. He has over 33 years of banking experience. He served as Chairman of the former Bank of Mountain View from 2005 until its charter was merged into Centennial Bank in 2009. From 1995 to 2005, he served as President of Mountain View BancShares, Inc., until the company s merger into Home BancShares. He served as President of the Bank of Mountain View from 1981 to 2005. From 1996 to 2003 Mr. Hinkle served on the Arkansas Game and Fish Commission. Since 2003, Mr. Hinkle has been a director of the National Wild Turkey Federation, a national nonprofit conservation and hunting organization. Mr. Hinkle has a lengthy background in banking and executive management through his long-time service as an officer and director of the former Bank of Mountain View and Mountain View Bancshares. In addition, he has particular knowledge of the Company s customer base in our North Central Arkansas market.

Alex R. Lieblong **Director Since 2003**

Alex R. Lieblong has been a director of Home BancShares since 2003. He has served as an advisory director of Centennial Bank (formerly First State Bank) since 2002, and he served as a director of First State Bank from 1998 to 2002. He also serves as Chairman of the Nominating and Corporate Governance Committee and a member of the Audit Committee of Home BancShares. Mr. Lieblong currently serves on the board of directors of Ballard Petroleum, a privately held energy company. Since 1997, Mr. Lieblong has been an owner and general principal in the brokerage firm of Lieblong & Associates, Inc. Prior to Lieblong & Associates, Inc., he held management positions with Paine Webber, Merrill Lynch, and E.F. Hutton. Mr. Lieblong was a founder and has been managing partner of Key Colony Fund, L.P., a hedge fund, since 1998. He served as a director of Deltic Timber from 1997 to February 2007. He also served as a director of Lodgian, Inc., a publicly traded owner and operator of hotels, from 2006 to 2010. Mr. Lieblong has extensive experience in the financial services industry and over a decade of experience as a director of other publicly traded and privately held companies. He has substantial knowledge of financial, regulatory, corporate governance and other matters affecting public companies which the Board of Directors believes is valuable to the Company.

Thomas J. Longe **Director Since October 2014**

Thomas J. Longe was appointed to serve as a director of Home BancShares on October 17, 2014 and named to the Audit Committee and the Nominating and Corporate Governance Committee on January 16, 2015. Mr. Longe is the President and Chief Operating Officer of The Trianon Companies. For over 30 years he has been involved in the acquisition, development, management and financing of commercial and residential real estate developments. He is the former Chairman, CEO and President of TIB Financial Corporation (TIB Financial), which was a publicly traded bank holding company in Florida with $1.8 billion in assets. Mr. Longe directed the successful acquisition of a $500 million asset failed bank from Federal Deposit Insurance Corporation and negotiated the recapitalization/sale of TIB Financial to North American Financial Holdings. Mr. Longe began his career as a loan officer and credit analyst at Bank One, Columbus, N.A. and Comerica Bank. He graduated from Albion College with a Bachelor of Arts in Economics and from the University of Detroit with a Masters of Business Administration. He also serves on the board for the Naples Yacht Club. Mr. Longe brings a wealth of knowledge and experience in banking and real estate development, as well as experience managing a publicly held bank holding company and particular familiarity with our Florida markets in Southwest and Southeast Florida and the Florida Keys.

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EXECUTIVE OFFICERS

The biography below of each of our executive officers who is not a member of our Board of Directors contains information regarding the person s business experience, including but not limited to positions held currently or at any time during the last five years.

Robert F. Birch, Jr.

Robert F. Birch, Jr. currently serves as a regional president for Centennial Bank. He served as the President and Chief Executive Officer and a director of our former bank subsidiary, Twin City Bank, from 2000 when he helped found the bank until June 2009 when the charter was merged into Centennial Bank (formerly First State Bank). Mr. Birch has over 45 years of banking experience. He began his banking career in 1970 with the original Twin City Bank, which was eventually sold to an out-of-state institution. He is a graduate of the University of Arkansas at Little Rock and the University of Colorado School of Bank Marketing in Boulder. Mr. Birch serves on the boards of the Arkansas Art Center and Baptist Health Foundation.

Russell D. Carter, III

Russell D. Carter, III currently serves as a regional president for Centennial Bank. He has over 15 years of banking experience. He holds a Juris Doctor degree with honors from the University of Arkansas at Little Rock s William H. Bowen School of Law and a Bachelor of Arts degree in finance from Arkansas State University in Jonesboro, Arkansas. He is an alumnus of the Graduate School of Banking at Louisiana State University in Baton Rouge. Mr. Carter served as a state representative in the Arkansas House of Representative from January 2009 to January 2015 and most recently served as the Speaker of the House from January 2013 to January 2015.

Brian S. Davis

Brian S. Davis joined Home BancShares in 2004 as Director of Financial Reporting and added Investor Relations Officer to his responsibilities in 2006. In 2010, he was promoted to Chief Accounting Officer while continuing to serve as Investor Relations Officer. He is a certified public accountant and has 23 years of banking experience, which includes serving as Vice President of Finance for Simmons First National Corporation, Controller of Simmons First Mortgage Company, and Assistant Vice President of Finance for Worthen Banking Corporation. He spent the first four years of his career with the accounting firm of BKD, LLP. Mr. Davis is a graduate of the University of Arkansas at Fayetteville.

Jim F. Haynes, Jr.

Jim F. Haynes, Jr. joined Centennial Bank (formerly Community Bank) in 2003 as market president for the Beebe, Arkansas market. Mr. Haynes was named regional president of Centennial Bank for the North Florida region in 2014 and has served as chief lending officer for this region since 2011. Mr. Haynes has 24 years of lending and banking experience. He is a graduate of Arkansas State University in Jonesboro, Arkansas, where he received a bachelor s degree in finance.

Kevin D. Hester

Kevin D. Hester joined Centennial Bank (formerly First State Bank) in 1998 as Executive Vice President of Lending, and became Chief Lending Officer of Home BancShares in 2010. He has more than 29 years of banking experience. From 1985 to 1998, Mr. Hester held various positions at First Commercial Corporation, including Executive Vice President of Lending at First Commercial s Kilgore, Texas, affiliate. Mr. Hester is a graduate of the University of Central Arkansas with a bachelor s degree in accounting and is an honor graduate of the National Commercial Lending

School in Norman, Oklahoma. He is a former board member of the National Association of Government Guaranteed Lenders (NAGGL) and is still active within the organization.

CORPORATE GOVERNANCE

Duties of the Board

The Board of Directors has the responsibility to serve as the trustee for the shareholders. It also has the responsibility for establishing broad corporate policies and for the overall performance of the Company. The Board, however, is not involved in day-to-day operating details. Members of the Board are kept informed of the Company s business through discussion with the Chief Executive Officer and other officers, by reviewing analyses and reports sent to them quarterly, and by participating in Board and Committee meetings.

Corporate Governance Guidelines and Policies

We believe that good corporate governance helps ensure that the Company is managed for the long-term benefit of its shareholders. We continue to review our corporate governance policies and practices, corporate governance rules and regulations of the Securities and Exchange Commission (the SEC), and the listing standards of the NASDAQ Global Select Market on which our common stock is traded. The Board has adopted various corporate governance guidelines and policies to assist the Board in the exercise of its responsibilities to the Company and its shareholders. The guidelines and policies address, among other items, director independence and director qualifications. You can access and print our corporate governance guidelines and policies, including the charters of our Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, our Corporate Code of Ethics for Directors, Executive Officers and Employees and other Company policies and procedures required by applicable law or regulation, on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

Director Independence

NASDAQ rules require that a majority of the directors of NASDAQ-listed companies be independent. An independent director generally means a person other than an officer or employee of the listed company or its subsidiaries, or any other individual having a relationship, which, in the opinion of the listed company s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Certain categories of persons are deemed not to be independent under the NASDAQ rules, such as persons employed by the listed company within the last three years, and persons who have received (or whose immediate family members have received) payments exceeding a specified amount from the listed company within the last three years, excluding payments that are not of a disqualifying nature (such as compensation for board service, payments arising solely from investments in the listed company s securities, and benefits under a tax-qualified retirement plan). NASDAQ rules impose somewhat more stringent independence requirements on persons who serve as members of the audit committee or the compensation committee of a listed company.

Of the thirteen persons who currently serve on our Board of Directors, we believe that Messrs. Adams, Adcock, Ashley, Bruns, Buckheim, Engelkes, Hinkle, Lieblong and Longe are independent for purposes of NASDAQ rules. Messrs. Allison, French, Mayor and Sims are not considered independent because they are officers of Home BancShares. The Board has also determined that no member of the Audit Committee, Compensation Committee or Nominating and Corporate Governance Committee has any material relationship with the Company (either directly or indirectly as a partner, shareholder or officer of an organization that has a relationship with the Company) and that all members of these committees meet the criteria for independence under the NASDAQ listing standards.

Board Structure and Role in Risk Oversight

The Board of Directors has since 2009 separated the positions of Chairman and Chief Executive Officer (CEO). The primary purpose of installing a separate CEO in addition to the Chairman was to facilitate and strengthen the succession of management of the Company. This separation of Chairman and CEO also allows for greater oversight of the Company by the Board. The Board is actively involved in oversight of risks that could affect the Company. This oversight is conducted primarily through committees of the Board, as disclosed in the description of each of the committees below and in the charters of each of the committees, but the full Board has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee s considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Company.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers, and employees. We believe our Code of Ethics is reasonably designed to deter wrongdoing and to promote honest and ethical conduct, including the ethical handling of conflicts of interest, full, fair and accurate disclosure in filings and other public communications made by us, compliance with applicable laws, prompt internal reporting of ethics violations, and accountability for adherence to the Code of Ethics. This Code of Ethics is published in its entirety on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents. We will post on our website any amendment to this code and any waivers of any provision of this code made for the benefit of any of our senior executive officers or directors.

BOARD MEETINGS AND COMMITTEES OF THE BOARD

The business of the Company is managed under the direction of the Board of Directors, who meet on a regularly scheduled basis during the calendar year to review significant developments affecting the Company and to act on matters that require Board approval. Special meetings are also held when Board action is required on matters arising between regularly scheduled meetings. Written consents to action without a meeting may be obtained if the Company deems it more appropriate.

All members of the Board are strongly encouraged to attend each meeting of the Board and meetings of the Board Committees on which they serve, as well as the Annual Meeting. The Board of Directors held four regularly scheduled meetings and no special meetings during calendar year 2014. During this period each Board member who served as a director during 2014 participated in at least 75% of the aggregate of the meetings of the Board and the committees on which the director served. In addition, all of the current Board members, excluding Thomas J. Longe, who was appointed to the Board in October 2014, attended the Company s Annual Meeting in 2014. Our Director Attendance Policy is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

Our Board of Directors has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Asset/Liability Committee. Committee members are elected annually by the Board and serve until their successors are elected and qualified or until their earlier resignation or removal.

The following table discloses the Board members who serve on each of the Board s committees and the number of meetings held by each committee during calendar year 2014.

Committees of the Board

	Audit	**Compensation**	**Nominating and Corporate Governance**	**Asset/Liability**
Milburn Adams	X	X		
Robert H. Adcock, Jr.	X		X	X
John W. Allison				X
Richard H. Ashley		X		X
Dale A. Bruns		Chair	X	X
Richard A. Buckheim		X		
Jack E. Engelkes	Chair	X		
James G. Hinkle	X			
Alex R. Lieblong	X		Chair	
Thomas J. Longe(1)	X		X	
Randy E. Mayor				Chair
C. Randall Sims				X
Number of Meetings	**5**	**1**	**2**	**4**

(1) Mr. Longe was appointed to the Audit Committee and the Nominating and Corporate Governance Committee on January 16, 2015.

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibility relating to the integrity of our accounting and financial reporting processes and our financial statements, our compliance with legal and regulatory requirements, the independent auditor s qualifications and independence, and the performance of our internal audit function and our independent auditors. In fulfilling its duties, the Audit Committee, among other things:

- prepares the Audit Committee report for inclusion in the annual proxy statement;

- appoints, compensates, retains and oversees the independent auditors;

- pre-approves all auditing and appropriate non-auditing services performed by the independent auditor;

discusses with the internal and independent auditors the scope and plans for their respective audits;

reviews the results of each quarterly review and annual audit by the independent auditors;

reviews the Company s financial statements and related disclosures in the Company s quarterly and annual reports prior to filing with the SEC;

reviews the Company s policies with respect to risk assessment and risk management;

- reviews the Company s internal controls, the results of the internal audit program, and the Company s disclosure controls and procedures and quarterly assessment of such controls and procedures;
- establishes procedures for handling complaints regarding accounting, internal accounting controls, and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding such matters; and
- reviews the Company s legal and regulatory compliance programs.

The Board of Directors has adopted a written charter for the Audit Committee that meets the applicable standards of the SEC and NASDAQ. A copy of the Audit Committee Charter is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

The Audit Committee is comprised of Jack E. Engelkes, Chairman, Milburn Adams, Robert H. Adcock, Jr., James G. Hinkle, Thomas J. Longe and Alex R. Lieblong. The Board has determined that each member of the Committee satisfies the independence requirements of the NASDAQ listing standards, that each member of the Committee is financially literate, knowledgeable and qualified to review financial statements, and that Mr. Engelkes has the attributes of an audit committee financial expert as defined by the regulations of the SEC.

Compensation Committee

The Compensation Committee aids the Board in discharging its responsibility with respect to the compensation of our executive officers and directors. The Compensation Committee is responsible for evaluating and approving the Company s compensation plans and policies and for communicating the Company s compensation policies to shareholders in our annual proxy statement. In fulfilling its duties, the Compensation Committee, among other things:

- reviews and approves corporate goals and objectives relevant to the compensation of our CEO;
- evaluates the performance and determines the annual compensation of the CEO in accordance with these goals and objectives;
- reviews and approves the amounts and terms of the annual compensation for our other executive officers;
- reviews and approves employment agreements, severance agreements or arrangements, retirement arrangements, change in control agreements/provisions and special supplemental benefits for the executive officers;
- reviews and makes recommendations to the Board with respect to incentive based compensation plans and equity based plans, and establishes criteria for and grants awards to participants under such plans;
- reviews and recommends to the Board the compensation for our directors; and

reviews and recommends to the Board that the Compensation Discussion and Analysis be included in the annual proxy statement and Form 10-K annual report.

The Board of Directors has adopted a written charter for the Compensation Committee that meets the applicable standards of the SEC and NASDAQ. The Compensation Committee Charter is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

The Compensation Committee is comprised of Dale A. Bruns, Chairman, Milburn Adams, Richard H. Ashley, Richard A. Buckheim and Jack E. Engelkes. The Board has determined that each member of the Committee satisfies the independence requirements of the NASDAQ listing standards and Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee charter authorizes the Committee to delegate to subcommittees of the Committee any responsibility the Committee deems necessary or appropriate. The Committee shall not, however, delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

The Chairman, after consulting with executive officers and others, makes recommendations to the Committee regarding the form and amount of compensation paid to each executive officer. Additionally, the Chairman, the CEO and our Chief Financial Officer (CFO) attend the Committee meetings and answer questions and provide information to the Committee as requested. This normally includes a history of the primary compensation components for each executive officer, including an internal pay equity analysis. The Committee then considers the recommendations of the Chairman, the information provided by the CEO and CFO, historical compensation of each executive, and other factors. Based on this information, the Committee sets the compensation for the executive officers, except for the Chairman, CEO and CFO, which it recommends to the Board of Directors. The executive officers do not make any recommendations with regard to director compensation. Although the executive officers are involved in the process of evaluating compensation, including their own, the final decision is made by the Committee or the Board. The Committee understands the inherent conflict in obtaining information from the Chairman and executive officers, but believes that this information is valuable in determining the appropriate compensation. The CEO is not present during the Committee s deliberations or voting regarding his compensation.

Historically, the Committee meets subsequent to year end to finalize discussion regarding the Company s performance goals for the previous and current year with respect to performance-based compensation to be paid to executive officers and to approve its report for the annual proxy statement. These goals are approved within 90 days of the beginning of the year. Each year in December and/or January, the Committee generally discusses any new compensation issues, the compensation, bonus and incentive plan award analyses and the engagement of a compensation consultant for annual executive and director compensation. The Committee also meets in December and/or January to:

1. review and discuss the recommendations made by the Chairman;

2. review the performance of the Company and the individual officers;

3. review the level to which the Company s performance goals were attained and approve short-term cash bonus and long-term incentive awards; and

4. determine the executive officers base salaries for the following year.

Management also advises the full Board, including the Committee members, throughout the year of new issues and developments regarding executive compensation.

Compensation Committee Interlocks And Insider Participation

During 2014, Messrs. Bruns, Adams, Ashley, Buckheim and Engelkes served as members of the Compensation Committee. None of these five directors during 2014 or at any previous time served as an officer or employee of Home BancShares or our bank subsidiary. During 2014, none of our executive officers served as a director or member of the compensation committee (or group performing equivalent functions) of any other entity for which any of our independent directors served as an executive officer. *See* CERTAIN RELATIONSHIPS AND RELATED

TRANSACTIONS for information concerning transactions during 2014 involving Mr. Ashley.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee develops and maintains the corporate governance policies of the Company. The Committee s responsibilities include, among other things:

developing and maintaining the Company s corporate governance policies;

- identifying, screening and recruiting qualified individuals to become Board members;
- making recommendations regarding the composition of the Board and its committees;
- assisting the Board in assessing the Board s effectiveness;
- assisting management in preparing the disclosures regarding the Committee s operation to be included in the Company s annual proxy statement; and
- reviewing and approving all related party transactions required to be disclosed in our annual proxy statement.

The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee that meets the applicable standards of the SEC and NASDAQ. The Nominating and Corporate Governance Committee Charter is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

The Nominating and Corporate Governance Committee is comprised of Alex R. Lieblong, Chairman, Robert H. Adcock, Jr., Dale A. Bruns and Thomas J. Longe. The Board has determined that all members of the Committee satisfy independence requirements of the NASDAQ listing standards. The Nominating and Corporate Governance Committee met on January 16, 2015, to select director nominees to be voted on at the Annual Meeting.

Director Candidate Qualifications

The Nominating and Corporate Governance Committee Directorship Guidelines and Selection Policy outlines the qualifications the Committee looks for in a director nominee. Generally, the candidate should possess:

- relevant business and financial expertise and experience, including an understanding of fundamental financial statements;
- the highest character and integrity and a reputation for working constructively with others;
- sufficient time to devote to meetings and consultation on Board matters; and
- freedom from conflicts of interest that would interfere with performance as a director.

More specifically, the Nominating Committee seeks candidates who possess various qualifications, skills, or other factors it deems appropriate. These factors may include leadership experience in business or other relevant fields, knowledge of the Company and the financial services industry, experience in serving as a director of another financial institution or public company generally, education, wisdom, integrity, analytical ability, familiarity with and participation in the communities served by the Company and its subsidiaries, commitment to and availability for services as a director, and any other factors the Committee deems relevant.

Director Nominations Process

After assessing and considering prevailing business conditions of the Company, legal and listing standard requirements for Board composition, the size and composition of the current Board, and the skills and experience of current Board members, any of the Chairman, the Nominating Committee or any Board member may identify the need to add a Board member or to fill a vacancy on the Board. The Committee identifies qualified director nominees from among persons known to the members of the Committee, by reputation or otherwise, and through referrals from trusted sources, including senior management, existing Board members, shareholders and independent consultants hired for such purpose. The Committee may request that senior officers of the Company assist the Committee in identifying and assessing prospective candidates who meet the criteria established by the Board. The Committee will consider director candidates recommended by shareholders in accordance with the procedures set forth in the Company s policy regarding director recommendations by shareholders. This policy is described above under the caption Can a Shareholder Nominate a Director? and is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents. The Committee intends to evaluate any candidate recommended by a shareholder in the same manner in which it evaluates candidates recommended by other sources, according to the criteria described below.

The Nominating Committee evaluates candidates based upon the candidate s qualifications, recommendations, or other relevant information, including a personal interview. The Nominating Committee has determined that the Board as a whole must have the right diversity, mix of characteristics and skills for the optimal functioning of the Board in its oversight of the Company. The Board believes it should be comprised of persons with skills in areas such as banking, finance, accounting, sales and marketing, law, strategic planning and leadership of large, complex organizations. The Nominating Committee prefers a mix of background and experience among the Board s members but does not follow any ratio or formula to determine the appropriate mix. Rather, it uses its judgment to identify nominees whose backgrounds, attributes and experiences, taken as a whole, will contribute to the high standards of Board service to the Company.

In addition to the targeted skill areas, the Nominating Committee looks for a strong record of achievement in key knowledge areas that it believes are critical for directors to add value to a Board including:

- Strategy knowledge of the Company s business model, the formulation of corporate strategies, knowledge of key competitors and banking markets;

- Leadership skills in coaching senior executives and the ability to assist in their development;

- Organizational issues understanding of strategy implementation, management processes, group effectiveness and organizational design;

- Relationships understanding how to interact with investors, regulatory bodies, and communities in which the Company operates;

- Functional understanding of finance matters, financial statements and auditing procedures, technical expertise, legal issues, information technology and marketing; and

- Ethics the ability to identify and raise key ethical issues concerning the activities of the Company and senior management as they affect the business community and society.

The Committee meets to consider and approve the candidates to be presented to the Board. The Committee then presents its proposed nominees to the full Board. The Board considers the recommendations of the Committee and approves candidates for nomination.

The Nominating and Corporate Governance Committee Directorship Guidelines and Selection Policy is published on our website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.

Asset/Liability Committee

Our Asset/Liability Committee consists of Randy E. Mayor, Chairman, Robert H. Adcock, Jr., John W. Allison, Richard H. Ashley, Dale A. Bruns and C. Randall Sims. The Asset/Liability Committee meets quarterly and is primarily responsible for:

- development and control over the implementation of liquidity, interest rate and market risk management policies;

- review of interest rate movements, forecasts, and the development of the Company s strategy under specific market conditions; and

- continued monitoring of the overall asset/liability structure of our bank subsidiary to minimize interest rate sensitivity and liquidity risk.

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DIRECTOR COMPENSATION

The following table sets forth elements of compensation awarded to or paid by us to our non-employee directors during the fiscal year ended December 31, 2014:

Director Compensation Table

Name	Fees earned or paid in cash(1)	Stock awards(2)	Option awards	Non-equity incentive plan compensation	Change in pension value and nonqualified compensation earnings	All other compensation	Total
Milburn Adams	$ 31,883						$ 31,883
Robert H. Adcock, Jr.	30,950						30,950
Richard H. Ashley	89,599						89,599
Dale A. Bruns	74,874						74,874
Richard A. Buckheim	40,350						40,350
Jack E. Engelkes	75,840						75,840
James G. Hinkle	25,800						25,800
Alex R. Lieblong	19,000						19,000
Thomas J. Longe	8,575						8,575

(1) Includes Company Board of Directors and committee retainers and fees, subsidiary bank director fees, subsidiary bank advisory board fees and subsidiary bank committee fees.

(2) As of December 31, 2014, each of our non-employee directors, except Mr. Longe, held 1,333 restricted shares of our common stock and the following aggregate number of outstanding options to acquire our common stock: Mr. Ashley, 2,376; Mr. Bruns, 20,475; Mr. Buckheim, 2,376; Mr. Engelkes, 7,365; Mr. Hinkle, 2,376; and Mr. Lieblong, 13,068. Mr. Longe held no restricted shares of our common stock as of December 31, 2014. Mr. Adams, Mr. Adcock and Mr. Longe each held no options to acquire our common stock as of December 31, 2014.

During 2014, we paid each of our non-employee directors and our Chairman an annual retainer of $8,000. The chairmen of the holding company Audit and Compensation Committees received an additional annual retainer of $2,500 and $625, respectively. We paid each of our non-employee directors $2,000 for each meeting of the holding company Board attended and our Chairman of the Board $4,000 for each holding company Board meeting attended during 2014. Directors serving on the holding company Audit or Compensation Committees received $400 and $1,000, respectively ($800 and $2,000 for the chairman, respectively), for each meeting attended of those committees. Directors serving on other holding company Board committees received $250 ($500 for the chairman) for each meeting attended of those other committees. Only our non-employee directors and our Chairman of the Board received committee attendance fees during 2014.

The compensation paid to our Chairman of the Board and our other employee directors is included in the Compensation Discussion & Analysis and the related executive compensation tables in this Proxy Statement.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Banking Transactions. Most of our directors and officers, as well as the firms and businesses with which they or members of their immediate families are associated, are customers of our bank subsidiary. Our bank subsidiary and former bank subsidiaries have engaged in a variety of loan transactions in the ordinary course of business with individuals and their families and businesses, and it is anticipated that such transactions will occur in the future. In the case of all such related party transactions in 2014, each transaction was approved by either the Audit Committee, the Nominating and Corporate Governance Committee, the Board of Directors or the bank subsidiary s board of directors. These loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable loans with persons not related to us. In the opinion of our management, those loan transactions do not involve more than a normal risk of collectability or present other unfavorable features.

We believe that all extensions of credit by our bank subsidiary to its directors and officers and to directors and officers of the Company, either directly or as guarantors, were made in conformity with the requirements of Federal Reserve Board Regulation O. As of December 31, 2014, the aggregate amount outstanding on these loans, including available borrowings, was approximately $28.0 million, of which approximately $18.5 million was attributable to the largest borrowing relationship. None of these loans are nonaccrual, past due 90 days or more, restructured or potential problems.

Real Estate Transactions. We lease certain of our properties from persons who are affiliated with us. The property used by our Marketing and Sales Department in Conway, Arkansas, is leased from First Real Estate LTD Partnership LLLP, which includes one of our directors, Robert H. Adcock, Jr. Additionally, we lease the land for a banking office in Lakewood Village Shopping Center in North Little Rock, Arkansas, from Conservative Development Company, a corporation controlled, through common ownership, by Richard H. Ashley, who is one of our directors. During 2014, the aggregate payments we made, directly or indirectly, to each of the named persons for the various leases described above were less than $120,000.

Other Transactions. In June 2013, we and an unaffiliated third party purchased an airplane owned by Capital Buyers, a company owned by our Chairman, John W. Allison. In connection with the purchase, we and the third party each agreed to contribute $50,000 annually, and Mr. Allison agreed to contribute $25,000 annually, toward the fixed cost of the plane. Each of us, the third party and Mr. Allison share an aggregate time allotment for use of the plane, split 40%, 40% and 20%, respectively. Any user that goes over its or his time allotment will be billed at a rate of $600 per hour. We also entered into a lease agreement with Mr. Allison in June 2013 to lease a hangar for the airplane for an aggregate annual rent of $9,000. During 2014, the aggregate payments we made toward the cost of the plane and for the lease of the hangar described above were less than $120,000.

We believe the terms of each of the agreements above are no less favorable to us than we could have obtained from an unaffiliated third party. We expect we will continue to engage in similar banking and business transactions in the ordinary course of business with our directors, executive officers, principal shareholders and their associates. All proposed related party transactions are presented to the Nominating and Corporate Governance Committee of our Board of Directors for consideration and approval. The Committee approved each of the transactions described above. The Committee does not currently have any formal policies or procedures with respect to its review, approval, or ratification of related party transactions, but considers each related party transaction or proposed related party transaction on a case-by-case basis. According to its charter, the Committee follows the definition of related party transaction provided in the SEC s regulations under the Securities Act of 1933.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Securities and Exchange Act of 1934, as amended, requires each director, officer, and any individual beneficially owning more than 10 percent of the Company s common stock to file reports on Forms 3, 4, and 5 disclosing beneficial ownership and changes in beneficial ownership of the common stock of the Company with the SEC within specified time frames. These specified time frames require the Form 3 s to be filed on or before the effective date of the issuer s registration statement or within 10 days after the person becomes a reporting person. Changes in ownership must be filed on Form 4 within two business days of the transaction. Based solely on information provided to the Company by individual directors and officers, we believe that all our Section 16 filers complied with the filing requirements during the fiscal year, except as follows: One Form 4 reporting one acquisition of 530 shares of common stock by our Controller was not filed timely, and a series of 11 acquisitions of an aggregate of 6,875 shares of common stock by our Chairman through his 401(k) plan in a prior year were inadvertently not reported and subsequently reported on one Form 4 during 2014 upon discovery of the error.

PRINCIPAL SHAREHOLDERS OF THE COMPANY

The following table sets forth certain information as of January 31, 2015, concerning the number and percentage of shares of our common stock beneficially owned by our directors, our named executive officers, and all of our directors and executive officers as a group, and by each person known to us who beneficially owned more than 5% of the outstanding shares of our common stock.

Information in this table is based upon beneficial ownership concepts described in the rules issued under the Securities Exchange Act of 1934. Under these rules, a person is deemed to be a beneficial owner of any shares of our common stock if that person has or shares voting power, which includes the power to vote or direct the voting of the shares, or investment power, which includes the right to dispose or direct the disposition of the shares. Thus, under the rules, more than one person may be deemed to be a beneficial owner of the same shares. A person is also deemed to be a beneficial owner of any shares as to which that person has the right to acquire beneficial ownership within 60 days from January 31, 2015.

Except as otherwise indicated, all shares are owned directly, and the named person possesses sole voting and investment power with respect to his shares. The address for each of our directors and named executive officers is c/o Home BancShares, Inc., 719 Harkrider Street, Suite 100, Conway, Arkansas 72032.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares Outstanding(1)
5% or greater holders:		
John W. Allison(2)(6)	4,687,098	6.86%
T. Rowe Price Associates, Inc.(3)	5,845,483	8.56%
BlackRock, Inc.(4)	4,744,698	6.94%
The Vanguard Group(5)	3,824,806	5.60%
Directors and named executive officers:		
Milburn Adams	63,000	*
Robert H. Adcock, Jr.(7)	891,894	1.31%
Richard H. Ashley(6)(8)	2,384,028	3.49%
Robert F. Birch(6)(9)	208,047	*
Dale A. Bruns(6)(10)	333,457	*
Richard A. Buckheim(6)(11)	107,084	*
Jack E. Engelkes(6)(12)	186,527	*
Tracy M. French(6)(13)	186,066	*
James G. Hinkle(6)(14)	357,376	*
Alex R. Lieblong(6)(15)	1,054,319	1.54%
Thomas J. Longe(16)	5,750	*

Randy E. Mayor[17]	211,901	*
C. Randall Sims[18]	262,946	*
All directors and executive officers as a group (18 persons)[6]	11,041,278	16.16%

* Less than 1%.

(1) The percentage of our common stock beneficially owned was calculated based on 67,642,642 shares of our common stock outstanding as of January 31, 2015. The percentage assumes that the person in each row has exercised all options that are exercisable by that person or group within 60 days of January 31, 2015.

(2) Mr. Allison s address is c/o Home BancShares, Inc., 719 Harkrider Street, Suite 200, Conway, Arkansas 72032. Mr. Allison is also Chairman of the Board of Directors of the Company. Includes 427,680 shares owned by Mr. Allison s spouse, 8,136 shares held in Mr. Allison s IRA, 87,332 shares of restricted stock and 33,664 shares owned by Capital Buyers, a company that is owned by Mr. Allison.
(3) Based on information as of December 31, 2014, obtained from a Schedule 13G/A filed with the SEC on or about February 10, 2015, by T. Rowe Price Associates, Inc., located at 100 E. Pratt Street, Baltimore, Maryland 21202 (Price Associates). The foregoing information has been included solely in reliance upon, and without independent investigation of, the disclosures contained in Price Associates Schedule 13G/A. These securities are owned by various individual and institutional investors for which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
(4) Based on information as of December 31, 2014, obtained from a Schedule 13G/A filed with the SEC on or about January 29, 2015, by BlackRock, Inc., located at 40 East 52nd Street, New York, New York 10022 (BlackRock). The foregoing information has been included solely in reliance upon, and without independent investigation of, the disclosures contained in BlackRock s Schedule 13G/A.
(5) Based on information as of December 31, 2014, obtained from a Schedule 13G filed with the SEC on or about February 10, 2015, by Vanguard Group, Inc., located at P.O. Box 2600, V26, Valley Forge, Pennsylvania 19482-2600 (Vanguard). The foregoing information has been included solely in reliance upon, and without independent investigation of, the disclosures contained in Vanguard s Schedule 13G.
(6) Includes shares that may be issued upon the exercise of vested common stock options, as follows: Mr. Allison, 375,761 shares; Mr. Ashley, 2,376 shares; Mr. Birch, 29,651 shares; Mr. Bruns, 4,475 shares; Mr. Buckheim, 2,376 shares; Mr. Engelkes, 7,365 shares; Mr. French, 98,000 shares; Mr. Hinkle, 2,376 shares; Mr. Lieblong, 16,988 shares; and all directors and executive officers as a group, 553,412 shares.
(7) Includes 37,572 shares held in Mr. Adcock s IRA account, 84,160 shares owned by the Robert H. Adcock Trust, 16,494 shares owned by the Carol Adcock Trust, 625,000 shares owned by the RHA 2014 Trust, 125,000 shares owned by the CCA 2014 Trust and 1,666 shares of restricted stock.
(8) Includes 7,422 shares held in Mr. Ashley s IRA, 12,835 shares owned by Mr. Ashley s spouse, 3,701 shares owned by the IRA of Mr. Ashley s spouse, 1,054,618 shares owned by RH Ashley Investments, LLC, 1,234,480 shares owned by Conservative Development Company, a corporation of which Mr. Ashley is president, 1,750 shares owned by Square Associates, LLC, a company of which Mr. Ashley is a partner, 1,666 shares of restricted stock, and 544 shares for which Mr. Ashley is custodian for his children.
(9) Includes 1,379 shares owned by the IRA of Mr. Birch s spouse, 30,148 shares owned by Mr. Birch s 401(k) plan, 8,000 shares of restricted stock, 13 shares held in Mr. Birch s Simple IRA, and 126,630 shared owned by the Bob Birch Trust.
(10) Includes 260,121 shares owned by the Bruns Family Limited Partnership and 1,666 shares of restricted stock.
(11) Includes 1,666 shares of restricted stock.
(12) Includes 200 shares owned by the IRA of Mr. Engelkes spouse, 96,030 shares owned by Mr. Engelkes spouse, 22,360 shares for which Mr. Engelkes is custodian for his children, 1,666 shares of restricted stock, and 2,088 shares held in Mr. Engelkes Simple IRA.
(13) Includes 20,020 shares owned by Mr. French s 401(k) plan, 13,961 shares held in Mr. French s IRA and 15,000 shares of restricted stock.
(14) Includes 338,604 shares owned by the James G. Hinkle Revocable Trust and 1,666 shares of restricted stock.
(15) Includes 637,389 shares that are owned by Key Colony Fund L.P., a hedge fund of which Mr. Lieblong is the managing partner and 1,666 shares of restricted stock.
(16) Includes 4,750 shares owned by Mr. Longe s IRA and 1,000 shares of restricted stock.
(17) Includes 17,832 shares owned by Mr. Mayor s 401(k) plan, 8,000 shares of restricted stock and 30,190 shares held in Mr. Mayor s IRA.
(18) Includes 57,658 shares held in Mr. Sims IRA, 8,000 shares of restricted stock and 16,792 shares owned by Mr. Sims 401(k) plan.

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

The following Compensation Discussion and Analysis provides information regarding the Company s compensation program for our named executive officers. Our named executive officers are our CEO, our CFO and our three other most highly-compensated executive officers, which for 2014 consisted of our Chairman and two regional presidents of our bank subsidiary, one of whom became Chief Executive Officer and President of our bank subsidiary in January 2015. Specific information regarding the compensation paid to each named executive officer during each of the past three years is disclosed in the Summary Compensation Table on page 31 of this proxy statement. The following information includes an overview of our compensation philosophy and guiding principles, the components of our executive compensation, and a more detailed discussion of the compensation of our Chairman and our CEO.

Our compensation program is designed to attract and retain key management for the Company and our bank subsidiary, motivate high performance with a view toward long-term growth and success of the Company, and align management with the interests of our shareholders. Our executive compensation consists of base salary, short-term incentives in the form of annual cash bonus awards, long-term incentives in the form of equity awards under the Company s Amended and Restated 2006 Stock Option and Performance Incentive Plan, retirement and insurance benefit plans and certain perquisites. The short-term incentive awards are closely linked to the Company s or our bank subsidiary s financial performance compared with the Company s or the bank s strategic goals for each year or to the executive s contributions to other operational achievements during the year. Our long-term incentive awards, which may be granted on a fixed basis or a performance basis tied to annual and/or multi-year cumulative performance goals of the Company or our bank subsidiary, encourage the alignment of senior management s goals with those of our shareholders, with the ultimate goal of increasing overall shareholder value. The opportunity to earn annual cash bonus awards and long-term equity awards provides a mix of variable compensation that integrates the Company s short-term and long-term goals, as well as helps to attract and retain executive officers.

Salary payments to our named executive officers during 2014 ranged from $275,000 to $390,000, an increase of 8% to 11% over 2013 base pay for each named executive except our Chairman, John W. Allison, whose salary was unchanged from the prior year. For 2014, we paid annual cash bonuses to each of the named executive officers ranging from 36% to 50% of the executive s 2014 base salary, which represented at or near the maximum annual bonus amount for which each executive was eligible. The 2014 cash bonus awards were based primarily on the officers contributions to our record earnings during 2014 and the completion of our acquisitions of Florida Traditions Bank (Traditions) and Broward Financial Holdings, Inc. (Broward).

The Compensation Committee historically has granted restricted stock and stock options under the Company s Amended and Restated 2006 Stock Option and Performance Incentive Plan to our executive officers in the form of regular and performance-based awards as a means of rewarding the executives for past performance, providing a long-term incentive for future performance and aligning management with the interests of our shareholders. On January 17, 2014, the Committee awarded 40,000 restricted shares of our common stock to Mr. Allison in recognition of his contributions toward our acquisition of Liberty Bancshares, Inc. and 3,000 restricted shares of our common stock to a regional president of our bank subsidiary, Tracy M. French, who was recently appointed CEO and President of our bank subsidiary, for his continued efforts related to our FDIC-assisted acquisitions and our acquisitions of Vision Bank and Premier Bank in 2012. On January 16, 2015, the Committee awarded 60,000 restricted shares of our common stock to Mr. Allison in recognition of his leadership in connection with the Company s financial performance in 2014 and the acquisitions of Traditions and Broward. The Committee also awarded stock options representing 50,000 shares of our common stock to Mr. French for his contributions related to our recent acquisitions and in connection with his elevation to CEO and President of our bank subsidiary. The Committee believes these awards provide a long-term performance incentive and further align the interests of these executive officers with those of our shareholders.

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Overview of Compensation Philosophy and Program

The Compensation Committee, composed entirely of independent directors, administers the Company s executive compensation program. The role of the Committee is to oversee the Company s compensation and benefit plans and policies, administer its stock plans, and review and approve annually all compensation decisions related to the named executive officers and our Board members. The Committee submits its decisions with regard to the Chairman, CEO and CFO to the Board for their ratification.

The Committee recognizes the importance of compensation and performance and seeks to reward performance with cost-effective compensation that aligns employee efforts with the business strategy of the Company and with the interest of the shareholders. The Committee also recognizes that the compensation should assist the Company in attracting and retaining key executives critical to its long-term success.

The following principles guide the Committee:

Compensation levels should be sufficiently competitive to attract and retain key management for the bank and holding company. The Company hires experienced bank executives that have a track record in the market. Competition is strong for these talented and experienced people. The compensation package must be strong and competitive in that market.

Compensation should relate directly to performance and responsibility. Compensation should vary with the performance and responsibility of the individual. It should always be proportional to the contribution to the Company s success.

Short-term incentive compensation should motivate high performance. The Company uses the cash bonus plan to motivate individuals with roles and responsibilities that give them the ability to directly impact the Company s performance and strategic direction. The incentive compensation should not cause the individual to take excessive and unnecessary risks that would threaten the institution.

The Company s Stock Option and Performance Incentive Plan should align management with shareholders interests. Awards of stock options, restricted stock or other forms of long-term compensation should encourage management to focus on the long-term growth and success of the Company. It should provide management with a meaningful stake in the Company and the prospects of a long-term career.

The Committee receives regular updates on our business results from management and reviews the quarterly financial statements and projections to assess whether executive compensation continues to be properly balanced with and supportive of our business objectives. The Committee may also review information, including reported revenue, profit levels, market capitalization and disclosed governance practices, regarding comparably-sized bank holding companies in a peer group to assess our comparative performance and organizational structure. The Committee uses management updates and peer information as tools to evaluate the connection between executive compensation and our performance as a business. This information is reviewed in a subjective manner. There is no implied direct or formulaic linkage between peer information and our compensation decisions. The Committee takes the view that a close connection between compensation and performance objectives encourages our executives to make decisions that will result in significant positive short-term and long-term returns for our business and our shareholders without providing an incentive either to take unnecessary risks or to avoid opportunities to achieve long-term benefits even though they may reduce short-term benefits for the named executive officers, the business or our shareholders.

Based on these reports and assessments, the Committee annually evaluates both the short-term and long-term performance compensation for the named executive officers to ensure alignment with our business objectives. The Committee also works closely with management regarding long-term equity incentives, including performance based equity awards, which emphasize shareholder returns while providing enhanced retention value for key executives.

Benchmarking Against A Peer Group

The Committee in the past has compared total compensation levels for the executive officers to the compensation paid to executives in a peer group. The Committee annually considers the need for a peer analysis and reviews peer compensation as the Committee deems necessary. The Committee did not perform a peer compensation review or engage a compensation consultant during 2014 to advise the Committee on setting the compensation of our executive officers. For 2014, the Committee evaluated and considered the overall performance and achievements of the Company and, for our regional bank presidents, the performance of the bank in each designated region, as well as each executive s individual performance and the Chairman s recommendation for such executive (other than himself).

Consideration of Shareholder Advisory Say-on-Pay Vote

At our Annual Meeting in 2014, the shareholders approved, on an advisory basis, the compensation of our named executive officers for 2013, as disclosed in last year s proxy statement (99.8% of votes cast). We value this endorsement by our shareholders of our executive compensation policies. The Committee has considered the results of this advisory vote on executive compensation, and we have followed the same philosophy in determining our current executive compensation of maintaining competitive executive pay that rewards performance and encourages management to focus on the long-term growth and success of the Company by providing them an equity stake in the Company that aligns their interests with our shareholders. The Company has included in this Proxy Statement a similar proposal providing for an advisory vote to approve the compensation of our executives in accordance with the shareholders recommendation. *See* PROPOSAL TWO ADVISORY (NON-BINDING) VOTE APPROVING EXECUTIVE COMPENSATION.

Components of Compensation

The key elements of the Company s executive compensation program are:

- Base salary
- Short-term incentives (bonuses)
- Long-term incentive compensation (options/restricted stock)
- Retirement and insurance benefit plans
- Certain defined perquisites

The Company tries to determine the proper mix of base, short-term and long-term incentive compensation. In our markets there are a number of national, regional and community banks. The competition for experienced executives in banking is strong. The Committee understands that being a public company that can offer equity incentives and a community banking philosophy puts the Company in a competitive position for strong management. The public market for the stock and its easily accessible value is a positive factor in aligning management s interest with that of the shareholders and making them meaningful stakeholders.

Base Salary

Base salaries historically have been targeted at comparable levels for peer companies and adjusted to recognize varying levels of responsibility, individual performance, individual banking region performance if appropriate and internal equity issues. The Committee reviews the base salaries of the executive officers annually. This base salary provides the foundation for a total compensation package that is required to attract, retain and motivate the officers. Generally, base salaries are not directly related to specific measures of performance, but are determined by experience, the scope and complexity of the position, current job responsibilities, and salaries of competing banks. The Committee did not use benchmarking in 2014. In January 2014, the Committee approved base salary increases for 2014 of $25,000 to $30,000, or 8% to 11% of 2012 base salary, for each of our named executives, except Mr. Allison. The Committee granted restricted stock to Mr. Allison partially in lieu of a salary increase for 2014. *See* Compensation of the Chairman for more information regarding the equity awards to Mr. Allison. In January 2015, the Committee approved base salary increases for 2015 of 3% to 16% for our Chairman and the two named executives that serve as executive officers of our bank subsidiary. Mr. French received the largest increase in his base salary in connection with his promotion to CEO and President of the bank, while the Committee reduced the salary of the CEO of the Company to reflect his no longer serving as CEO and President of the bank. The base salary for 2015 for our CFO is unchanged from his 2014 base salary. The salaries to our Chairman, CEO and CFO were approved by the Board.

Short-term Incentives

An annual cash bonus plan is intended to reward individual performance for that year. The Compensation Committee evaluates a number of performance criteria for the Company or the bank and considers the overall profitability of the Company before determining the awards. Specifically, the Committee reviews the individual performance of the officer, and if he or she is in charge of a banking region, the performance of that region. In evaluating a regional bank president, the Committee reviews the goals for that banking region, including return on assets, growth in assets, asset quality, return on equity, gross margin, net income, operating income, net cash flow and regulatory examination results. In evaluating an executive officer of the parent, the Committee reviews the goals of the parent company including shareholder return, earnings per share, and the other criteria noted above. The final consideration is the overall profitability of the Company. The Committee then determines the amount of the awards. In each case, the Committee makes the determination at their discretion as to the issuance and amount of any award.

The Committee awarded annual cash bonuses for 2014 to each of our named executive officers, except our Chairman, in an amount equal to 50% of the executive s 2014 base salary. The Chairman was awarded a cash bonus equal to 36% of his 2014 base salary. These amounts were at or near the maximum bonus award for which each executive was eligible. The awards were based primarily on each executive s contribution to the completion of our acquisitions of Traditions and Broward and the Company s financial performance during 2014, which included record net income and an increase in diluted earnings per share (excluding merger expenses) of $0.43 per share, or 32.3%, for the year ended 2014 when compared to the previous year.

Long-term Incentives

Consistent with the Company s philosophy that favors compensation based upon performance, long-term incentives comprise a significant component of total compensation. In 2012, the Board of Directors adopted and the shareholders approved the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, and key employees, and to encourage those employees to improve our business results. The Plan is administered by our Compensation Committee. Subject to the terms of the Plan, the Committee may select participants to receive awards, determine the types, terms and conditions of awards and interpret provisions of the Plan.

It is the policy of the Committee to award grants with an exercise price set at the fair market value on the date of the grant. The Company does not have a practice of timing option or restricted stock grants to coordinate with the release of material non-public information. The Committee evaluates opportunities under the Plan along with the annual setting of salaries and awarding bonuses. The Committee will also consider awards under the Plan if appropriate in recruiting a new employee.

The Committee uses one or more of the following business criteria, on a consolidated basis and/or with respect to specified banking regions (except with respect to the total shareholder return and earnings per share criteria), in establishing performance goals for awards intended to comply with Section 162(m) of the Internal Revenue Code granted to covered employees:

shareholder return;

return on assets;

- growth in assets;
- asset quality;
- return on equity;
- earnings per share;
- net income; and
- operating income.

Section 162(m) of the Internal Revenue Code places a limit of $1,000,000 on the compensation that publicly held corporations may deduct in any one year with respect to each of its five most highly paid executive officers. There is an exception to the $1,000,000 limitation for performance-based compensation meeting certain requirements. Annual cash incentive compensation and stock option awards are generally performance-based meeting those requirements and, as such, are deductible. The Compensation Committee has not adopted a policy with regard to this issue. The Amended and Restated 2006 Stock Option and Performance Incentive Plan contains certain provisions which are intended to further the Company s eligibility to deduct future performance-based compensation in accordance with Section 162(m).

Historically, the Committee has granted both regular and performance-based nonqualified stock options. Awards granted on a regular (or fixed) basis carry a set vesting schedule based on a certain time period as determined by the Committee. Performance-based awards are payable in recognition of achievement of certain annual and/or cumulative performance goals of the Company or our bank subsidiary based on one or more of the criteria described above over a period of time longer than one year. Under the Amended and Restated 2006 Stock Option and Performance Incentive Plan, the Committee must certify in writing that all of the performance goals and other material terms of a performance-based award have been met before the named executive officer may receive payment for such award. The Committee may confer with the Audit Committee as necessary when confirming achievement of performance goals. The equity awards (both fixed and performance-based) typically have been based on a vesting period of three to five years.

The Committee may also grant restricted stock under the Plan based on the criteria described above. The restricted period for such shares may be subject to the satisfaction of Company or individual performance objectives but may not be less than one year. If the restricted shares are not subject to any such performance objectives, the restricted period may not be less than three years.

The Committee most recently granted performance-based equity awards in August 2012, when the Committee awarded an aggregate of 208,000 restricted shares of our common stock to our executive officers and certain other employees pursuant to the Plan, including 86,000 shares subject to time vesting (Restricted Shares) and 122,000 shares subject to performance-based vesting (Performance Shares). These grants included a total of 32,000 shares awarded to our named executive officers except our Chairman, half of which are Restricted Shares and half of which are Performance Shares. The purpose of these awards was to further align the interests of our named executives and key employees with the interests of our shareholders, to enhance the ability of the Company to attract and retain the best available talent and to encourage the highest level of performance by, and provide additional incentive to, our executives and key employees. The shares awarded had a fair market value on the date of grant of $14.78 per share.

The performance goal for the Performance Shares consisted of a targeted average of $0.3125 diluted earnings per share or cumulative $1.25 diluted earnings per share over a four consecutive quarter period. The Company met this performance goal as of September 30, 2013. In accordance with the terms of the Performance Share awards, these shares will now cliff vest on September 30, 2016, subject to the officer s or employee s continued employment with the Company. The Restricted Shares will cliff vest on August 2, 2015 (the third anniversary of the grant date), subject to the officer s or employee s continued employment with the Company. The shares will become fully vested upon death or disability or upon a change in control of the Company, provided that, in the case of the Performance Shares, the market price of the Company s common stock at the time of the change of control is over $15.00 per share. If, upon a change in control, the market price of the Company s common stock is $15.00 per share or below, vesting of the Performance Shares will be at the Committee s discretion.

On January 17, 2014, the Committee awarded 40,000 restricted shares of our common stock to our Chairman, Mr. Allison, in recognition of his contributions toward our acquisition of Liberty Bancshares, Inc. and 3,000 restricted shares of our common stock to Mr. French for his continued leadership in connection with the integration of our seven FDIC-assisted acquisitions since 2010 as well as our Vision Bank and Premier Bank acquisitions in 2012. The restricted shares to Mr. Allison vest in three equal annual installments beginning on January 17, 2015. The restricted shares to Mr. French will cliff vest on January 17, 2017.

On January 16, 2015, the Committee awarded 60,000 restricted shares of our common stock to Mr. Allison in recognition of his leadership in connection with the Company s financial performance in 2014 and the Company s acquisitions of Traditions and Broward. The Committee also awarded stock options to purchase 50,000 shares of our common stock to Mr. French for his contributions related to our recent acquisitions and in connection with his elevation to CEO and President of our bank subsidiary. The restricted shares to Mr. Allison will cliff vest on January 16, 2018. The stock options to Mr. French will vest in five equal annual installments beginning on January 16, 2016.

Retirement and Insurance Benefits

Post-Termination Benefits. We do not have any employment, salary continuation, or severance agreements currently in effect for any of our executive officers.

Chairman s Retirement Plan. In 2007, our Board of Directors, based on a recommendation by the Compensation Committee, approved a Chairman s Retirement Plan for our Chairman, John W. Allison. The Chairman s Retirement Plan provides a supplemental retirement benefit to Mr. Allison of $250,000 per year for 10 consecutive years or until Mr. Allison s death, whichever occurs later.

The benefits under the plan became 100% vested and commenced on Mr. Allison reaching age 65 in 2011. The vested benefits are payable over 10 years or Mr. Allison s life, whichever is greater. If Mr. Allison dies during the 10 year guaranteed benefit period, his beneficiary will receive the remaining payments due during the guaranteed period. If he dies after the guaranteed benefit period, no further benefits will be paid. The annual benefit will be paid in monthly installments.

Supplemental Executive Retirement Plan. Prior to our acquisition of Community Bank, the bank purchased life insurance policies on its President and Chief Executive Officer, Tracy M. French. The policies offset benefit expenses associated with a supplemental annual retirement benefit that grows on a tax-deferred basis. A portion of the benefit is determined by an indexed formula. The balance of the benefit is determined by crediting interest on the accrued balances. The calculation for the benefit expense accrual is: insurance policy income minus opportunity cost plus interest. The opportunity cost is determined by the bank and is equal to the five year average of the one year Treasury Bill rate. The bank (now Centennial Bank) retains the opportunity cost. Prior to Mr. French s retirement, any earnings in excess of the opportunity costs are accrued to a liability reserve account for his benefit. At retirement, this liability reserve account is amortized with interest and paid out over a period of 15 years. If Mr. French dies while there is a balance in his account, this balance will be paid in a lump sum to Mr. French s beneficiaries.

The life insurance benefit for Mr. French is being provided by an endorsement split dollar life plan. Upon the death of the executive, the death benefit payable is equal to 70% of the net at-risk life insurance portion (total

benefit less cash value) of the policies insuring the life of Mr. French. The bank has all ownership rights in the death benefits and surrender values of the insurance policy on Mr. French. Its obligations under the retirement benefit portion of this policy are unfunded; however, the bank has purchased life insurance policies on Mr. French that are actuarially designed to offset the annual expenses associated with the benefit portion of the policy and will, given reasonable actuarial assumptions, offset all of the cost during Mr. French s lifetime and provide a complete recovery of costs at death.

401(k) Plan. All our full- and part-time employees over the age of 21 are eligible to participate in our 401(k) Plan immediately. We contribute a matching contribution equal to 50% of the participants first 6% of deferred compensation contribution. In addition, we may make a discretionary contribution. No discretionary contributions were made during 2014.

Health and Insurance Benefits. Our full-time officers and employees are provided hospitalization and major medical insurance. We pay a substantial part of the premiums for these coverages. All insurance coverage under these plans is provided under group plans on generally the same basis to all of our full-time employees. Also, we provide other basic insurance coverage including dental, life, and long-term disability insurance.

In 2004, First State Bank (now Centennial Bank) adopted an endorsement split-dollar life insurance plan which provides for the purchase of life insurance policies insuring the life of Mr. Allison. Both the bank and Mr. Allison have an interest in each of the policies, and therefore, this is classified as an endorsement split-dollar plan. Mr. Allison s beneficiaries will be entitled to an amount equal to 50% of the net at-risk insurance portion of the total proceeds. The net at-risk portion is the total proceeds less the cash value of the policy. Mr. Allison recognizes the economic value of this death benefit each year on his individual income tax return. The beneficiaries of the policies are named by Mr. Allison and the bank will receive the remainder of the death benefit. The bank has all ownership rights in the death benefits and surrender values of the policies. The premium paid on June 4, 2004, for the policies was $4.8 million. Effective December 22, 2006, the death benefits payable under these policies split between the bank and Mr. Allison s beneficiaries. If the death benefits were paid in 2015, approximately $8.7 million would be paid to the bank and approximately $2.1 million would be paid to Mr. Allison s beneficiaries.

Perquisites

The Company provided certain perquisites to executive management in 2014. These perquisites included:

401(k) contributions

Country club dues

Gasoline for personal car

As reported	$ 0.90	$ 0.72	$ 2.44	$ 2.15
Pro forma	$ 0.88	$ 0.69	$ 2.37	$ 2.06
Preference share				

As reported	$ 0.92	$ 0.73	$ 2.50	$ 2.19
Pro forma	$ 0.90	$ 0.71	$ 2.42	$ 2.11
Fully diluted net income per:				
Ordinary share				
As reported	$ 0.90	$ 0.72	$ 2.44	$ 2.14
Pro forma	$ 0.88	$ 0.69	$ 2.37	$ 2.06
Preference share				
As reported	$ 0.92	$ 0.73	$ 2.50	$ 2.18
Pro forma	$ 0.90	$ 0.71	$ 2.42	$ 2.10

During the nine months ended September 30, 2003, 614,092 options were granted to employees and no options were granted to board members. As of September 30, 2003, members of the Management Board held 350,824 options and employees held 3,876,059 options. In the first nine months of 2003, 67,952 FMC Rollover Plan options were exercised by employees. In connection therewith, Fresenius AG transferred 22,651 Ordinary shares to employees and remitted approximately $471 to the Company. During the same period, 6,120 Rollover Plan options were canceled. These funds have been accounted for as a capital contribution within additional paid-in capital. During this time no options were exercised or cancelled in the 1996 plan.

During the nine months ended September 30, 2003, no stock options were exercised under FMC 98 Plan 1 or FMC 98 Plan 2. During the same period, 81,551 stock options were cancelled under FMC 98 Plan 1 and 6,872 were cancelled under FMC 98 Plan 2.

No convertible bonds were exercised and 51,040 were cancelled under the 2001 International Stock Incentive Program in the first nine months of 2003.

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The following tables are reconciliations of the numerators and denominators of the basic and diluted earnings per share computations for the three- and nine-month periods ended September 30, 2003 and 2002.

	For the three months ended September 30,	
	2003	**2002**
Numerators:		
Net income	$ 87,320	$ 69,724
less:		
Preference on Preference shares	441	390
Income available to all classes of shares	$ 86,879	$ 69,334
Denominators:		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,188,575	26,188,575
Total weighted average shares outstanding	96,188,575	96,188,575
Potentially dilutive Preference shares	193,642	
Total weighted average shares outstanding assuming dilution	96,382,217	96,188,575
Total weighted average Preference shares outstanding assuming dilution	26,382,217	26,188,575
Basic and fully diluted income per Ordinary share	$ 0.90	$ 0.72
Plus preference per Preference shares	0.02	0.01
Basic and fully diluted income per Preference share	$ 0.92	$ 0.73

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	For the nine months ended September 30,	
	2003	**2002**
Numerators:		
Net income	$ 236,681	$ 207,408
less:		
Preference on Preference shares	1,302	1,089
Income available to all classes of shares	$ 235,379	$ 206,319
Denominators:		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,188,575	26,184,034
Total weighted average shares outstanding	96,188,575	96,184,034
Potentially dilutive Preference shares	82,575	104,987
Total weighted average shares outstanding assuming dilution	96,271,150	96,289,021
Total weighted average Preference shares outstanding assuming dilution	26,271,150	26,289,021
Basic income per Ordinary share	$ 2.44	$ 2.15
Plus preference per Preference shares	0.06	0.04
Basic income per Preference share	$ 2.50	$ 2.19
Fully diluted income per Ordinary share	$ 2.44	$ 2.14
Plus preference per Preference shares	0.06	0.04
Fully diluted income per Preference share	$ 2.50	$ 2.18

12. Pension Plans

During the first quarter of 2002, the Company recorded a gain of approximately $13,100 resulting from the curtailment of the Company s defined benefit and supplemental executive retirement plans. The Company has retained all employee pension obligations as of the closing date for the fully vested and frozen benefits for all employees.

13. Commitments and Contingencies

Commercial Litigation

The Company was formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the Merger) dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant potential liabilities arising out of product-liability related litigation, pre-Merger tax claims and other claims unrelated to NMC, which was Grace s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify the Company, FMCH and NMC against all liabilities of W.R. Grace & Co., whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC s operations.

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W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Grace Chapter 11 Proceedings) on April 2, 2001.

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger could ultimately be the obligation of the Company. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (the Service); W.R. Grace & Co. has received the Service s examination report on tax periods 1993 to 1996; that during those years Grace deducted approximately $122,100 in interest attributable to corporate owned life insurance (COLI) policy loans; that W.R. Grace & Co. has paid $21,200 of tax and interest related to COLI deductions taken in tax years prior to 1993; that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation and that W.R. Grace & Co. is seeking a settlement of the Service s claims. Subject to certain representations made by W.R. Grace & Co., the Company and Fresenius AG, W.R. Grace & Co. and certain of its affiliates agreed to indemnify the Company against this and other pre-Merger and Merger related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.- Conn., and by the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

On February 6, 2003, the Company reached a definitive agreement with the asbestos creditors committees on behalf of the W.R. Grace and Co. bankruptcy estate in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance claims against it and other claims related to the Company that arise out of the bankruptcy of W.R. Grace & Co. Subsequently, the settlement agreement was amended and W.R. Grace was added as a settling party. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and the Company will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, the Company will pay a total of $115,000 to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The U.S. District Court has approved the Settlement Agreement.

Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (formerly known as Grace Holding, Inc.). The Company is engaged in litigation with Sealed Air Corporation (Sealed Air) to confirm the Company s entitlement to indemnification from Sealed Air for all losses and expenses incurred by the Company relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions to the Company s payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the United States District Court for the Northern District of California, *Fresenius USA, Inc., et al., v. Baxter International Inc., et al.*, Case No. C 03-1431, seeking a declaratory judgment that the Company does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against the Company for alleged infringement of Baxter s patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storages, and balance chambers for hemodialysis machines. Baxter has filed counterclaims against the Company seeking monetary damages and

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injunctive relief, and alleging that the Company willfully infringes on the Baxter patents. The Company believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on the Company s business, financial condition, and results of operations.

In November 2003, the Company settled without litigation all claims raised by the final group of insurance companies who had contacted the Company concerning allegations of inappropriate billing practices and misrepresentations. The costs of the settlement will be charged against previously established accruals. See Accrued Special Charge for Legal Matters below.

Other Litigation and Potential Exposures

From time to time, the Company is a party to or may be threatened with other litigation arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company s defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other health care providers, conducts its operations under intense government regulation and scrutiny. The Company must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company s or the manner in which the Company conduct its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence whistle blower actions. By virtue of this regulatory environment, as well as our corporate integrity agreement with the government, the Company expects that its business activities and practices will continue to be subject to extensive review by regulatory authorities and private parties, and expects continuing inquiries, claims and litigation relating to its compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of whistle blower actions, which are initially filed under court seal.

The Company operates many facilities throughout the U.S. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The Company relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, the Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Statute and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the health care industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker s compensation or related claims, many of which involve large claims and significant defense costs. The Company has been subject to these suits due to the nature of its business and the Company expects that those types of lawsuits may continue. Although the Company maintains insurance at a level which it believes to be prudent, the Company cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon the

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Company and the results of its operations. Any claims, regardless of their merit or eventual outcome, also may have a material adverse effect on the Company s reputation and business.

The Company has also had claims asserted against it and has had lawsuits filed against it relating to businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Company has asserted its own claims, and claims for indemnification. Although the ultimate outcome on the Company cannot be predicted at this time, an adverse result could have a material adverse effect upon the Company s business, financial condition, and results of operations.

Accrued Special Charge for Legal Matters

At December 31, 2001, the Company recorded a pre-tax special charge of $258,000 to reflect anticipated expenses associated with the continued defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlement with insurers are charged against this accrual. While the Company believes that its remaining accruals reasonably estimate the Company s currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that the actual costs incurred by the Company will not exceed the amount of these accruals.

14. Financial Instruments

Market Risk

The Company is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage the risk of interest rate and currency exchange rate fluctuations, the Company enters into various hedging transactions with investment grade financial institutions as authorized by the Company s Management Board. The Company does not use financial instruments for trading purposes.

The Company conducts its financial instrument activity under the control of a single centralized department. The Company established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign Exchange Risk Management

The Company conducts business on a global basis in several international currencies, though its operations are mainly in Germany and the United States. For financial reporting purposes, the Company has chosen the U.S. dollar as its reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar, the euro and the local currencies in which the financial statements of the Company s international operations are maintained, affect its results of operations and financial position as reported in its consolidated financial statements. The Company employs, to a limited extent, forward contracts to hedge its currency exposure. The Company s policy is that forward currency contracts and options be used only for the purpose of hedging foreign currency exposure.

The Company s exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lending and borrowings, including intercompany borrowings. The Company sells significant amounts of products from its manufacturing facilities in Germany to its other international operations. In general, the German sales are denominated in euro. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted.

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Changes in the value of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings as a component of cost of revenues, in the same period in which the hedged transaction affects earnings. After tax gains of $3,802 ($5,819 pretax) at September 30, 2003 are deferred in accumulated other comprehensive loss and will be reclassified into earnings over the next 12 months.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges for forecasted intercompany financing transactions are reported in accumulated other comprehensive income. After tax gains of $77,089 ($127,560 pretax) at September 30, 2003 were deferred in accumulated other comprehensive loss and will be reclassified into earnings as a component of the forecasted transactions in the same period as the forecasted transactions affects earnings.

The Company s foreign exchange contracts contain credit risk in that its bank counterparties may be unable to meet the terms of the agreements. The potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties.

Interest Rate Risk Management

The Company enters into derivatives, particularly interest rate swaps, to protect interest rate exposures arising from short-term and long-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments denominated in U.S. dollars into fixed interest rate payments. After tax losses of $52,804 ($88,032 pretax) at September 30, 2003, were deferred in accumulated other comprehensive loss.

The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments denominated in yen into fixed interest rate payments. After tax losses of $219 ($381 pretax) at September 30, 2003, were deferred in accumulated other comprehensive loss.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value at the reporting date.

15. Business Segment Information

The Company has identified three segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in providing kidney dialysis and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. Additionally, the North America segment engages in performing clinical laboratory testing and renal diagnostic services. The Company has aggregated the International and Asia Pacific operating segments as International . The segments are aggregated due to their similar economic characteristics. These characteristics include the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment s controllable revenues and expenses. Management believes that the most appropriate measure in this regard is operating income, referred to as earnings before interest and taxes (EBIT) in previous filings. In addition to operating income, management

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believes that earnings before interest, taxes, depreciation and amortization (EBITDA) is helpful for investors as a measurement of the segment s and the Company s ability to generate cash and to service its financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in the Company s 2003 Senior Credit Agreement and indentures relating to the Company s trust preferred securities. The information in the table below under reconciles EBITDA for each of our reporting segments to operating income, which the Company considers to be the most directly comparable financial measure, calculated in accordance with U.S. GAAP.

EBITDA should not be construed as an alternative to net earnings determined in accordance with generally accepted accounting principles or to cash flow from operations, investing activities or financing activities or as a measure of cash flows.

Approximately 45% of the Company s worldwide revenue is derived from sources subject to regulations under U.S. governmental programs.

Information pertaining to the Company s business segments for the three-and nine-month periods ended September 30, 2003 and 2002 is set forth below:

	North America	International	Corporate	Total
Nine months ended September 30, 2003				
Net revenue external customers	$2,861,889	$1,213,186	$	$4,075,075
Inter-segment revenue	1,244	27,312	(28,556)	
Total net revenue	2,863,133	1,240,498	(28,556)	4,075,075
EBITDA	477,606	248,723	(17,599)	708,730
Depreciation and amortization	(90,134)	(67,373)	(1,476)	(158,983)
Operating income	387,472	181,350	(19,075)	549,747
Segment assets	5,297,788	2,055,567	48,259	7,401,614
Capital expenditures and acquisitions(1)	99,019	121,175	9	220,203
Nine months ended September 30, 2002				
Net revenue external customers	$2,768,079	$ 958,121	$	$3,726,200
Inter-segment revenue	1,172	19,577	(20,749)	
Total net revenue	2,769,251	977,698	(20,749)	3,726,200
EBITDA	471,309	210,516	(11,275)	670,550
Depreciation and amortization	(107,749)	(50,575)	(1,356)	(159,680)
Operating income	363,560	159,941	(12,631)	510,870
Segment assets	5,005,238	1,627,970	32,412	6,665,620
Capital expenditures and acquisitions(2)	143,434	115,514	20	258,968

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	North America	International	Corporate	Total
Three months ended September 30, 2003				
Net revenue external customers	$977,710	$431,731	$	$1,409,441
Inter-segment revenue	372	9,546	(9,918)	
Total net revenue	978,082	441,277	(9,918)	1,409,441
EBITDA	165,865	91,094	(5,900)	251,059
Depreciation and amortization	(29,250)	(24,254)	(492)	(53,996)
Operating income	136,615	66,840	(6,392)	197,063
Capital expenditures and acquisitions	29,039	48,090	3	77,132
Three months ended September 30, 2002				
Net revenue external customers	$947,122	$338,294	$	$1,285,416
Inter-segment revenue	800	5,931	(6,731)	
Total net revenue	947,922	344,225	(6,731)	1,285,416
EBITDA	151,354	72,225	(2,326)	221,253
Depreciation and amortization	(35,916)	(17,753)	(1,029)	(54,698)
Operating income	115,438	54,472	(3,355)	166,555
Capital expenditures and acquisitions	54,984	48,440	2	103,426

(1) North America and International acquisitions exclude $3,956 and $4,107, respectively, of non-cash acquisitions in 2003

(2) International acquisitions exclude $8,026 of non-cash acquisitions in 2002

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	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
R				