

DERMA SCIENCES, INC.  
Form NT 10-K  
April 01, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

SEC FILE NUMBER  
001-13070

**FORM 12b-25**

CUSIP NUMBER  
249827 20 5

**NOTIFICATION OF LATE FILING**

(Check one):       Form 10-K       Form 20-F       Form 11-K       Form 10-Q       Form 10-D       Form N-SAR  
 Form N-CSR  
For the Period Ended: December 31, 2007  
 Transition Report on Form 10-K  
 Transition Report on Form 20-F  
 Transition Report on Form 11-K  
 Transition Report on Form 10-Q  
 Transition Report on Form N-SAR  
For the Transition Period Ended:

If the notification relates to a portion of the filing checked above, identify the Item(s) to which the notification relates:

**PART I REGISTRANT INFORMATION**

**DERMA SCIENCES, INC.**

Full Name of Registrant

Former Name if Applicable

**214 Carnegie Center, Suite 300**

Address of Principal Executive Office (*Street and Number*)

**Princeton, NJ 08540**

City, State and Zip Code

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**PART II RULES 12b-25(b) AND (c)**

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

- (a) The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;
- (b) The subject annual report, semi-annual report, transition report on Form 10-Q, Form 20-F, Form 11-K, Form N-SAR or Form N-CSR, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q or subject distribution report on Form 10-D, or portion thereof, will be filed on or before the fifth calendar day following the prescribed due date; and
- (c) The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

**PART III NARRATIVE**

The Registrant is in the process of finalizing certain financing arrangements which are expected to affect the Registrant's financial statement disclosures. As a result of these factors, the Registrant has been unable to complete and file the subject Form 10-KSB without unreasonable effort and expense.

**PART IV OTHER INFORMATION**

- (1) Name and telephone number of person to contact in regard to this notification.

John E. Yetter, CPA (609) 514-4744

- (2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If answer is no, identify report(s). Yes  No

- (3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof? Yes  No

If so, attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

For the year ended December 31, 2007 the Registrant expects to report net sales of \$34,135,401 (an increase of 22.4% over 2006), cost of sales of \$22,530,986 (an increase of 23.6% over 2006), expenses of \$13,626,986 (an increase of 53.7% over 2006) and a net loss of \$2,284,605 (versus income of \$668,739 in 2006).

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DERMA SCIENCES, INC.  
(Name of Registrant as Specified in Charter)

has caused this notification to be signed on its behalf by the undersigned hereunto duly authorized,

Date March 31, 2008

By: /s/ John E. Yetter  
John E. Yetter, CPA  
Vice President and Chief Financial Officer

>\$49,928,266 \$(61,782) \$329,625 \$(180) \$50,257,891 \$(61,962)

**Available-for-sale**

U.S. government agencies and corporations

\$83,092,691 \$(172,309) \$ \$ 83,092,691 \$(172,309)

Obligations of states and political subdivisions

198,730 (2) 198,730 (2)

\$83,291,421 \$(172,311) \$ \$ 83,291,421 \$(172,311)

Investment securities with a carrying amount of approximately \$612,200,000 and \$622,800,000 were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at December 31, 2012 and 2011, respectively.

Accounting guidance under FASB ASC Topic 320, *Investments - Debt and Equity Securities*, requires a write-down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not that the entity will be required to sell the security before recovery, an other than temporary impairment ( OTTI ) write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income.

For the years ended December 31, 2012 and 2011, the unrealized losses on the Company's investments in U.S. government agencies and corporations and in obligations of states and political subdivisions were caused by interest rate increases. The fair values of the investments are expected to recover as the securities approach their maturity dates or if market yields for such investments decline. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of December 31, 2012 and 2011, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2012 and 2011, since it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, management believes the impairments are temporary.

**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 5: Loans and allowance for loan losses**

Loans consisted of the following at December 31:

	<b>2012</b>	<b>2011</b>
	<b>(Dollars in thousands)</b>	
Real estate:		
Residential 1-4 family (1)	\$ 367,251	\$ 334,410
Non-farm/non-residential	778,303	741,231
Construction/land development	208,523	209,135
Agricultural	41,527	45,288
Multifamily residential	120,104	110,861
Commercial and industrial	245,007	255,210
Consumer	43,568	42,249
Other	38,893	44,512
 Total Loans	 \$ 1,843,176	 \$ 1,782,896

(1) Includes residential mortgage loans held for sale of \$15,099,000 and \$10,890,000 at December 31, 2012 and 2011, respectively. Nonaccrual loans consisted of the following at December 31:

	<b>2012</b>	<b>2011</b>
	<b>(Dollars in thousands)</b>	
Real estate:		
Residential 1-4 family	\$ 2,423	\$ 2,773
Non-farm/non-residential	7,703	20,441
Construction/land development	2,035	12,870
Agricultural		103
Multifamily residential	1,122	404
Commercial and industrial	204	5,274
Consumer	129	107
Other		1,243
 Total Nonaccrual Loans	 \$ 13,616	 \$ 43,215

Summarized below are the transactions in allowance for loan losses:

<b>2012</b>	<b>2011</b>	<b>2010</b>
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	(Dollars in thousands)		
Balance beginning of year	\$ 34,280	\$ 26,284	\$ 30,210
Provision for loan losses	15,000	18,000	22,000
Net charge-offs:			
Charge-offs (deductions)	(18,003)	(10,590)	(26,689)
Recoveries	2,326	586	763
	(15,677)	(10,004)	(25,926)
Balance end of year	\$ 33,603	\$ 34,280	\$ 26,284

The tables on pages F-38 and F-39 are a summary of the Company's allowance for loan losses and recorded investment in loans by principal loan category and a summary of credit quality indicators for the Company's loans by principal loan category for the years ended December 31, 2012 and 2011.

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012, 2011 and 2010

**Note 5: Loans and allowance for loan losses (continued)****Allowance for Loan Losses ( ALL ) and Recorded Investment in Loans****December 31, 2012**

	Residential 1-4 Family	Non-farm/ Non- Residential	Real Estate Construction/ Land Development	Agricultural	Multi- Family Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
<b>Allowance for loan losses:</b>										
Beginning balance	\$ 4,534	\$ 14,963	\$ 5,219	\$ 108	\$ 676	\$ 4,676	\$ 339	\$	\$ 3,765	\$ 34,280
Charge-offs	(935)	(3,489)	(4,292)	(13)	(782)	(6,962)	(287)	(1,243)		(18,003)
Recoveries	1,975	114	49		4	49	59	76		2,326
Provisions	(1,528)	(196)	3,070	736	257	8,498	237	1,167	2,759	15,000
Ending balance	\$ 4,046	\$ 11,392	\$ 4,046	\$ 831	\$ 155	\$ 6,261	\$ 348	\$	\$ 6,524	\$ 33,603
<b>Ending balance:</b>										
ALL for individually evaluated impaired loans	\$ 169	\$ 7,973	\$ 1,132	\$	\$	\$ 2,996	\$	\$	\$	\$ 12,270
Ending balance: ALL for all other loans	3,877	3,419	2,914	831	155	3,265	348		6,524	21,333
Ending balance	\$ 4,046	\$ 11,392	\$ 4,046	\$ 831	\$ 155	\$ 6,261	\$ 348	\$	\$ 6,524	\$ 33,603
<b>Loans:</b>										
Ending balance: individually evaluated impaired loans	\$ 960	\$ 46,550	\$ 10,438	\$	\$ 1,053	\$ 6,151	\$	\$	\$	\$ 65,152
Ending balance: all other loans	366,291	731,753	198,085	41,527	119,051	238,856	43,568	38,893		1,778,024
	\$ 367,251	\$ 778,303	\$ 208,523	\$ 41,527	\$ 120,104	\$ 245,007	\$ 43,568	\$ 38,893	\$	\$ 1,843,176

**Credit Quality Indicators**

	Residential 1-4 Family	Non-farm/ Non- Residential	Real Estate Construction/ Land Development	Agricultural	Multi- Family Residential	Commercial and Industrial	Consumer	Other	Total
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(Dollars in thousands)

<b>Credit quality indicators:</b>									
Satisfactory	\$ 348,382	\$ 683,298	\$ 157,179	\$ 37,130	\$ 114,950	\$ 225,440	\$ 42,939	\$ 38,893	\$ 1,648,211
Watch	9,420	43,739	40,099	1,106	4,253	11,986	245		110,848
Substandard	9,449	51,266	11,245	3,291	901	7,581	384		84,117
<b>Total loans</b>	<b>\$ 367,251</b>	<b>\$ 778,303</b>	<b>\$ 208,523</b>	<b>\$ 41,527</b>	<b>\$ 120,104</b>	<b>\$ 245,007</b>	<b>\$ 43,568</b>	<b>\$ 38,893</b>	<b>\$ 1,843,176</b>

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012, 2011 and 2010

**Note 5: Loans and allowance for loan losses (continued)****Allowance for Loan Losses ("ALL") and Recorded Investment in Loans****December 31, 2011**

	Residential 1-4 Family	Real Estate Non-farm/ Non- Residential	Construction/ Land Development	Agricultural	Multi- Family Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
(Dollars in thousands)										
<b>Allowance for loan losses:</b>										
Beginning balance	\$ 5,575	\$ 5,667	\$ 3,668	\$ 294	\$ 1,072	\$ 4,910	\$ 476	\$	\$ 4,622	\$ 26,284
Charge-offs	(2,317)	(2,001)	(1,763)	(397)	(196)	(3,101)	(519)	(296)		(10,590)
Recoveries	209	80	129	44	11	35	48	30		586
Provisions	1,067	11,217	3,185	167	(211)	2,832	334	266	(857)	18,000
Ending balance	\$ 4,534	\$ 14,963	\$ 5,219	\$ 108	\$ 676	\$ 4,676	\$ 339	\$	\$ 3,765	\$ 34,280
Ending balance:										
ALL for individually evaluated impaired loans	\$	\$ 10,825	\$ 4,239	\$	\$	\$ 250	\$	\$	\$	\$ 15,314
Ending balance:										
ALL for all other loans	4,534	4,139	980	108	676	4,425	339		3,765	18,966
Ending balance	\$ 4,534	\$ 14,964	\$ 5,219	\$ 108	\$ 676	\$ 4,675	\$ 339	\$	\$ 3,765	\$ 34,280
<b>Loans:</b>										
Ending balance:										
individually evaluated impaired loans	\$	\$ 39,955	\$ 30,335	\$	\$	\$ 250	\$	\$	\$	\$ 70,540
Ending balance: all other loans										
	334,410	701,276	178,800	45,288	110,861	254,960	42,249	44,512		1,712,356
	\$ 334,410	\$ 741,231	\$ 209,135	\$ 45,288	\$ 110,861	\$ 255,210	\$ 42,249	\$ 44,512	\$	\$ 1,782,896

**Credit Quality Indicators**

	Residential 1-4 Family	Real Estate Non-farm/ Non- Residential	Construction/ Land Development	Agricultural	Multi- Family Residential	Commercial and Industrial	Consumer	Other	Total
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(Dollars in thousands)

**Credit quality indicators:**

Satisfactory	\$ 315,791	\$ 624,883	\$ 155,890	\$ 39,878	\$ 105,035	\$ 213,999	\$ 41,557	\$ 43,269	\$ 1,540,302
Watch	10,864	68,365	21,250	5,305	3,898	35,781	230		145,693
Substandard	7,755	47,983	31,995	105	1,928	5,430	462	1,243	96,901
Total loans	\$ 334,410	\$ 741,231	\$ 209,135	\$ 45,288	\$ 110,861	\$ 255,210	\$ 42,249	\$ 44,512	\$ 1,782,896

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 5: Loans and allowance for loan losses (continued)**

The following categories of credit quality indicators are used by the Company:

**Satisfactory** Loans in this category are considered to be a satisfactory credit risk and are generally considered to be collectible in full.

**Watch** Loans in this category are presently protected from apparent loss, however, weaknesses exist which could cause future impairment of repayment of principal and interest.

**Substandard** Loans in this category are characterized by deterioration in quality exhibited by a number of weaknesses requiring corrective action and posing some risk of loss.

The following is a summary of impaired loans as of and for the year ended December 31, 2012:

	Total Recorded Investment	Unpaid Contractual Principal Balance	Allocation of Allowance for Loan Losses	Average Recorded Investment
<b>(In thousands)</b>				
<b>Loans with a specific valuation allowance</b>				
Real Estate:				
Residential 1-4 family	\$ 960	\$ 960	\$ 169	\$ 965
Non farm/Non residential	32,695	32,695	7,973	32,658
Construction/land development	8,613	8,613	1,132	7,889
Agricultural				
Multifamily residential				
Commercial & Industrial	6,151	6,151	2,996	9,621
Consumer				
Other				
Total loans with a specific valuation allowance	48,419	48,419	12,270	51,133
<b>Loans without a specific valuation allowance</b>				
Real Estate:				
Residential 1-4 family				
Non farm/Non residential	13,855	13,855		13,855
Construction/land development	1,825	1,825		1,825
Agricultural				
Multifamily residential	1,053	1,053		1,053
Commercial & Industrial				
Consumer				
Other				
	16,733	16,733		16,733

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Total loans without a specific valuation allowance

**Total Impaired Loans**

Real Estate:

Residential 1-4 family	960	960	169	965
Non farm/Non residential	46,550	46,550	7,973	46,513
Construction/land development	10,438	10,438	1,132	9,714

Agricultural

Multifamily residential	1,053	1,053		1,053
Commercial & Industrial	6,151	6,151	2,996	9,621

Consumer

Other

Total impaired loans	\$ 65,152	\$ 65,152	\$ 12,270	\$ 67,866
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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 5: Loans and allowance for loan losses (continued)**

The following is a summary of impaired loans as of and for the year ended December 31, 2011:

	Total Recorded Investment	Unpaid Contractual Principal Balance	Allocation of Allowance for Loan Losses	Average Recorded Investment
(In thousands)				
<b>Loans with a specific valuation allowance</b>				
Real Estate:				
Residential 1-4 family	\$	\$	\$	\$
Non farm/Non residential	36,206	36,206	10,825	31,069
Construction/land development	8,561	8,561	4,239	8,659
Agricultural				
Multifamily residential				
Commercial & Industrial	250	250	250	125
Consumer				
Other				
<b>Total loans with a specific valuation allowance</b>	<b>45,017</b>	<b>45,017</b>	<b>15,314</b>	<b>39,853</b>
<b>Loans without a specific valuation allowance</b>				
Real Estate:				
Residential 1-4 family				
Non farm/Non residential	3,749	3,749		3,749
Construction/land development	21,774	21,774		21,774
Agricultural				
Multifamily residential				
Commercial & Industrial				
Consumer				
Other				
<b>Total loans without a specific valuation allowance</b>	<b>25,523</b>	<b>25,523</b>		<b>25,523</b>
<b>Total Impaired Loans</b>				
Real Estate:				
Residential 1-4 family				
Non farm/Non residential	39,955	39,955	10,825	34,818
Construction/land development	30,335	30,335	4,239	30,433
Agricultural				
Multifamily residential				
Commercial & Industrial	250	250	250	125
Consumer				
Other				

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Total impaired loans	\$ 70,540	\$ 70,540	\$ 15,314	\$ 65,376
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Interest income recognized on impaired loans was not significant during the years ended December 31, 2012 and 2011.

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 5: Loans and allowance for loan losses (continued)**

The following is an aging analysis of past due loans at December 31, 2012:

	<b>30-89 Days Past Due (1)</b>	<b>Greater than 90 Days (2)</b>	<b>Total Past Due (Dollars in thousands)</b>	<b>Current (3)</b>	<b>Total Loans</b>
<b>Real Estate:</b>					
Residential 1-4 family	\$ 4,664	\$ 2,427	\$ 7,091	\$ 360,160	\$ 367,251
Non-farm/non-residential	4,060	3,059	7,119	771,184	778,303
Construction/land development	485	214	699	207,824	208,523
Agricultural				41,527	41,527
Multifamily residential		1,122	1,122	118,982	120,104
Commercial and industrial	417	193	610	244,397	245,007
Consumer	324	116	440	43,128	43,568
Other	94		94	38,799	38,893
<b>Total</b>	<b>\$ 10,044</b>	<b>\$ 7,131</b>	<b>\$ 17,175</b>	<b>\$ 1,826,001</b>	<b>\$ 1,843,176</b>

(1) Includes \$44,000 of loans on nonaccrual status.

(2) Includes \$7,037,000 of loans on nonaccrual status.

(3) Includes \$6,533,000 of loans on nonaccrual status.

The following is an aging analysis of past due loans at December 31, 2011:

	<b>30-89 Days Past Due (4)</b>	<b>Greater than 90 Days (5)</b>	<b>Total Past Due (Dollars in thousands)</b>	<b>Current (6)</b>	<b>Total Loans</b>
<b>Real Estate:</b>					
Residential 1-4 family	\$ 4,237	\$ 1,889	\$ 6,126	\$ 328,284	\$ 334,410
Non-farm/non-residential	4,531	12,733	17,264	723,967	741,231
Construction/land development	358	12,831	13,189	195,946	209,135
Agricultural		103	103	45,185	45,288
Multifamily residential	1,520	404	1,924	108,937	110,861
Commercial and industrial	3,627	971	4,598	250,612	255,210
Consumer	556	93	649	41,600	42,249
Other	1,243		1,243	43,269	44,512



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Total	\$ 16,072	\$ 29,024	\$ 45,096	\$ 1,737,800	\$ 1,782,896
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- (4) Includes \$8,424,000 of loans on nonaccrual status.
- (5) Includes \$28,158,000 of loans on nonaccrual status.
- (6) Includes \$5,731,000 of loans on nonaccrual status.

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 5: Loans and allowance for loan losses (continued)**

The following is a summary of loans restructured in troubled debt restructurings ( TDRs ) as of December 31, 2012 and 2011:

	Accruing TDRs	Nonaccrual TDRs	Total TDRs
	(Dollars in thousands)		
<b><u>2012</u></b>			
Real estate:			
Residential 1-4 family	\$ 380	\$	\$ 380
Non-farm/non-residential	30,971	2,948	33,919
Construction/land development	3,870		3,870
Agricultural			
Multifamily residential			
Commercial and industrial	6,203		6,203
Consumer			
Other			
<b>Total</b>	<b>\$ 41,424</b>	<b>\$ 2,948</b>	<b>\$ 44,372</b>

	Accruing TDRs	Nonaccrual TDRs	Total TDRs
	(Dollars in thousands)		
<b><u>2011</u></b>			
Real estate:			
Residential 1-4 family	\$ 149	\$ 274	\$ 423
Non-farm/non-residential	15,510	3,033	18,543
Construction/land development	4,333		4,333
Agricultural			
Multifamily residential	968		968
Commercial and industrial		129	129
Consumer			
Other			
<b>Total</b>	<b>\$ 20,960</b>	<b>\$ 3,436</b>	<b>\$ 24,396</b>

At December 31, 2012 and 2011 there were no significant commitments to lend additional funds to debtors for loans classified as TDRs.

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Loans that were restructured during 2012 and 2011 as TDRs were as follows:

	December 31, 2012		December 31, 2011	
	Number of Loans	Outstanding Principal Balance (Dollars in thousands)	Number of Loans	Outstanding Principal Balance
Real estate:				
Residential 1-4 family	1	\$ 360	1	\$ 20
Non-farm/non-residential	4	15,268	3	14,127
Construction/land development	1	46	1	4,062
Agricultural				
Multifamily residential				
Commercial and industrial				
Consumer				
Other				
Total	6	\$ 15,674	5	\$ 18,209

The modifications during 2012 and 2011 primarily related to extending the amortization period of the loans or converting the loans to interest payments only for a limited period of time. The post-modification balances of the TDRs during 2012 and 2011 approximated the pre-modification balances. Payment defaults (generally defined as 90 days contractually past due under the modified terms) on TDRs restructured during 2012 and 2011 were not significant. The modifications did not have a significant impact on the Company's determination of the allowance for loan losses during the reported periods since the loans were generally classified in accordance with the Company's credit quality indicator system prior to restructuring.

**Note 6: Premises and equipment**

Premises and fixed assets consisted of the following at December 31:

	2012	2011
Land	\$ 22,266,431	\$ 22,593,479
Buildings and improvements	65,215,799	60,616,425
Furniture, fixtures and equipment	26,314,012	25,066,767
	113,796,242	108,276,671
Less accumulated depreciation	(32,807,110)	(29,509,669)
	\$ 80,989,132	\$ 78,767,002

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Depreciation expense amounted to \$4,493,711, \$4,380,718 and \$4,625,828 for the years ended December 31, 2012, 2011 and 2010, respectively. Commitments to complete construction of two branch locations aggregated approximately \$4,000,000 at December 31, 2012.

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 7: Related party transactions**

The Company has had, and expects to have in the future, banking transactions in the ordinary course of business with its executive officers, directors and principal shareholders. Such transactions have been on similar terms, including interest rates and collateral on loans, as those prevailing at the time for comparable transactions with others, and, in the opinion of management, have involved no more than normal risk or other potential unfavorable aspects. Loans made to such borrowers (including companies in which such borrowers are principal owners) amounted to approximately \$14,319,000 and \$22,223,000 at December 31, 2012 and 2011, respectively.

During the year ended December 31, 2012, new loans to such related parties amounted to approximately \$1,750,000 and repayments amounted to approximately \$9,654,000. During the year ended December 31, 2011, new loans to such related parties amounted to approximately \$7,779,000 and repayments amounted to approximately \$2,812,000.

Subsidiaries of the Company lease office locations from companies associated with members of the Company's Board of Directors. The Company periodically rents aircraft owned by a company in which two members of the Company's Board of Directors have significant ownership interest.

**Note 8: Deposits**

The following summarizes information on deposits as of December 31:

	<b>2012</b>	<b>2011</b>
Demand, noninterest bearing	\$ 234,520,082	\$ 217,673,858
NOW and money market accounts	918,638,403	830,296,225
Savings	115,535,660	111,002,532
Certificates of deposit of \$100,000 or more	519,141,626	542,680,911
Other certificates of deposit	389,838,187	456,980,014
	\$ 2,177,673,958	\$ 2,158,633,540

At December 31, 2012, scheduled maturities of certificates of deposit, which aggregated \$908,979,813 are as follows: 2013 \$683,984,859; 2014 through 2015 \$215,031,956; 2016 and thereafter \$9,962,998. At December 31, 2012 and 2011, certificates of deposit included approximately \$68,142,000 and \$52,176,000, respectively, of fully insured brokered deposits.

**Note 9: Short-term borrowings**

Short-term borrowings consisted of securities sold under agreements to repurchase amounting to \$85,703,417 and \$71,392,881 as of December 31, 2012 and 2011, respectively, and federal funds purchased of zero at December 31, 2012 and 2011, respectively. Securities sold under agreements to repurchase generally mature within one year from the transaction date. At December 31, 2012 and 2011, investment securities with a fair value of approximately \$88,400,000 and \$78,900,000, respectively, were pledged to secure such agreements. Federal funds purchased are generally one-day borrowings. The maximum amount of short-term borrowings outstanding at any month-end amounted to approximately \$106,500,000 during 2012 and \$98,300,000 during 2011. Average short-term borrowings outstanding amounted to approximately \$93,100,000 for 2012 and \$77,200,000 for 2011.



**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 10: Long-term debt**

Long-term debt consisted of the following as of December 31:

	2012	2011
Federal Home Loan Bank borrowings	\$ 186,125,784	\$ 206,134,638
Less: Deferred prepayment penalties on debt modification	(532,048)	(830,648)
	185,593,736	205,303,990
Subordinated debentures due to MSB Capital Trust I, 10 7/8%, due in 2030 (1)		6,289,000
Subordinated debentures due to Liberty (AR) Statutory Trust I, variable interest rate (2.308% at December 31, 2012 and 2.54625% at December 31, 2011), due in 2034 (2)	15,464,000	15,464,000
Subordinated debentures due to Liberty (AR) Statutory Trust II, variable interest rate (1.758% at December 31, 2012 and 1.99625% at December 31, 2011), due in 2035 (3)	25,774,000	25,774,000
Subordinated debentures due to Russellville Statutory Trust I, variable interest rate (2.808% at December 31, 2012 and 3.04625% at December 31, 2011), due in 2034 (4)	16,495,000	16,495,000
	\$ 243,326,736	\$ 269,325,990

- (1) The related trust preferred securities aggregating \$6,100,000 are redeemable beginning in 2010 at 105.438%, declining annually thereafter to 100% during 2020. On March 8, 2012, the Company redeemed the securities.
- (2) The related trust preferred securities aggregating \$15,000,000 are redeemable in whole or in part at par value on or after December 15, 2009.
- (3) The related trust preferred securities aggregating \$25,000,000 are redeemable in whole or in part at par value on or after September 15, 2010.
- (4) The related trust preferred securities aggregating \$16,000,000 are redeemable in whole or in part at par value on or after September 15, 2009.

The borrowings from the Federal Home Loan Bank had interest rates ranging from .06% to 5.96% at December 31, 2012 and from .75% to 5.96% at December 31, 2011, respectively. At December 31, 2012, maturities of Federal Home Loan Bank borrowings were as follows: 2013 \$90,294,240; 2014 \$35,381,069; 2015 \$36,209,474; 2016 \$201,479; 2017 \$577,014; and thereafter \$23,462,508. The advances are secured by residential mortgage loans as specified in the blanket lien agreement between the parties.

During 2010, the Company paid off \$32,336,537 of Federal Home Loan borrowings and incurred prepayment penalties of \$1,234,176. The Company replaced the paid-off advances with an identical amount of new Federal Home Loan borrowings with a lower weighted average interest rate and an increased duration. Pursuant to ASC Topic No. 470-50, *Debt Modifications and Extinguishments*, the transactions were accounted for as debt modification since the present value of the new borrowings did not exceed the present value of the old borrowings by more than 10%. The prepayment penalties were deferred and amortized to interest expense over the remaining life of the new borrowings.





**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 10: Long-term debt (continued)**

The subordinated debentures were issued to the Company's statutory business trust subsidiaries. The trusts were organized for the sole purpose of selling trust preferred securities (trust preferred securities qualify for Tier 1 capital treatment for regulatory capital computations - see Note 21) to third parties and investing the proceeds from such sales in the subordinated debentures, which are the sole assets of the trusts. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trusts. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payments on the related subordinated debentures. The Company's obligations under the subordinated securities and other relevant trust agreements constitute a full and unconditional guarantee by the Company of the trusts' obligations under the trust securities. The Company's equity investments in the statutory trusts are reported in investments in unconsolidated subsidiaries.

**Note 11: Income taxes**

The provision for income taxes for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	2012	2011	2010
<b>Current:</b>			
Federal	\$ 10,266,208	\$ 10,089,535	\$ 6,205,327
State	1,322,965	1,131,280	71,906
	11,589,173	11,220,815	6,277,233
<b>Deferred:</b>			
Federal	(502,758)	(2,950,890)	(611,450)
State	(71,008)	(377,227)	(68,931)
	(573,766)	(3,328,117)	(680,381)
	<b>\$ 11,015,407</b>	<b>\$ 7,892,698</b>	<b>\$ 5,596,852</b>

The reasons for the differences between income tax expense and the amount computed by applying the statutory federal income tax rate to income before taxes are as follows as of December 31:

	2012	2011	2010
Federal income taxes at statutory rate	\$ 11,167,232	\$ 8,369,039	\$ 6,410,739
Add (deduct):			
State income taxes, net of federal tax benefit	813,772	490,134	1,934
Tax-exempt interest income	(1,061,775)	(948,632)	(917,422)
Other, net	96,178	(17,843)	101,601
	<b>\$ 11,015,407</b>	<b>\$ 7,892,698</b>	<b>\$ 5,596,852</b>



**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 11: Income taxes (continued)**

Significant components of the Company's deferred tax liabilities and assets as of December 31 are as follows:

	2012	2011
<b>Deferred tax liabilities:</b>		
Premises and equipment	\$ 3,439,000	\$ 3,737,000
Core deposit intangible assets	676,000	990,000
Available-for-sale investment securities	998,000	1,562,000
Prepaid expenses	964,000	686,000
Other	1,897,000	2,012,000
<b>Total deferred tax liabilities</b>	<b>7,974,000</b>	<b>8,987,000</b>
<b>Deferred tax assets:</b>		
Allowance for loan losses	13,181,000	13,446,000
Other real estate owned	5,305,000	2,985,000
Other	943,000	962,000
<b>Total deferred tax assets</b>	<b>19,429,000</b>	<b>17,393,000</b>
<b>Net deferred tax asset</b>	<b>\$ 11,455,000</b>	<b>\$ 8,406,000</b>

The Company is no longer subject to federal and state income tax examinations by tax authorities for years prior to 2009.

**Note 12: Core deposit intangibles and other intangible assets**

Intangible assets subject to amortization consisted of the following:

	Carrying Amount	Net Accumulated Amortization	Carrying Amount
<b><u>December 31, 2012</u></b>			
Core deposit intangible assets - bank acquisitions	\$ 8,357,000	\$ (6,633,303)	\$ 1,723,697
Customer list and related intangibles - insurance agency acquisition	1,493,700	(1,016,546)	477,154
	\$ 9,850,700	\$ (7,649,849)	\$ 2,200,851
<b><u>December 31, 2011</u></b>			
Core deposit intangible assets - bank acquisitions	\$ 8,357,000	\$ (5,834,043)	\$ 2,522,957
Customer list and related intangibles - insurance agency acquisition	1,493,700	(892,071)	601,629

\$ 9,850,700      \$ (6,726,114)      \$ 3,124,586

As of December 31, 2012, estimated amortization expense for these intangible assets is \$921,551 for each year during 2013 and 2014, \$256,208 during 2015 and \$101,541 during 2016 (fully amortized during 2016).

**Note 13: Employee benefit plan**

The Company has a defined contribution retirement plan for the benefit of all eligible employees. The plan qualifies under Section 401(k) of the Internal Revenue Code and provides for matching contributions by the Company. The Company's expense related to the plan amounted to approximately \$574,000, \$576,000 and \$530,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

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**LIBERTY BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012, 2011 and 2010**

**Note 14: Preferred Stock**

During 2009, the Company participated in the U.S. Department of the Treasury ( Treasury ) TARP Capital Purchase Program for non-public qualifying financial institutions and received \$57,500,000 from the Treasury in connection with the issuance of 57,500 shares of Series A Preferred Stock and the issuance of Preferred Stock warrants, which were immediately exercised for a nominal amount, for 2,875 shares of Series B Preferred Stock. The Company allocated the \$57,500,000 of proceeds on a pro rata basis to the Series A and Series B Preferred Stock based on relative fair values using a discounted cash flow methodology and a discount rate of 9%. As a result, the Company assigned \$54,442,670 of the aggregate proceeds to the Series A Preferred Stock and \$3,057,330 to the Series B Preferred Stock. The value assigned to the Series A and Series B Preferred Stock was amortized to the liquidation value of the Preferred Stock, with the net cost of such amortization being reported as additional Preferred Stock dividends over the five-year expected life of the Preferred Stock.

During 2011, the Company repurchased the Series A and Series B Preferred Stock and exited the TARP Capital Purchase Program by issuing to the Treasury s Small Business Lending Fund ( SBLF ) \$52,500,000 of Series C cumulative perpetual Preferred Stock (52,500 shares) and making a cash payment of \$7,875,000. The remaining net discount on the Series A and Series B Preferred Stock of \$1,533,337 on the date of repurchase during 2011 was amortized in full as additional Preferred Stock dividends. The dividend rate on the Series C Preferred Stock is variable (5% at December 31, 2012 and 2011) based on lending increase parameters, as defined by the SBLF, and adjusts to a fixed rate of 9% after 4.5 years from the date of issuance if the funding is still outstanding. The Series C Preferred Stock has a liquidation preference of \$1,000 per share.

In connection with the issuance of the Preferred Stock, the Company agreed, among other things, to certain restrictions on dividend payments on Common Stock.

**Note 15: Stock options**

The Company has a Non-Qualified Stock Option Plan (the Plan ). The Plan limits the amount of options available for grant to 15% of the Company s outstanding Common Stock (limit of 175,901 shares as of December 31, 2012 and of 175,422 shares as of December 31, 2011 and 174,491 shares as of December 31, 2010) and provides for an option price equal to the fair market value of the underlying Common Stock on the date of grant. Options granted vest ratably over a five-year period and must be exercised no later than two years following the last date of vesting. As of December 31, 2012, 2011 and 2010 options to purchase 36,000 59,700 and 91,000 shares, respectively, of the Company s Common stock at a weighted average price of \$206 per share at December 31, 2012 (intrinsic value of approximately \$1 million), \$175 per share at December 31, 2011 (intrinsic value of approximately \$3.6 million) and \$154 per share at December 31, 2010 (intrinsic value of approximately \$7.4 million) and with a weighted average remaining contractual life of approximately 5 months at December 31, 2012, had been granted and were outstanding. The total of fully vested options and options expected to be vested approximated the amount of options outstanding at December 31, 2012.

No options were granted during 2012, 2011 or 2010. During 2012 and 2011, options for 600 shares and 1,500 shares, respectively, were exercised for cash, options for 16,500 and 19,000 shares, respectively, were exercised using the cashless exercise provisions of the related stock option agreements (4,943 and 6,890 shares, respectively, issued), and options for 3,600 and 9,500 shares, respectively, were cancelled for cash payments aggregating \$389,300 and \$1,124,050, respectively. No options were exercised or cancelled during 2010. During 2011 and 2010, the maturity dates of options for 19,700 shares and 7,000 shares, respectively, were extended until March 2013 and March 2011, respectively. Options for 3,000, 1,300 and 875 shares were forfeited during 2012, 2011 and 2010, respectively. A total of 36,000, 59,300 and 86,330 options were exercisable as of

**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 15: Stock options (continued)**

December 31, 2012, 2011 and 2010, respectively, at a weighted average price of \$206 (intrinsic value of approximately \$1 million) for 2012, \$174 per share (intrinsic value of approximately \$3.6 million) for 2011 and \$150 share (intrinsic value of approximately \$7.3 million) for 2010. The weighted average remaining contractual life of options exercisable at December 31, 2012 was approximately 5 months.

**Note 16: Commitments, contingencies and concentrations of credit risk**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The financial instruments included commitments to extend credit, standby letters of credit and loans sold subject to repurchase agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the Company's financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, standby letters of credit and loans sold subject to repurchase agreements is represented by the contractual terms of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The total amounts of financial instruments with off-balance-sheet risk are as follows as of December 31:

	<b>2012</b>	<b>2011</b>
Commitments to extend credit	\$ 179,802,000	\$ 137,588,000
Standby letters of credit	6,189,000	5,763,000
Loans sold subject to repurchase agreements	99,868,000	72,100,000

Commitments to extend credit are agreements to lend to a customer as long as there is not violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of customers to third parties. Those guarantees are primarily issued to support private borrowing arrangements.

The Company is committed as of December 31, 2012 and 2011 under loan sale agreements to repurchase residential mortgage loans that become delinquent within a stated period of time after being sold.

Most of the Company's lending activity is with customers located within its trade area. The concentrations of credit by major category of loan type are set forth in the Note 5. The Company does not extend credit to any single borrower or group of related borrowers in excess of amounts allowable under regulatory limits of loans to such borrowers. The Company's loan policy provides for loan to value ratios by type of loans. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

The Company's asset base is exposed to risk, including the risk resulting from changes in interest rates, market values of collateral for loans to customers and changes in the timing of cash flows. The Company



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**LIBERTY BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012, 2011 and 2010**

**Note 16: Commitments, contingencies and concentrations of credit risk (continued)**

monitors the effect of such risk by considering the mismatch of the maturities of its assets and liabilities in the current interest rate environment and the sensitivity of assets and liabilities to changes in interest rates. The Company's management has considered the effect of significant increases and decreases in interest rates and believes such changes, if they occurred, would be manageable and would not affect the ability of the Company to hold its assets to maturity. However, the Company is exposed to significant market risk in the unlikely event of significant and prolonged interest rate changes.

The Company was not required to perform on any financial guarantees and did not incur any losses on its commitments during 2012 or 2011.

The nature of the Company's business ordinarily results in a certain amount of claims, litigation, and proceedings, all of which are considered incidental to the normal conduct of business. When the Company determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Company will consider settlement of cases when, in management's judgment, it is in the best interests of both the Company and its shareholders to do so. While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, management of the Company believes that the ultimate resolution of such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the future results of operations, financial condition, or liquidity of the Company.

**Note 17: Restrictions on cash and due from banks**

The bank subsidiary is required to maintain certain minimum cash reserves based upon liabilities to depositors. The minimum cash reserve requirements were approximately \$17,000,000 and \$16,000,000 at December 31, 2012 and 2011, respectively.

**Note 18: Fair value measurements**

ASC 820, *Fair Value Measurement*, provides that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy ( hierarchy ) that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

A description of the valuation methodologies used for instruments measured at fair value follows, as well as the classification of such instruments within the valuation hierarchy.



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**LIBERTY BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012, 2011 and 2010**

**Note 18: Fair value measurements (continued)**

*Available-for-sale Securities*

Available-for-sale securities are the most significant instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 or Level 3 securities. Primarily all of the Company's securities are considered to be Level 2 securities and consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities and securities of states and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

*Mortgage loans held for sale*

As of December 31, 2012 and 2011, the Company has \$15,099,052 and \$10,889,795, respectively, of conforming mortgage loans held for sale. Mortgage loans originated and held for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing investors. Typically these quotes include a premium on the sale and thus these quotes indicate the fair value of the held for sale loans is greater than cost. At December 31, 2012 and 2011, the entire balances of mortgage loans held for sale are recorded at cost.

*Impaired Loans*

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was \$48,961,434 and \$45,017,334 as of December 31, 2012 and 2011, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral.

*Other Real Estate Owned ( OREO )*

As of December 31, 2012 and 2011, the Company has \$29,831,979 and \$25,078,156, respectively, in OREO, consisting primarily of real estate held for sale which was acquired in settlement of loans. OREO assets held for sale are the only material nonfinancial assets valued on a nonrecurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of OREO held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of December 31, 2012 and 2011, the fair value of OREO held for sale, less estimated costs to sell, for which write-downs were recognized by a charge to income subsequent to acquisition of the properties was \$21,558,659 and \$19,797,352, respectively.

**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 18: Fair value measurements (continued)***Derivative Financial Instruments*

The Company utilizes an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). The fair value of the interest rate swap is estimated using prices of financial instruments with similar characteristics, and thus the commitments are classified within Level 2 of the hierarchy.

The Company has segregated financial and nonfinancial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the following table:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
(Dollars in thousands)				
<b><u>December 31, 2012</u></b>				
<b>Assets</b>				
Available-for-sale securities	\$ 403,559	\$	\$ 403,559	\$
Impaired loans	48,961			48,961
OREO	21,559			21,559
<b>Liabilities</b>				
Interest rate swap agreement	302		302	
<b><u>December 31, 2011</u></b>				
<b>Assets</b>				
Available-for-sale securities	\$ 499,433	\$	\$ 499,433	\$
Impaired loans	45,017			45,017
OREO	19,797			19,797
<b>Liabilities</b>				
Interest rate swap agreement	481		481	

The Company did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis during the years ended December 31, 2012 and 2011.

**Note 19: Fair value of financial instruments**

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments as of December 31, 2012 and 2011:

Cash, due from banks, and federal funds sold: The carrying amounts for these assets reported in the balance sheet approximate their fair values and are classified within Level 1 of the hierarchy.

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Investment securities: Fair values for investment securities are based on quoted market prices, where available (Level 1 of the hierarchy – none at December 31, 2012 and 2011). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, which would be classified within Level 2 of the hierarchy.

Loans: The fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality, which would be classified within Level 3 of the hierarchy.

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**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 19: Fair value of financial instruments (continued)**

Deposits: The fair values of noninterest bearing deposits, interest bearing transaction accounts and savings accounts are the amount payable on demand at the reporting date (i.e., their carrying amounts), which would be classified within Level 1 of the hierarchy. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of such deposits, which would be classified within Level 3 of the hierarchy.

Short-term borrowings: The carrying amounts of securities sold under agreements to repurchase, federal funds purchased and other short-term borrowings approximate their fair values and are classified within Level 1 of the hierarchy.

Long-term debt: Fair values are estimated using rates currently offered for borrowings of similar maturities, which would be classified within Level 2 of the hierarchy.

Accrued interest receivable and payable: The carrying amounts of accrued interest receivable and payable approximate their fair values and are classified within Level 1 of the hierarchy.

Commitments to extend credit and standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. The fair values of standby letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the insignificance of the fees that would be currently charged for such agreements and the short-term nature of the current agreements, no fair value estimates have been made for commitments to extend credit and standby letters of credit.

Derivatives: The fair value of the Company's interest rate swap agreement is estimated using prices of financial instruments with similar characteristics, and thus the commitments are classified within Level 2 of the hierarchy. Unfunded commitments to originate loans held for sale and the related unfunded commitments to sell such loans meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at December 31, 2012 and 2011.

The estimated fair values of the Company's financial instruments were as follows:

	Carrying Amount	Fair Value
<b><u>December 31, 2012</u></b>		
<b>Financial assets</b>		
Cash and cash equivalents	\$ 56,653,100	\$ 56,653,100
Held-to-maturity securities	297,695,471	299,148,993
Available-for-sale securities	403,558,938	403,558,938
Loans - net	1,809,572,614	1,810,400,000
Accrued interest receivable	10,747,209	10,747,209
<b>Financial liabilities</b>		
Deposits	\$ 2,177,673,958	\$ 2,186,000,000
Short-term borrowings	85,703,417	85,703,417
Long-term debt	243,326,736	247,800,000
Accrued interest payable	783,067	783,067

Interest rate swap agreement	301,967	301,967
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The estimated fair values of the Company's financial instruments were as follows:

	Carrying Amount	Fair Value
<b><u>December 31, 2011</u></b>		
<b>Financial assets</b>		
Cash and cash equivalents	\$ 135,695,406	\$ 135,695,406
Held-to-maturity securities	174,774,565	176,257,940
Available-for-sale securities	499,433,045	499,433,045
Loans - net	1,748,616,459	1,749,000,000
Accrued interest receivable	11,093,857	11,093,857
<b>Financial liabilities</b>		
Deposits	\$ 2,158,633,540	\$ 2,163,000,000
Short-term borrowings	71,392,881	71,392,881
Long-term debt	269,325,990	275,100,000
Accrued interest payable	1,369,198	1,369,198
Interest rate swap agreement	481,077	481,077

**Note 20: Derivative instruments and hedging activities**

The Company has stand alone derivative financial instruments in the form of an interest rate swap agreement and rate lock agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's balance sheet in other assets and other liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

At December 31, 2012, information pertaining to the outstanding interest rate swap agreement is as follows: Notional amount \$16,000,000; Fixed pay rate 4.69%; Average receive rate 2.93%; Maturity approximately 1 year; Unrealized loss (net of tax effect) relating to the interest rate swap \$212,024.

**Note 21: Regulatory matters**

The Company's bank subsidiary is restricted from paying dividends that exceed 75% of the current year's net income plus 75% of the retained net income for the immediately preceding year without obtaining regulatory approval.

The Company and the bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the bank's financial statements. Under capital adequacy guidelines and the regulatory



**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 21: Regulatory matters (continued)**

framework for prompt corrective action, the Company and the bank must meet specific capital guidelines that involve quantitative measures of the Company's and the bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012, that the Company and the bank met all capital adequacy requirements to which they are subject.

As of the most recent notification from the regulatory agencies, the bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the bank must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the bank's categories.

The actual capital amounts and ratios of the Company on a consolidated basis and of Liberty Bank of Arkansas (Bank) as of December 31, 2012 and 2011 are presented in the following table:

	Actual		For Minimum Capital Adequacy		Minimum To Be Well Capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>December 31, 2012</b>						
Leverage (Tier I Capital to Average Assets)						
Consolidated	\$ 274,731	10.0%	\$ 109,640	4.0%	N/A	N/A
Bank	272,834	10.0	109,640	4.0	137,050	5.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	274,731	13.7	79,993	4.0	N/A	N/A
Bank	272,834	13.7	79,764	4.0	119,646	6.0
Total Capital (to Risk-Weighted Assets)						
Consolidated	299,835	15.0	159,986	8.0	N/A	N/A
Bank	297,867	14.9	159,528	8.0	199,410	10.0
<b>December 31, 2011</b>						
Leverage (Tier I Capital to Average Assets)						
Consolidated	\$ 269,551	10.0%	\$ 107,740	4.0%	N/A	N/A
Bank	269,169	10.0	107,740	4.0	134,675	5.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	269,551	14.4	74,756	4.0	N/A	N/A
Bank	269,169	14.4	74,661	4.0	111,992	6.0
Total Capital (to Risk-Weighted Assets)						
Consolidated	293,047	15.7	149,512	8.0	N/A	N/A



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Bank	292,636	15.7	149,323	8.0	186,653	10.0
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(1) Not applicable (N/A) for bank holding companies such as the Company.

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The following categories of other noninterest income exceeded one percent of the aggregate of total interest income and total noninterest income for the years indicated: ATM and check card income \$6,124,864 in 2012, \$5,364,414 in 2011 and \$4,341,018 in 2010; and Net losses on sales of other real estate owned \$(6,277,252) in 2012, \$(5,994,516) in 2011 and \$(5,434,885) in 2010; The following categories of other expenses exceeded one percent of the aggregate of total interest income and total noninterest income for the years indicated: FDIC assessment charges \$2,192,198 in 2012, \$2,502,951 in 2011 and \$3,126,879 in 2010; Repossession expenses \$2,292,969 in 2012, \$2,902,191 in 2011 and \$1,912,342 in 2010; check card and ATM card expense \$1,863,581 in 2012 and \$1,493,026 in 2011; and advertising \$1,788,280 in 2012, \$1,445,628 in 2011 and \$1,443,107 in 2010.

Realized net gains on investment securities in the accompanying Consolidated Statements of Income includes gains aggregating \$158,203, \$180,176 and \$338,651 from the recognition of discounts on investment securities called during the years ended December 31, 2012, 2011 and 2010, respectively.

**Note 23: Liberty Bancshares, Inc. (Parent Company Only) financial information**

	December 31	
	2012	2011
<b>Balance Sheets</b>		
<b>Assets</b>		
Cash in bank subsidiary	\$ 4,512,018	\$ 2,248,939
Investment in bank subsidiary	365,079,473	363,212,497
Investment in unconsolidated subsidiaries	1,733,000	1,922,000
Other assets	3,921,244	2,340,970
<b>Total Assets</b>	<b>\$ 375,245,735</b>	<b>\$ 369,724,406</b>
<b>Liabilities</b>		
Long-term debt	\$ 57,733,000	\$ 64,022,000
Accrued interest payable	62,917	276,840
Other liabilities	6,684,210	4,221,731
<b>Total Liabilities</b>	<b>64,480,127</b>	<b>68,520,571</b>
<b>Total shareholders equity</b>	<b>310,765,608</b>	<b>301,203,835</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 375,245,735</b>	<b>\$ 369,724,406</b>

**Table of Contents****LIBERTY BANCSHARES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2012, 2011 and 2010****Note 23: Liberty Bancshares, Inc. (Parent Company Only) financial information (continued)**

	Years ended December 31		
	2012	2011	2010
<b>Income:</b>			
Dividends from bank subsidiary	\$ 20,500,000	\$ 10,341,546	\$ 9,000,000
<b>Expenses:</b>			
Interest on long-term debt	2,019,233	2,219,835	2,946,081
Other	2,021,816	2,412,517	1,720,581
	4,041,049	4,632,352	4,666,662
Income before income taxes and equity in undistributed net income of bank subsidiary	16,458,951	5,709,194	4,333,338
Income taxes (credit)	(1,578,274)	(1,810,813)	(1,817,348)
	18,037,225	7,520,007	6,150,686
Equity in undistributed net income of bank subsidiary	2,853,745	8,498,834	6,568,858
Net income	\$ 20,890,970	\$ 16,018,841	\$ 12,719,544
<b>Statements of Cash Flows</b>			
<b>Operating activities:</b>			
Net income	\$ 20,890,970	\$ 16,018,841	\$ 12,719,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income bank subsidiary	(2,853,745)	(8,498,834)	(6,568,858)
Other net	463,057	(234,500)	624,895
Net cash provided by operating activities	18,500,282	7,285,507	6,775,581
<b>Financing activities:</b>			
Payments on long-term debt	(6,289,000)		
Stock option transactions	552,806	489,860	
Cash dividends on Preferred Stock	(2,625,000)	(2,651,813)	(3,133,750)
Cash dividends on Common Stock	(7,324,699)	(2,341,546)	
Cash paid to redeem Series A and B Preferred Stock		(7,875,000)	
Purchases of treasury stock	(551,310)	(513,240)	(244,400)
Net cash used by financing activities	(16,237,203)	(12,891,739)	(3,378,150)
<b>Cash and cash equivalents:</b>			
Net increase (decrease)	2,263,079	(5,606,232)	3,397,431
Balance beginning of year	2,248,939	7,855,171	4,457,740
Balance end of year	\$ 4,512,018	\$ 2,248,939	\$ 7,855,171



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APPENDIX A

**AGREEMENT AND PLAN OF MERGER**

**AMONG**

**HOME BANCSHARES, INC.,**

**CENTENNIAL BANK,**

**LIBERTY BANCSHARES, INC.,**

**LIBERTY BANK,**

**AND**

**ACQUISITION SUB**

**DATED JUNE 25, 2013**

Appendix A Page 1

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**AGREEMENT AND PLAN OF MERGER**

**THIS AGREEMENT AND PLAN OF MERGER**, dated as of June 25, 2013 ( Agreement ), is by and among **HOME BANCSHARES, INC.**, an Arkansas corporation ( HBI ), and **CENTENNIAL BANK**, an Arkansas state bank ( Centennial ); HBI and Centennial are collectively referred to herein as Purchaser ); **LIBERTY BANCSHARES, INC.**, an Arkansas corporation ( LBI ), and **LIBERTY BANK OF ARKANSAS**, an Arkansas state bank ( Liberty Bank ); LBI and Liberty Bank are collectively referred to herein as Company ); and, from and after its accession to this Agreement in accordance with Section 6.13, **ACQUISITION SUB**, an Arkansas corporation ( Sub ).

**RECITALS**

A. On May 7, 2013, HBI and LBI entered into that certain Confidentiality Agreement (the Confidentiality Agreement ) to keep confidential the existence, status and terms of their negotiations and agreements regarding the business combination transaction more particularly described in this Agreement.

B. On May 21, 2013, HBI and LBI entered into that certain Letter of Intent (the Letter of Intent ) to describe the general terms and conditions of the business combination more particularly described in this Agreement.

C. The respective boards of directors of Purchaser and Company have determined that it is in the best interests of their respective companies and shareholders to consummate the strategic business combination transaction provided for in the Confidentiality Agreement and the Letter of Intent and being more particularly described in this Agreement.

D. On the terms and subject to the conditions set forth in this Agreement, Sub will merge with and into LBI (the Merger ), with LBI as the surviving corporation (sometimes referred to in such capacity as the Surviving Corporation ).

E. As soon as reasonably practicable following the Merger and as part of a single integrated transaction, Purchaser shall cause Liberty Bank to be merged with and into Centennial (the Second-Step Merger, and together with the Merger, the Mergers ), with Centennial as the surviving corporation in the Second-Step Merger (sometimes referred to in such capacity as the Surviving Bank ).

F. The parties intend that the Mergers, taken together, shall be treated as a single integrated transaction and shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code ), and that this Agreement shall constitute a plan of reorganization for purposes of Sections 354 and 361 of the Code.

G. The parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger.

**NOW, THEREFORE**, in consideration of the mutual covenants, representations, warranties and agreements contained in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

**ARTICLE I.**

**MERGER**

1.1 The Merger.

(a) Subject to the terms and conditions of this Agreement, in accordance with the Arkansas Business Corporation Act (the ABCA ), at the Effective Time, Sub shall merge with and into LBI in the Merger. LBI shall be the Surviving Corporation in the Merger and shall continue its existence under the laws of the State of Arkansas. As of the Effective Time, the separate corporate existence of Sub shall cease.

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(b) Subject to the prior written consent of Company and the proviso in Section 8.4, Purchaser may at any time change the method of effecting the combination; provided, however, that no such change shall (i) alter or change the amount or kind of the Merger Consideration provided for in this Agreement, (ii) adversely affect the tax consequences of the Merger to shareholders of LBI or the tax treatment of the parties pursuant to this Agreement, or (iii) materially impede or delay consummation of the Contemplated Transactions.

1.2 Effective Time. Subject to the terms and conditions of this Agreement, on or before the Closing Date, Purchaser shall cause to be filed with the Secretary of State of the State of Arkansas (the Arkansas Secretary ), in accordance with the ABCA, articles of merger ( Articles of Merger ) relating to the Merger. The Merger shall become effective as of the date and time specified in the Articles of Merger. The term Effective Time shall be the date and time when the Merger becomes effective as set forth in the Articles of Merger.

1.3 Effects of the Merger. At and after the Effective Time, the Merger shall have the effects set forth in the applicable provisions of the ABCA.

1.4 Conversion of Stock.

(a) *Certain Definitions*. For purposes of this Section 1.4 and as used elsewhere in this Agreement:

Exchangeable Shares means the aggregate number of shares of LBI Common Stock issued and outstanding immediately prior to the Effective Time (other than Dissenting Shares, which shall be treated as set forth in Section 1.4(e) to the extent applicable).

Exchange Ratio means the quotient, rounded to the nearest ten-thousandth, obtained by dividing (x) Total Stock Consideration by (y) the LBI Diluted Shares.

HBI Common Stock means the common stock, \$0.01 par value per share, of HBI.

LBI Common Stock means the common stock, \$0.01 par value per share, of LBI.

LBI Diluted Shares means the aggregate number of shares of LBI Common Stock issued and outstanding immediately prior to the Effective Time, including the aggregate number of shares of LBI Common Stock that would be issued upon the exercise of any LBI Stock Options issued, outstanding and unexercised immediately prior to the Effective Time (which, for the avoidance of doubt, includes Dissenting Shares).

LBI Stock Option means an option to purchase shares of LBI Common Stock, which LBI Stock Options issued and outstanding on the date of this Agreement provide for the issuance of an aggregate 18,350 shares of LBI Common Stock upon the proper exercise thereof.

Per-Share Cash Consideration means the quotient, rounded to the nearest hundredth of a cent, obtained by dividing (x) the Total Cash Consideration by (y) the LBI Diluted Shares.

Per-Share Stock Consideration means that number of shares of HBI Common Stock that shall equal the Exchange Ratio.

HBI Average Closing Price means the volume-weighted average closing price, rounded to the nearest hundredth of a cent, of HBI Common Stock on the NASDAQ Stock Exchange reporting system (based on regular way trading) for the twenty (20) trading days immediately prior to the Effective Time.

Total Cash Consideration means cash in the amount of \$30,000,000.

Total Stock Consideration means that number of shares of HBI Common Stock that, valued at the HBI Average Closing Price, shall have a total value of \$250,000,000.

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(b) *Stock Conversions at Effective Time.* At the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, Company, Sub or the shareholders of any of the foregoing:

(i) *Sub Common Stock.* Each share of common stock of Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one validly issued, fully paid and nonassessable share of common stock, \$0.01 par value, of the Surviving Corporation.

(ii) *Treasury and Party-Owned Stock.* Each share of LBI Common Stock issued and outstanding immediately prior to the Effective Time that is owned by Company, Purchaser or any wholly-owned subsidiary of Company or Purchaser (other than shares of LBI Common Stock held in trust accounts, managed accounts, mutual funds and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties and other than shares of LBI Common Stock held, directly or indirectly, by Company or Purchaser in respect of a debt previously contracted) shall be cancelled and shall cease to exist, and no stock of HBI or other consideration shall be delivered in exchange therefor.

(iii) *LBI Exchangeable Stock.* Each Exchangeable Share issued and outstanding immediately prior to the Effective Time (other than shares to be cancelled in accordance with Section 1.4(b)(ii) and other than Dissenting Shares, which shall be treated as set forth in Section 1.4(e) to the extent applicable) shall be converted into the right to receive (i) the Per-Share Stock Consideration, plus (ii) the Per-Share Cash Consideration (collectively, the Merger Consideration ).

(c) *Effect of Conversion.* All of the shares of LBI Common Stock converted into the right to receive the Merger Consideration pursuant to this Article I shall no longer be outstanding and shall automatically be cancelled and shall cease to exist as of the Effective Time, and each certificate previously representing any such shares of LBI Common Stock (each, a Certificate ) and each non-certificated share of LBI Common Stock represented by book-entry ( Book-Entry Share ) shall thereafter represent only the right to receive the Merger Consideration and/or cash in lieu of fractional shares, into which the shares of LBI Common Stock represented by such Certificate or Book-Entry Share have been converted pursuant to this Section 1.4 and Section 2.2(f), as well as any dividends to which holders of LBI Common Stock become entitled in accordance with Section 2.2(c).

(d) *Adjustments.* If, between the date of this Agreement and the Effective Time, the outstanding shares of HBI Common Stock shall have been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in capitalization, an appropriate and proportionate adjustment shall be made to the Exchange Ratio.

(e) *Dissenting Shares.* For purposes of this Agreement, Proposed Dissenting Shares means shares of LBI Common Stock whose holders provide notice of dissent to Company prior to the LBI Shareholder Meeting and do not vote in favor of the Merger, in each case in accordance with § 4-27-1302 of the ABCA, and Perfected Dissenting Shares means Proposed Dissenting Shares as to which holders thereof have properly taken all additional steps necessary to exercise their dissenters' rights, if any, under § 4-27-1302 of the ABCA. Each outstanding Perfected Dissenting Share will be converted into the rights provided under the ABCA (and shall no longer be outstanding and shall automatically be cancelled and cease to exist as of the Effective Time), unless the holder thereof withdraws his or her demand for payment, in which case each such share (a Withdrawn Dissenting Share ) shall be deemed to have been converted at the Effective Time into the right to receive from Purchaser the Merger Consideration, without any interest (and shall no longer be outstanding and shall automatically be cancelled and cease to exist as of the Effective Time). To the extent that a holder of Proposed Dissenting Shares fails to perfect such holder's dissenters' rights under the ABCA, such Proposed Dissenting Shares shall be treated as Withdrawn Dissenting Shares under this Agreement. Each holder of Perfected Dissenting Shares who becomes entitled to payment for his or her LBI Common Stock pursuant to the provisions of the ABCA shall receive payment for such Perfected Dissenting Shares from Purchaser in accordance with the ABCA. Company shall give Purchaser (i) prompt notice of any notice or demand for appraisal or payment for shares of LBI Common Stock received by Company and (ii) the opportunity to participate in and direct all



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negotiations and proceedings with respect to any such demand or notices. Company shall not, without the prior written consent of Purchaser, make any payment with respect to, or settle, offer for settle or otherwise negotiate any such demands. Perfected Dissenting Shares, Withdrawn Dissenting Shares and Proposed Dissenting Shares are collectively referred to herein as Dissenting Shares.

1.5 LBI Stock Options. Any LBI Stock Option issued, outstanding and unexercised immediately prior to the Effective Time will automatically, and without any action on the part of its holder, be terminated by the Company and shall entitle the holder, to payment prior to or at the Effective Time in cash of the difference between the option exercise price and the equivalent dollar value of the Merger Consideration. Nothing herein shall prevent any holder from exercising, after the date of this Agreement and before the Effective Time, any LBI Stock Option that is exercisable according to its terms, in which event the shares of LBI Common Stock issued upon such exercise shall be converted into the Merger Consideration at the Effective Time in accordance with Section 1.4(b). Prior to the Effective Time, the board of directors of LBI and the Compensation Committee of the board of directors of LBI, as applicable, shall adopt any necessary resolutions to effectuate the provisions of this Section 1.5.

1.6 Articles of Incorporation, Bylaws, Directors and Officers of Surviving Corporation. As of the Effective Time, (a) the articles of incorporation and bylaws of the Surviving Corporation shall be the articles of incorporation and bylaws of Sub as in effect immediately prior to the Effective Time, until duly amended in accordance with the terms thereof and applicable law, and (b) the directors and officers of Sub immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation and shall hold office until their respective successors are duly appointed and qualified, or their earlier death, resignation or removal.

1.7 The Second-Step Merger. As soon as reasonably practicable following the Effective Time, in accordance with the ABCA, the Arkansas Banking Code, and other applicable laws, Purchaser shall cause Liberty Bank to be merged with and into Centennial in the Second-Step Merger, with Centennial surviving the Second-Step Merger and continuing its existence under the laws of the State of Arkansas, and the separate corporate existence of Liberty Bank ceasing as of the effective time of the Second-Step Merger. In furtherance of the foregoing, Purchaser shall cause to be filed with the Arkansas Secretary and the Arkansas State Banking Commission, in accordance with the ABCA, the Arkansas Banking Code and other applicable laws, articles of merger ( Bank Articles of Merger ) relating to the Second-Step Merger. The Second-Step Merger shall become effective as of the date and time specified in the Bank Articles of Merger and by the issuance of a Certificate of Merger by the Arkansas Secretary and the Arkansas State Banking Commission. At and after the effective time of the Second-Step Merger, the Second-Step Merger shall have the effects set forth in the applicable provision of the ABCA, the Arkansas Banking Code and other applicable laws.

**ARTICLE II.**

**DELIVERY OF MERGER CONSIDERATION**

2.1 Delivery of Merger Consideration. At or prior to the Effective Time, Purchaser shall (a) authorize an exchange agent, which shall be a bank or trust company selected by Purchaser and reasonably acceptable to Company (the Exchange Agent ), pursuant to an agreement (the Exchange Agent Agreement ) entered into at least ten (10) Business Days prior to the Effective Time, to deliver an aggregate number of shares of HBI Common Stock that is equal to the Total Stock Consideration and an amount in cash which is equal to the Total Cash Consideration and (b) deposit, or cause to be deposited with, the Exchange Agent, to the extent then determinable, any cash payable in lieu of fractional shares pursuant to Section 2.2(f) (the Exchange Fund ). For purposes of this Agreement, Business Day or Business Days means any day other than a Saturday, Sunday or any federal holiday in the United States.

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2.2 Exchange Procedures for Exchangeable Shares.

(a) As soon as reasonably practicable after the Effective Time, but in any event within five (5) Business Days thereafter, the Exchange Agent shall mail to each holder of record of Certificate(s) or Book-Entry Shares which, immediately prior to the Effective Time, represented outstanding shares of LBI Common Stock whose shares were converted into the right to receive the Merger Consideration pursuant to Section 1.4 (the Exchanged Shares ), along with, in each case, any cash in lieu of fractional shares of HBI Common Stock to be issued or paid in consideration therefor, (i) a letter of transmittal, which shall specify that delivery shall be effected, and risk of loss and title to Certificate(s) or Book-Entry Shares shall pass, only upon delivery of Certificate(s) (or affidavits of loss in lieu of such Certificate(s)) or Book-Entry Shares to the Exchange Agent and shall be substantially in such form and have such other provisions as shall be prescribed by the Exchange Agent Agreement (the Letter of Transmittal ), and (ii) instructions for use in surrendering Certificate(s) or Book-Entry Shares in exchange for the applicable Merger Consideration, any cash in lieu of fractional shares of HBI Common Stock to be issued or paid in consideration therefor and any dividends or distributions to which such holder is entitled pursuant to Section 2.2(c).

(b) Upon surrender to the Exchange Agent of its Certificate(s) or Book-Entry Shares, accompanied by a properly completed Letter of Transmittal, a holder of Exchanged Shares will be entitled to receive promptly after the Effective Time but in any event within ten (10) Business Days after such surrender, the applicable Merger Consideration and any cash in lieu of fractional shares of HBI Common Stock to be issued or paid in consideration therefor in respect of the Exchanged Shares represented by its Certificate(s) or Book-Entry Shares. Until so surrendered, each such Certificate or Book-Entry Shares shall represent after the Effective Time, for all purposes, only the right to receive, without interest, the applicable Merger Consideration and any cash in lieu of fractional shares of HBI Common Stock to be issued or paid in consideration therefor upon surrender of such Certificate or Book-Entry Shares in accordance with, and any dividends or distributions to which such holder is entitled pursuant to, this Article II.

(c) No dividends or other distributions with respect to HBI Common Stock shall be paid to the holder of any unsurrendered Certificate or Book-Entry Shares with respect to the shares of HBI Common Stock represented thereby, in each case unless and until the surrender of such Certificate or Book-Entry Share in accordance with this Article II. Subject to the effect of applicable abandoned property, escheat or similar laws, following surrender of any such Certificate or Book-Entry Share in accordance with this Article II, the record holder thereof shall be entitled to receive, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to the whole shares of HBI Common Stock represented by such Certificate or Book-Entry Share and paid prior to such surrender date, and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of HBI Common Stock represented by such Certificate or Book-Entry Shares with a record date after the Effective Time (but before such surrender date) and with a payment date subsequent to the issuance of the HBI Common Stock issuable with respect to such Certificate or Book-Entry Shares.

(d) In the event of a transfer of ownership of a Certificate or Book-Entry Shares representing Exchanged Shares that are not registered in the stock transfer records of LBI, the shares of HBI Common Stock and cash in lieu of fractional shares of HBI Common Stock comprising the Merger Consideration shall be issued or paid in exchange therefor to a Person other than the Person in whose name the Certificate or Book-Entry Shares so surrendered is registered if the Certificate or Book-Entry Shares formerly representing such Exchanged Shares shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment or issuance shall pay any transfer or other similar taxes required by reason of the payment or issuance to a Person other than the registered holder of the Certificate or Book-Entry Shares, or establish to the reasonable satisfaction of HBI that the tax has been paid or is not applicable. The Exchange Agent (or, subsequent to the earlier of (x) the one-year anniversary of the Effective Time and (y) the expiration or termination of the Exchange Agent Agreement, HBI or the Surviving Corporation) shall be entitled to deduct and withhold from any cash in lieu of fractional shares of HBI Common Stock otherwise payable pursuant to this Agreement to any holder of

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Exchanged Shares such amounts as the Exchange Agent, HBI or the Surviving Corporation, as the case may be, is required to deduct and withhold under the Code, or any provision of state, local or foreign tax law, with respect to the making of such payment. To the extent the amounts are so withheld by the Exchange Agent, HBI or the Surviving Corporation, as the case may be, and timely paid over to the appropriate Governmental Authority, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of Exchanged Shares in respect of whom such deduction and withholding was made by the Exchange Agent or Purchaser, as the case may be.

(e) After the Effective Time, there shall be no transfers on the stock transfer books of LBI of the shares of LBI Common Stock other than to settle transfers of such LBI Common Stock that occurred prior to the Effective Time. If, after the Effective Time, Certificates or Book-Entry Shares representing such shares are presented for transfer to the Exchange Agent, they shall be cancelled and exchanged for the applicable Merger Consideration and any cash in lieu of fractional shares of HBI Common Stock to be issued or paid in consideration therefor in accordance with the procedures set forth in this Article II.

(f) Notwithstanding anything to the contrary contained in this Agreement, no fractional shares of HBI Common Stock shall be issued upon the surrender of Certificates or Book-Entry Shares for exchange, no dividend or distribution with respect to HBI Common Stock shall be payable on or with respect to any fractional share, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a shareholder of HBI. In lieu of the issuance of any such fractional share, HBI shall pay to each former shareholder of LBI who otherwise would be entitled to receive such fractional share an amount in cash (rounded to the nearest cent) determined by multiplying (i) the HBI Average Closing Price by (ii) the fraction of a share (after taking into account all shares of LBI Common Stock held by such holder at the Effective Time and rounded to the nearest ten thousandth when expressed in decimal form) of HBI Common Stock to which such holder would otherwise be entitled to receive pursuant to Section 1.4.

(g) Any portion of the Exchange Fund that remains unclaimed by the shareholders of LBI as of the one (1) year anniversary of the Effective Time will be transferred to HBI. In such event, any former shareholders of LBI who have not theretofore complied with this Article II shall thereafter look only to HBI with respect to the Merger Consideration, any cash in lieu of any fractional shares, and any unpaid dividends and distributions on HBI Common Stock deliverable in respect of each Exchangeable Share such shareholder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Notwithstanding the foregoing, none of HBI, the Surviving Corporation, the Exchange Agent or any other Person shall be liable to any former holder of shares of LBI Common Stock for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

(h) In the event that any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by HBI or the Exchange Agent, the posting by such Person of a bond in such amount as HBI may determine is reasonably necessary as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will, in accordance with the procedures set forth in this Article II, issue in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration deliverable in respect thereof.

**ARTICLE III.**

**REPRESENTATIONS AND WARRANTIES OF COMPANY**

Subject to such exceptions as are disclosed in the Company Disclosure Schedule dated as of the date hereof LBI and Liberty Bank hereby make the following representations and warranties to Purchaser as of the date hereof and as of the Closing Date; provided that those representations and warranties which address matters only as of a particular earlier date shall have been true and correct only on such date. The inclusion of an item in the Company Disclosure Schedule shall not be deemed an admission by Company that such item represents a

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material fact, event, or circumstance or has had or would be reasonably expected to have a Material Adverse Effect. Disclosure in any section of the Company Disclosure Schedule shall apply only to such section of such Disclosure Schedule, except to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is relevant to another section of such Disclosure Schedule.

For purposes of this Article III and as used elsewhere in this Agreement:

Affiliate means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified.

Benefit Arrangement means any employee benefit plan as defined in Section 3(3) of ERISA (whether or not subject to ERISA) and any other material plan, program, agreement, arrangement, obligation or practice, including, without limitation, any pension, profit sharing, severance, welfare, fringe benefit, employee loan, retirement, medical, welfare, employment or consulting, severance, stay or retention bonuses or compensation, executive or incentive compensation, sick leave, vacation pay, plant closing benefits, disability, workers compensation, retirement, deferred compensation, bonus, stock option or purchase or other stock-based, tuition reimbursement or scholarship, employee discount, meals, travel, or vehicle allowances, plan, program, agreement, arrangement, obligation or practice, any plans subject to Section 125 of the Code, as amended, and any plans or arrangements providing benefits or payments in the event of a change of control, change in ownership or effective control or sale of assets (i) established, sponsored, maintained, or contributed to, or required to be contributed to, by Company or any ERISA Affiliate, on behalf of any current or former director, employee, agent, independent contractor, or service provider of Company or their beneficiaries, or (ii) pursuant to which Company or any ERISA Affiliate has any obligation (whether contingent or otherwise) with respect to any such Persons.

Contemplated Transactions means all of the transactions among HBI, Centennial, Sub, LBI and Liberty Bank contemplated by this Agreement, including the Mergers.

Governmental Authority means any federal, national, state, municipal or local government, any instrumentality, subdivision, court, administrative agency, department or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, or any other governmental or quasi-governmental authority, whether of the United States or another jurisdiction.

Governmental Authorization means any consent, approval, license, registration, permit or waiver issued, given, granted or otherwise, made available by or under the authority of any Governmental Authority or pursuant to any Legal Requirement.

Legal Requirements means any federal, state, local, municipal, foreign, international, multinational or other constitution, law, ordinance, principle of common law, code, regulation, statute or treaty.

Material Adverse Effect means, with respect to any party, a material adverse effect on (a) the financial condition, results of operations or business of such party and its Subsidiaries taken as a whole; provided, however, that, with respect to this clause (a), a Material Adverse Effect shall not be deemed to include effects arising out of, relating to or resulting from (A) changes after the date hereof in applicable GAAP or regulatory accounting requirements, (B) changes after the date hereof in laws, rules or regulations of general applicability to companies in the industries in which such party and its Subsidiaries operate, (C) changes after the date hereof in global, national or regional political conditions or general economic or market conditions (including changes in prevailing interest rates, credit availability and liquidity, currency exchange rates, and price levels or trading volumes in the United States or foreign securities markets) affecting other companies in the industries in which such party and its Subsidiaries operate, (D) changes after the date hereof in the credit markets, any downgrades in the credit markets, or adverse credit events resulting in deterioration in the credit markets generally and including changes to any previously correctly applied asset marks resulting therefrom, (E) a decline in the trading price of a

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party's common stock or a failure, in and of itself, to meet earnings projections, but not, in either case, including any underlying causes thereof, (F) the public disclosure of this Agreement or the Contemplated Transactions or the consummation of the Contemplated Transactions, (G) any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism or (H) actions or omissions taken with the prior written consent of the other party or expressly required by this Agreement except, with respect to clauses (A), (B), (C), (D) and (G), to the extent that the effects of such change are materially disproportionately adverse to the financial condition, results of operations or business of such party and its Subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its Subsidiaries operate; or (b) the ability of such party to timely consummate the Contemplated Transactions.

Ordinary Course of Business or Ordinary Course means the conduct of the business in substantially the same manner as the business was operated on the date of this Agreement, including operations in conformance with Company's practices and procedures as of such date.

Person means an individual, sole proprietorship, partnership, corporation, limited liability company, trust, joint venture, association, unincorporated organization, or a Governmental Authority.

Subsidiary, when used with respect to any party, means any corporation or other organization (including a limited liability company), whether incorporated or unincorporated, of which such party directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization or any organization of which such party is a general partner.

The term Company shall mean each of LBI and Liberty Bank and their respective Subsidiaries, the term LBI (or Company when referring to LBI) shall include the Subsidiaries of LBI as set out in Section 3.2(c), and the term Liberty Bank (or Company when referring to Liberty Bank) shall include the Subsidiaries of Liberty Bank as set out in Section 3.2(d).

### 3.1 Corporate Status and Authority; Non-Contravention.

(a) *Status of LBI.* LBI is duly organized, validly existing and in good standing under the laws of the State of Arkansas and otherwise has the corporate power and authority to own or lease all of its properties and assets and to conduct its business in the manner in which its business is now being conducted. LBI is duly registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (BHCA). LBI is duly qualified to do business and is in good standing in each jurisdiction in which its ownership of properties or conduct of business requires such qualification except where failure to be so qualified has not had and would not reasonably be expected to have a Material Adverse Effect. Complete and correct copies of LBI's Articles of Incorporation and Bylaws, as currently in effect, have been delivered or made available to Purchaser.

(b) *Status of Liberty Bank.* Liberty Bank is a direct, wholly-owned Subsidiary of LBI, is duly organized, validly existing and in good standing under the laws of the State of Arkansas, is authorized under the laws of the State of Arkansas to engage in the business and otherwise has the corporate power and authority to own or lease all of its properties and assets and to conduct the business in the manner in which the business is now being conducted. Liberty Bank is duly qualified to do business and is in good standing in each jurisdiction in which its ownership of properties or conduct of business requires such qualification except where failure to be so qualified has not had and would not reasonably be expected to have a Material Adverse Effect. Liberty Bank is an Arkansas state chartered bank that is duly licensed by the Arkansas State Bank Department to engage in commercial banking. The deposit accounts of Liberty Bank are insured to the fullest extent permitted by law by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (FDIC). The FDIC has not been appointed receiver of Liberty Bank. Complete and correct copies of Liberty Bank's Articles of Incorporation and Bylaws, as currently in effect, have been delivered or made available to Purchaser.

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(c) *Due Authorization.* (i) Company has full legal right, corporate power and authority to enter into this Agreement and to carry out its obligations hereunder and thereunder; and (ii) the execution and delivery of this Agreement, and all documents, instruments and agreements required to be executed and delivered by Company pursuant to this Agreement and the completion and performance of the Contemplated Transactions have been duly authorized by all necessary corporate action on the part of Company, and this Agreement, and all documents, instruments and agreements required to be executed and delivered by Company pursuant to this Agreement have been duly executed and delivered by Company and constitute a legal, valid and binding obligation of Company, enforceable against Company in accordance with their respective terms. No other corporate proceedings, including any stockholder approvals, are necessary for the execution and delivery by Company of this Agreement, the performance by it or of its obligation hereunder or thereunder or the consummation by it of the Contemplated Transactions.

(d) *Non-contravention.* Except as set forth in Section 3.1(d) of the Company Disclosure Schedule, neither the execution and delivery of this Agreement, nor the completion and performance of the Contemplated Transactions, or compliance by Company with any of the provisions hereof or thereof, will (i) materially violate, materially conflict with, or result in a material breach of any provision of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under, or result in the termination of, or result in the loss of any benefit or creation of any material right on the part of any third party under, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of any material lien, encumbrance, adverse claim, charge, execution, security interest or pledge upon any of the material properties or assets of Company under any of the terms, conditions or provisions of (A) the Articles of Incorporation of LBI or Liberty Bank (collectively, Company Articles ) and Bylaws of LBI or Liberty Bank (collectively, Company Bylaws ), or (B) any material note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Company is a party or by which it may be bound, or to which Company or any of the properties or assets of Company may be subject, or (ii) assuming the Purchaser Required Approvals are duly obtained, violate in any material respect any Legal Requirement or any judgment, ruling, order, writ, injunction or decree applicable to Company or any of its respective properties or assets.

3.2 Capitalization of Company.

(a) *Ownership.* The authorized capital stock of LBI consists of (i) 10,000,000 shares of LBI Common Stock, of which 1,174,966 shares of LBI Common Stock are outstanding as of May 24, 2013; and (ii) 5,000,000 shares of preferred stock, \$0.01 par value ( LBI Preferred Stock ), of which 52,500 shares of LBI Preferred Stock are outstanding as of May 24, 2013. The authorized capital stock of Liberty Bank consists of 1,000,000 shares of common stock, \$0.01 par value ( Liberty Bank Common Stock ), of which 350,000 shares of Liberty Bank Common Stock are outstanding as of May 24, 2013. No other shares of capital stock of LBI or Liberty Bank are issued or outstanding. All of the outstanding shares of Liberty Bank Common Stock are directly and beneficially owned and held by LBI. All of the shares of LBI Common Stock, LBI Preferred Stock, Liberty Bank Common Stock and Liberty Bank Preferred Stock have been duly authorized and validly issued, are fully paid and nonassessable with no personal liability attaching to the ownership thereof, have been issued in full compliance with all federal and state securities laws and other Legal Requirements, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and are free and clear of any and all encumbrances.

(b) *Outstanding Stock Rights.* Except as set forth in Section 3.2(b) of the Company Disclosure Schedule, there are no (i) outstanding preemptive rights, subscriptions, options, calls, warrants or other rights of any kind or nature to acquire any securities of Company; (ii) outstanding securities, instruments or obligations that are or may become convertible into or exchangeable for any securities of Company; (iii) contracts under which Company is or may become obligated to sell, issue or otherwise dispose of or redeem, purchase or otherwise acquire any securities of Company; (iv) shareholder agreements, voting trusts or other agreements, arrangements or understandings to which Company is a party or of which Company is aware, that may reasonably be expected

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to affect the exercise of voting or any other rights with respect to the capital stock of Company, or (v) outstanding bonds, debentures, notes or other indebtedness having the right to vote on any matters on which the shareholders of Company may vote.

(c) *LBI Subsidiaries*. LBI has four wholly-owned Subsidiaries, namely (i) Liberty Bank; (ii) Liberty (AR) Statutory Trust I, a Delaware statutory trust; (iii) Liberty (AR) Statutory Trust II, a Delaware statutory trust; and (iv) Russellville Statutory Trust I, a Delaware statutory trust. LBI otherwise does not have any Subsidiaries nor own any equity interests in any other entity.

(d) *Liberty Bank Subsidiaries*. Liberty Bank has two wholly-owned Subsidiaries, namely Town & Country Insurance Agency, Inc., an Arkansas corporation; and Freedom Insurance Group, Inc., an Arkansas corporation. Liberty Bank otherwise does not have any Subsidiaries nor own any equity interests in any other entity other than an interest in the Federal Reserve Bank, Federal Home Loan Bank and First National Bankers Bank.

3.3 **Business Operations**.

(a) *Permits*. Company holds all permits material to its respective business, including without limitation all permits required from the FDIC and the Arkansas State Bank Department to conduct a commercial banking business (each, a Material Permit ). All of the Material Permits are validly issued, are in full force and effect and are being complied with by Company in all material respects. No notice of breach or default in respect of any Material Permit has been received by Company and there are no proceedings in progress, pending or threatened which would reasonably be expected to result in the cancellation, revocation, suspension or adverse alteration of any of them, and Company is not aware of any existing matters or state of facts which is reasonably likely to give rise to any such notice or proceeding.

(b) *Governmental Authorizations*.

(i) Each Governmental Authorization that is held by Company or that otherwise relates to its business is valid and in full force and effect.

(ii) Company is in compliance with all of the terms and requirements of each Governmental Authorization applicable to it that is material to its business (a Material Governmental Authorization ).

(iii) No event has occurred or circumstance exists that will (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a material violation of or a failure to comply with any term or requirement of any Material Governmental Authorization, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation or termination of, or any modification to, or would otherwise impair in any way, any Material Governmental Authorization.

(iv) Company not has received any notice or other communication from any Governmental Authority regarding (A) any actual, alleged, possible or potential violation of or failure to comply with any term or requirement of any Material Governmental Authorization or (B) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of or modification to any Material Governmental Authorization.

(v) All applications required to have been filed for the renewal of the Material Governmental Authorizations have been duly filed on a timely basis with the appropriate Governmental Authorities, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental Authority, except as has not had and would not reasonably be expected to have a Material Adverse Effect.

(vi) There is no authorization, license, approval, consent, order or any other action of, or any registration, declaration, filing or notice with or to any Governmental Authority or court that is required for the execution or delivery by Company of this Agreement, or the validity or enforceability of this Agreement against Company, or subject to the receipt of the Purchaser Required Approvals, the completion or performance by Company of any of the Contemplated Transactions.

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(vii) Except as set forth in Section 3.3(b)(vii) of the Company Disclosure Schedule, Company is not subject to any cease-and-desist or other similar order or enforcement action issued by, nor is either of them a party to any written agreement, consent agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, or subject to any capital directive by, or adopted any board resolutions at the request of, any Governmental Authority (each item in this sentence, a Regulatory Agreement ), nor has Company been notified since December 31, 2012, by any Governmental Authority that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. Except as set forth in Section 3.4(b)(vii) of the Company Disclosure Schedule, Company is in compliance in all material respects with each Regulatory Agreement to which it is a party or subject, and Company has not received any notice from any Governmental Authority indicating that Company is not in compliance in all material respects with any such Regulatory Agreement.

(viii) Except for normal examinations conducted by a Governmental Authority in the regular course of the business, no Governmental Authority has initiated any proceeding into the business or operations of Company since December 31, 2012. Except as set forth in Section 3.4(b)(viii) of the Company Disclosure Schedule, there is no unresolved violation, criticism or exception by any Governmental Authority with respect to any report or statement relating to any examinations or inspections of Company. As of the date of this Agreement, no report of examination has been received by Company with respect to such examination. As of the date of this Agreement, no regulatory examination of Company is under way, and no other report of examination is pending.

3.4 Regulatory Reports. Company has filed with the FDIC, the Arkansas State Bank Department and any other applicable Governmental Authorities, as the case may be, in correct form in all material respects the reports, returns and filing information data required to be filed under any applicable Legal Requirement, including any and all federal and state banking authorities, and such reports were complete and accurate in all material respects and in compliance in all material respects with any applicable Legal Requirement. As of their respective dates (or, if amended, as of the date of such amendment), such reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading.

3.5 Deposits. All of the deposits held by Liberty Bank (including the records and documentation pertaining to such deposits) have been established and are held in compliance in all material respects with (i) all applicable policies, practices and procedures of Liberty Bank, and (ii) all applicable Legal Requirements, including anti-money laundering, anti-terrorism, or embargoed persons requirements. All of the deposits held by Liberty Bank are insured to the maximum limit set by the FDIC and the FDIC premium and all assessments have been fully paid, and no proceedings for the termination or revocation of such insurance are pending, or, to the Knowledge of Company, threatened.

3.6 Financial Matters.

(a) *Company's Financial Statements*. Company has made available to Purchaser the audited consolidated financial statements of LBI for the year ended December 31, 2012 ( Audited Financial Statements ) and the unaudited consolidated financial statements of LBI for the three months ended March 31, 2013 ( Interim Financial Statements ). The Audited Financial Statements and the Interim Financial Statements (i) are true, accurate and complete in all material respects, (ii) have been prepared in accordance with GAAP and regulatory accounting principles consistently applied except as may be otherwise indicated in the notes thereto and except with respect to the Interim Financial Statements for the omission of footnotes and (iii) fairly present in all material respects the financial condition of Company as of the respective dates set forth therein and the results of operations, stockholders' equity and cash flows of Company for the respective periods set forth therein, subject in the case of the Interim Financial Statements to year-end adjustments (none of which are reasonably expected to be material). The consolidated financial statements of Company to be prepared after the date of this Agreement and prior to the Closing (A) will be true, accurate and complete in all material respects, (B) will have



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been prepared in accordance with GAAP and regulatory accounting principles consistently applied except as may be otherwise indicated in the notes thereto and except with respect to unaudited financial statements for the omission of footnotes and (C) will fairly present in all material respects the financial condition of Company as of the respective dates set forth therein and the results of operations, stockholders' equity and cash flows of Company for the respective periods set forth therein, subject in the case of unaudited financial statements to year-end adjustments (none of which would reasonably be expected to be material).

(b) *Call Reports.* Company has previously delivered to Purchaser true and complete copies of the Call Reports of Liberty Bank for the periods ending December 31, 2012, and March 31, 2013. The financial statements contained in such Call Reports (i) are true, accurate and complete in all material respects, (ii) have been prepared in accordance with GAAP and regulatory accounting principles consistently applied, except as may be otherwise indicated in the notes thereto and except for the omission of footnotes, and (iii) fairly present in all material respects the financial condition of Liberty Bank as of the respective dates set forth therein and the results of operations and stockholders' equity for the respective periods set forth therein, subject to year-end adjustments (none of which are reasonably expected to be material). The financial statements contained in the Call Reports of Liberty Bank to be prepared after the date of this Agreement and prior to the Closing (A) will be true, accurate and complete in all material respects, (B) will have been prepared in accordance with GAAP and regulatory accounting principles consistently applied, except as may be otherwise indicated in the notes thereto and except for the omission of footnotes, and (C) will fairly present in all material respects the financial condition of Liberty Bank as of the respective dates set forth therein and the results of operations and stockholders' equity for the respective periods set forth therein, subject to year-end adjustments (none of which are reasonably expected to be material).

(c) *Systems and Processes.* Company has in place sufficient systems and processes that are customary for a community bank of the size of Liberty Bank and that are designed to (x) provide reasonable assurances regarding the reliability of Company's financial statements and (y) in a timely manner accumulate and communicate to Company's principal executive officer and principal financial officer the type of information that would be required to be disclosed in Company's financial statements. Except as set forth in Section 3.6(c) of the Company Disclosure Schedule, neither Company, nor any employee, auditor, accountant or representative of Company, has received or otherwise had or obtained Knowledge of any complaint, allegation, assertion or claim, whether written or oral, regarding the adequacy of such systems and processes or the accuracy or integrity of Company's financial statements. To Company's Knowledge, there has been no instance of fraud by Liberty Bank, exceeding \$50,000 in the aggregate, that occurred during any period covered by the Call Reports.

(d) *Auditor Independence.* During the periods covered by the Call Reports, Company's external auditor was independent of Company and its management. As of the date hereof, Company's external auditor has not resigned or been dismissed as a result of or in connection with any disagreements with Company on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(e) *Books and Records.* The books and records of Company have been and are being maintained in the Ordinary Course of Business in accordance and compliance with all applicable accounting requirements and Legal Requirements and are complete in all material respects to reflect corporate actions by Company.

(f) *Liabilities.* Company has no material liabilities of a nature required to be disclosed in a consolidated balance sheet of Company prepared in accordance with GAAP and regulatory accounting principles except:

(i) Liabilities disclosed on, reflected in or provided for in the Interim Financial Statements, or in Liberty Bank's Call Report for the period ended March 31, 2013;

(ii) Liabilities incurred in the Ordinary Course of Business since the date of the Interim Financial Statements;

(iii) Liabilities disclosed in the Company Disclosure Schedule; and

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(iv) Liabilities arising from this Agreement and the Contemplated Transactions (including the incurrence of professional and other transactional fees).

3.7 Tax Matters.

(a) Company has filed all federal income tax returns and all other material tax returns required to be filed by it. All such tax returns were true, correct and complete in all material respects and accurately reflected in all material respects the taxable income (or other measure of tax) of Liberty Bank.

(b) Company has paid all material taxes required to be paid by it, its Subsidiaries or the consolidated, combined, affiliated, unitary or other tax group including Company, whether or not shown on any tax return. Company has established reserves in accordance with GAAP that are adequate for the payment of all taxes not yet due and payable with respect to its assets and operations.

(c) Company has withheld and paid to the appropriate taxing authority all material taxes required to be withheld and paid, including in connection with any amounts owing to any employee, independent contractor, creditor, stockholder or other third party and all Forms W-2 and 1099 and any other forms required with respect thereto have been properly completed and timely filed.

(d) Company has not received from any taxing authority written notice of, and, to the Knowledge of Company, there is not threatened, any audit, claim, action, suit, request for information, ruling, determination, investigation or administrative or judicial proceeding that is pending or being conducted with respect to taxes of Company. Company has not received from any taxing authority (including in jurisdictions in which Liberty Bank or its Subsidiaries has not filed tax returns) written notice of, and, to the Knowledge of Company, there is not threatened, any proposed assessment, adjustment or deficiency for any amount of taxes proposed, asserted, or assessed against Company. Company is not a party to or bound by any tax sharing, allocation or indemnification agreement or similar agreement or arrangement.

(e) During the five-year period ending on the Closing Date, Company has not been a distributing corporation as the term is defined in Section 355 of the Code.

(f) Company will not be required, for income tax purposes for any taxable period ending after the Closing Date, to include in its taxable income any item of income or gain or to exclude from its taxable income any item of deduction or loss as a result of any (i) change in method of accounting under Section 481(c) of the Code (or any corresponding or similar provision of state, local or foreign law) for a taxable period ending on or prior to the Closing Date, (ii) closing agreement under Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign law) executed on or prior to the Closing Date, (iii) installment sale or open transaction disposition occurring on or prior to the Closing Date, or (iv) prepaid amount received on or prior to the Closing Date for which adequate reserves have not been established in accordance with GAAP.

(g) There are no liens or encumbrances for taxes on any of the assets of Company other than liens or encumbrances for taxes not yet due and payable.

(h) No written claim has been received in the last six years by Company from a taxing authority in a jurisdiction where it does not file tax returns that it is or may be subject to taxation by that jurisdiction or should have been included in a combined, consolidated, affiliated, unitary or other group tax return of that jurisdiction.

(i) Company has not engaged in any reportable transactions within the meaning of Treasury Regulations Section 1.6011-4(b).

3.8 Litigation and Claims. Except as set forth in Section 3.8 of the Company Disclosure Schedule, there are no current, pending or, to the Knowledge of Company, threatened material proceedings. Except as set forth in Section 3.8 of the Company Disclosure Schedule, there is no material injunction, order, judgment, decree or regulatory restriction imposed upon Liberty Bank or the assets of Liberty Bank.

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3.9 Employee Benefit Plans: Labor.

(a) Section 3.9(a) of the Company Disclosure Schedule sets forth a complete and correct list of each Benefit Arrangement. Company has made available to Purchaser correct and complete copies of (i) each Benefit Arrangement (or, in the case of any such Benefit Arrangement that is unwritten, descriptions thereof), (ii) the most recent annual reports on Form 5500 filed with the Internal Revenue Service with respect to each Benefit Arrangement (if any such report was required), (iii) the most recent summary plan description for each Benefit Arrangement for which such summary plan description is required and (iv) each trust agreement and insurance or group annuity contract relating to any Benefit Arrangement.

(b) Each Benefit Arrangement that is intended to be tax qualified under Section 401(a) of the Code (each, a Qualified Plan ) and each trust established in connection with any Qualified Plan which is intended to be tax exempt under Section 501(a) of the Code is tax qualified or tax exempt, as applicable, and Company has received a determination letter or an opinion letter from the Internal Revenue Service upon which it may rely regarding each such Qualified Plan's qualified status under the Code, and (ii) to Company's Knowledge, no event has occurred since the date of the most recent determination letter or application relating to any such Qualified Plan that would adversely affect the qualification of such Qualified Plan. Company has made available to Purchaser a correct and complete copy of the most recent determination letter or opinion letter received with respect to each Qualified Plan, as well as a correct and complete copy of each pending application for a determination letter, if any.

(c) Each Benefit Arrangement has been administered in all material respects in accordance with its terms and in compliance with the applicable provisions of ERISA, the Code, all other Legal Requirements and the terms of all applicable collective bargaining agreements (if any). To Company's Knowledge, there are no investigations by any Governmental Authority, termination proceedings or other claims (except routine claims for benefits payable under the Benefit Arrangements) or Proceedings against or involving any Benefit Arrangement.

(d) No Qualified Plan is subject to Title IV of ERISA or Section 412 of the Code. No direct, contingent or secondary liability to any Person has been incurred or could reasonably be expected to be incurred by Liberty Bank or its ERISA Affiliates under Title IV of ERISA. Neither Company nor any of its ERISA Affiliates has, within the preceding six years, withdrawn in a complete or partial withdrawal from any multiemployer plan (as defined in Section 3(37) of ERISA) or incurred any liability under Section 4204 of ERISA that has not been satisfied in full.

(e) Except as set forth in Section 3.9(e) of the Company Disclosure Schedule, Company has no obligation to provide medical, dental or life insurance benefits (whether or not insured) to any of its employees or former employees after retirement or other termination of service (other than (i) coverage mandated by Legal Requirements and (ii) benefits, the full direct cost of which is borne by the employee or former employee (or beneficiary thereof)).

(f) There are no collective bargaining agreements binding on Company; none of the employees of Company is represented by a labor union, and, to the Knowledge of Company, there is no, and since April 30, 2013, has been no, (i) organizational effort made or threatened by or on behalf of any labor organization or trade union to organize any employees of Company, and (ii) no demand for recognition of any employees of Company has been made by or on behalf of any labor organization or trade unions.

(g) There are no strikes, work stoppages, work slowdowns or lockouts pending or, to the Knowledge of Company, contemplated or threatened against or involving Company.

(h) There are no proceedings pending or, to the Knowledge of Company, threatened against or affecting Company, relating to the alleged material violation of any applicable Legal Requirement pertaining to labor relations or employment matters.

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3.10 Properties and Leases. Company (a) has good, valid and marketable title to all the properties and assets reflected in the latest audited balance sheet included in the Audited Financial Statements as being owned by it or acquired after the date thereof (except properties sold or otherwise disposed of since the date thereof in the Ordinary Course of Business) (the Owned Properties ), free and clear from encumbrances that would materially affect the value thereof and to which like properties are not commonly subject or which interfere with the use made or to be made thereof by Company in any material respect, (b) is the lessee of all leasehold estates reflected in the latest audited balance sheet included in the Audited Financial Statements or acquired after the date thereof (except for leases that have expired by their terms since the date thereof) (the Leased Properties and, collectively with the Owned Properties, the Real Property ), free and clear from encumbrances that would materially affect the value thereof and which like properties are not commonly subject or which interfere with the use made or to be made thereof by Company in any material respect, and is in possession of the properties purported to be leased thereunder, and each such lease is valid without default thereunder by the lessee or, to the Knowledge of Company, the lessor, and (c) owns or leases all properties and assets as are used by Company in the business or otherwise necessary to its operations as now conducted. Section 3.10 of the Company Disclosure Schedule contains a true and complete list of all Real Property as of the date of this Agreement. The Real Property is in material compliance with all applicable zoning laws and building codes, and the buildings and improvements located on the Real Property are in good operating condition and in a state of good working order, ordinary wear and tear excepted. There are no pending or, to the Knowledge of Company, threatened material condemnation proceedings against the Real Property. Company is in material compliance with all applicable health and safety related requirements for the Real Property, including those under the Americans with Disabilities Act of 1990, as amended, and the Occupational Health and Safety Act of 1970, as amended.

3.11 Absence of Certain Changes. Since December 31, 2012, until the date hereof, except as disclosed (i) in the Interim Financial Statements, (ii) in Liberty Bank's Call Report for the three months ended March 31, 2013, and (iii) in Section 3.11 of the Company Disclosure Schedule, Liberty Bank and its Subsidiaries have conducted business in the Ordinary Course in all material respects and have not changed any accounting methods, principles or practices affecting their respective assets, liabilities or businesses, including any reserving, renewal or residual method, practice or policy (other than as may be required by GAAP or applicable accounting requirements of a Governmental Authority). Since April 1, 2013, (a) Liberty Bank has not had, and no fact, effect, event, change, occurrence or circumstance has occurred that would reasonably be expected to have, a Material Adverse Effect, and (b) no material default (or event which, with notice or lapse of time, or both, would constitute a material default) exists on the part of Liberty Bank or, to the Knowledge of Company, on the part of any other party, in the due performance and observance of any term, covenant or condition of any contract to which Company is a party and which is, individually or in the aggregate, material to the financial condition of Company.

**Commitments and Contracts**

(a) Company has provided or otherwise made available (by hard copy, electronic data room or otherwise) to Purchaser or its representatives true, correct and complete copies of each of the following to which Company is a party or subject or which otherwise relates to its business (whether written or oral, express or implied) (each, a Company Significant Agreement ):

(i) any contract which is or would constitute a material contract within the meaning of Item 601(b)(10) of Regulation S-K to be performed in whole or in part after the date of this Agreement;

(ii) any contract with respect to the employment or service of any current directors, officers, employees or consultants of Company and of any former director or officer of Company whose service as such terminated after December 31, 2012, other than Company's standard form at-will offer letter;

(iii) any contract which limits the freedom of Company to compete in any material line of business;

(iv) any contract which grants any Person a right of first refusal, right of first offer or similar right with respect to any material properties, assets or businesses of Company;

(v) any indenture, deed of trust, loan agreement or other financing agreement or instrument to which Company is the obligor; and

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(vi) any contract relating to the acquisition or disposition of any material business or material assets (whether by merger, sale of stock or assets or otherwise), which acquisition or disposition is not yet complete or where such contract contains continuing material obligations, including continuing material indemnity obligations, of Company.

(b) (i) Each of the Company Significant Agreements has been duly and validly authorized, executed and delivered by Company and is binding on Company and in full force and effect; (ii) Company is in all material respects in compliance with and has in all material respects performed all obligations required to be performed by it to date under each Company Significant Agreement; (iii) Company has not received notice of any material violation or default (or any condition which with the passage of time or the giving of notice would cause such a violation or default) by any party under any Company Significant Agreement; and (iv) no other party to any Company Significant Agreement is, to the Knowledge of Company, in default in any respect thereunder.

3.13 Risk Management Instruments. Except as set forth in Section 3.13 of the Company Disclosure Schedule, Company is not a party to any swaps, caps, floors, option agreements or other derivative instruments that were entered into for its own account or for the account of a customer of Liberty Bank.

3.14 Environmental Matters.

(a) Company is in compliance in all material respects with all Environmental Laws. Except as set forth in Section 3.14 of the Company Disclosure Schedule, Company has not received any written communication from any Person that alleges that Company is not in compliance with any Environmental Laws and, to the Knowledge of Company, there are no circumstances that would reasonably be expected to prevent or interfere with such compliance in the future.

(b) There is no Environmental Claim pending or, to the Knowledge of Company, threatened against Company or against any Person or entity whose liability for any Environmental Claim Liberty Bank has retained or assumed by contract or by operation of law.

(c) Company has provided to Purchaser all assessments, reports, data, results of investigations or audits, and any other information in possession of Company and/or its current or former independent contractors or environmental consultants regarding environmental matters, environmental condition, or the compliance (or noncompliance) by Company under any Environmental Laws, pertaining to (1) any properties owned or operated by Company including, but not limited to, corporate offices or branch locations, and (2) any properties securing any loans made by Liberty Bank.

(d) Company is not required by any Environmental Law or by virtue of the Contemplated Transactions set forth herein, or as a condition to the effectiveness of the Contemplated Transactions set forth herein, (i) to perform a site assessment for Hazardous Materials, (ii) to remove or remediate Hazardous Materials, (iii) to give notice to or receive approval from any Governmental Authority regarding environmental matters, or (iv) to record or deliver to any Person any disclosure document or statement pertaining to environmental matters.

(e) To the Knowledge of Company, during the period of (i) Company's ownership or operation of any of its current or former properties, (ii) Company's participation and management of any property, or (iii) Company's interest in a mortgaged or financed property, there has been no release of Hazardous Materials in, on, under or affecting any such property. To the knowledge of Company, prior to the period of (i) Company's ownership or operation of any of its current or former properties, (ii) Company's participation and management of any property, or (iii) Company's interest in a mortgage or financed property, there was no release of Hazardous Materials in, on, under or affecting any such property, mortgaged or financed property.

(f) To the Knowledge of Company, no underground storage tanks, impoundments, vessels or other containers used for storage of Hazardous Materials were and/are located on or below the surface of properties owned or operated by Company. During Company's operation of its properties and to the Knowledge of Company, no part of the property has ever contained asbestos.

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For purposes of this Agreement, Environmental Claim means any written notice from any Governmental Authority or third party alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, government response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on, or resulting from the presence, or release into the environment, of any Hazardous Materials.

For purposes of this Agreement, Environmental Law means all laws concerning (a) public and/or worker health and safety relating to toxic or hazardous substances or (b) pollution or protection of the environment or natural resources, and includes without limitations the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act of 1981, and the Superfund Amendments and Reauthorization Act of 1986, each as amended and together with all rules and regulations promulgated in connection therewith, and any other federal, state or local environmental statutes, ordinances, rules and regulations relating to emissions, discharges, releases or threatened release of pollutants, contaminants, chemicals, toxic substances, Hazardous Materials or wastes into the environment, or otherwise relating to the manufacture, processing, presence, generation, distribution, labeling, testing, use, treatment, storage, control, disposal, clean-up, transportation or handling of pollutants, contaminants, chemicals, toxic substances, Hazardous Materials or wastes.

For purposes of this Agreement, Hazardous Materials means any product, substance, chemical, contaminant, pollutant, effluent, waste or other material whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, emission, discharge, spill, release or effect, either by itself or in combination with other materials located on the Real Property, is either: (x) regulated or monitored by any Governmental Authority or (y) defined or listed in, or otherwise classified pursuant to, any Environmental Law as hazardous substances, hazardous materials, hazardous wastes, infectious wastes, or toxic substances. Hazardous Materials shall include, but not be limited to, (1) any substance or material identified in Section 101(4) of CERCLA, 42 U.S.C. § 9601(14) and as set forth in Title 40, Code of Federal Regulations, Part 302, as the same may be amended from time to time, (2) any regulated substance as defined in the Solid Waste Disposal Act, (3) any substance subject to regulation pursuant to the Toxic Substances Control Act, (4) any substance so defined or regulated under any state law counterpart to any of the foregoing, or any state law regulating the reporting and remediation of any spills of Hazardous Materials, as defined in state laws or regulations, as such laws are now in effect or may be amended through the Closing Date and any rule, regulation or administrative or judicial policy statement, guideline, order or decision under any such laws, (5) any substance or material determined to be toxic, a pollutant or contaminant, under federal, state or local statute, law, ordinance, rule, or regulation or judicial or administrative order or decision, as same may be amended from time to time, (6) petroleum and refined petroleum products and distillates, (7) asbestos and asbestos-containing products, (8) radon, (9) flammable explosives, (10) polychlorinated biphenyls, (11) such other materials, substances or waste which are otherwise dangerous, hazardous, harmful or deleterious to human health or the environment, and which are not naturally occurring, and (12) any other substance that is regulated or classified as hazardous or toxic under any Environmental Law.

3.15 Insurance. Company maintains insurance underwritten by insurers of recognized financial responsibility, of the types and in the amounts that it reasonably believes is adequate for its business, including, but not limited to, insurance covering all real and personal property owned or leased by it against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, with such deductibles as are customary for companies in the same or similar business, all of which insurance is in full force and effect.

3.16 Intellectual Property. Company owns or is licensed to use or otherwise possess legally enforceable rights to use all material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets, applications and other unpatented or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names (collectively, Proprietary Rights) used in the conduct of its business as currently conducted. Company has the right to use all material Proprietary Rights owned by it and used in the conduct of its business as currently conducted without infringing the Proprietary Rights of any

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third party. Company has the right to use all material Proprietary Rights licensed to it and used in the conduct of its business as currently conducted without infringing the Proprietary Rights of any third party or violating the terms of any licensing or other agreement to which it is a party. To Company's Knowledge, no Person is infringing upon any of the Proprietary Rights of Company, except where the infringement or lack of a right to use such Proprietary Rights would not have any material impact on Company. No charges, claims or litigation have been asserted or, to Company's Knowledge, threatened against Company contesting the right of Company to use, or the validity of, any of the Proprietary Rights used in the conduct of its business as currently conducted or challenging or questioning the validity or effectiveness of any license or agreement pertaining thereto or asserting the misuse thereof, and, to Company's Knowledge, no valid basis exists for the assertion of any such charge, claim or litigation. All licenses and other agreements to which Company is a party relating to Proprietary Rights are in full force and effect and constitute valid, binding and enforceable obligations of Company subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles, as the case may be, and there have not been and there currently are not any defaults (or any event which, with notice or lapse of time, or both, would constitute a default) by Company under any license or other agreement affecting Proprietary Rights used in the conduct of its business as currently conducted, except for defaults, if any, which would not have any material impact on Company. Except as set forth in Section 3.16 of the Company Disclosure Schedule, the validity, continuation and effectiveness of all licenses and other agreements relating to the Proprietary Rights used in the conduct of Company's business as currently conducted and the current terms thereof will not be affected by the Contemplated Transactions.

### 3.17 Related Party Transactions.

(a) Except as part of the normal and customary terms of an individual's employment or service as a director, and except as set forth in Section 3.17(a) of the Company Disclosure Schedule, Company is not a party to any extension of credit (as debtor, creditor, guarantor or otherwise), contract for goods or services, lease or other agreement with any (i) Affiliate of Company (ii) insider (or related interest of an insider) of Company, (iii) stockholder owning 5% or more of the outstanding LBI Common Stock or related interest of such a stockholder, or (iv) to the Knowledge of Company, and other than credit and consumer banking transactions in the Ordinary Course of Business, employee of Company who is not an executive officer. For purposes of the preceding sentence, the term Affiliate shall have the meaning assigned in the Federal Reserve Board's Regulation W, as amended, and the terms insider, related interest, and executive officer shall have the meanings assigned in the Federal Reserve Board's Regulation O, as amended.

(b) Except as set forth in Section 3.17(b) of the Company Disclosure Schedule, Company is in material compliance with Sections 23A and 23B of the Federal Reserve Act, its implementing regulations, and the Federal Reserve Board's Regulation O.

3.18 Brokers or Finders. Except for the Broker's Fees disclosed in Section 3.18 of the Company Disclosure Schedule, neither Company nor any of its representatives has incurred any liability for brokerage or finders' fees or agents' commissions or other similar payments in connection with the Contemplated Transactions.

3.19 Company Information. The information relating to Company that is provided by Company or its representatives for inclusion in the Joint Proxy Statement and Form S-4, or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Authority in connection with the Contemplated Transactions, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The portions of the Joint Proxy Statement relating to Company and other portions within the reasonable control of Company and its Subsidiaries will comply in all material respects with the provisions of the Securities and Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations thereunder.

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3.20 Legal Proceedings. There is no suit, action, investigation, claim, proceeding or review pending, or to the Knowledge of Company, threatened against or affecting Company or any of its Subsidiaries or any of the current or former directors or executive officers of Company or any of its Subsidiaries (and Company is not aware of any basis for any such suit, action or proceeding) (i) that involves a Governmental Authority, or (ii) that, individually or in the aggregate, and, in either case, is (A) material to Company and its Subsidiaries, taken as a whole, or is reasonably likely to result in a material restriction on Company or any of its Subsidiaries' businesses or, after the Effective Time, the business of HBI, Centennial, Surviving Corporation or any of their Affiliates, or (B) reasonably likely to materially prevent or delay it from performing its obligations under, or consummating the transactions contemplated by, this Agreement. There is no material injunction, order, award, judgment, settlement, decree or regulatory restriction imposed upon or entered into by Company, any of its Subsidiaries or the assets of Company or any of its Subsidiaries (or that, upon consummation of the Merger, would apply to Purchaser or any of its affiliates).

3.21 Accounting and Internal Controls.

(a) The records, systems, controls, data and information of Company are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Company or its accountants (including all means of access thereto and therefrom), except for any nonexclusive ownership and nondirect control that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the system of internal accounting controls described below in this Section 3.21(a). Company has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Company has designed and implemented disclosure controls and procedures (within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act) to ensure that material information relating to Company is made known to its management by others within those entities as appropriate to allow timely decisions regarding required disclosure and to make the certifications required by the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act.

(b) Since January 1, 2013, (A) neither Company nor any of its Subsidiaries nor, to the Knowledge of Company, any director, officer, auditor, accountant or representative of it or any of its Subsidiaries has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or written claim regarding the accounting or auditing practices, procedures, methodologies or methods (including with respect to loan loss reserves, write-downs, charge-offs and accruals) of Company or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or written claim that Company or any of its Subsidiaries has engaged in questionable accounting or auditing practices, and (B) no attorney representing Company or any of its Subsidiaries, whether or not employed by it or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by it or any of its officers or directors to its board of directors or any committee thereof or to any of its directors or officers.

3.22 Loan Matters.

(a) Section 3.22(a) of the Company Disclosure Schedule sets forth a list of (i) each loan that as of March 31, 2013, had an outstanding balance and/or unfunded commitment of \$1,000,000 or more and that as of such date (A) was contractually past due 90 days or more in the payment of principal and/or interest, (B) was on non-accrual status, (C) was classified as substandard, doubtful, loss, classified, criticized, credit risk or concerned loans, watch list, impaired or special mention (or words of similar import) by Company, any of its Subsidiaries or any Governmental Authority, (D) as to which a reasonable doubt exists as to the timely future collectibility of principal and/or interest, whether or not interest is still accruing or the loans are less than 90 days past due, (E) where the interest rate terms have been reduced and/or the maturity dates have been extended subsequent to the agreement under which the loan was originally created due to concerns regarding the borrower's ability to pay in accordance with such initial terms, (F) where a specific reserve



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allocation exists in connection therewith or (G) which is required to be accounted for as a troubled debt restructuring in accordance with ASC 310-40, and (ii) each asset of Company or any of its Subsidiaries that as of March 31, 2013, was classified as other real estate owned, other repossessed assets or as an asset to satisfy loans, and the book value thereof as of such date. For each loan identified in accordance with the immediately preceding sentence, Section 3.22(a) of the Company Disclosure Schedule sets forth the outstanding balance, including accrued and unpaid interest, on each such loan and the identity of the borrower thereunder as of March 31, 2013.

(b) Since December 31, 2012, Company and its Subsidiaries have not engaged in, and, to the Knowledge of Company, no third-party vendors (including outside law firms and other third-party foreclosure services providers, collectively, the Mortgage Vendors ) used by Company or by any of its Subsidiaries has engaged in, directly or indirectly, (1) any foreclosures in material violation of any applicable law, including but not limited to the Servicemembers Civil Relief Act, or in material breach of any binding Regulatory Agreement or (2) the conduct referred to as robo-signing or any other similar conduct of approving or notarizing documents relating to mortgage loans that do not comply with any applicable law in all material respects.

(c) Since December 31, 2012, Company has not foreclosed upon, or taken a deed or title to, any real estate (other than single-family residential properties) without complying in all material respects with all applicable FDIC environmental due diligence standards (including FDIC Bulletin FIL-14-93, and update FIL-98-2006) or foreclosed upon, or taken a deed or title to, any such real estate if the environmental assessment indicates the liabilities under Environmental Laws are likely in excess of the asset's value.

3.23 Community Reinvestment Act Compliance. Company and each of its Subsidiaries that is an insured depository institution is in compliance in all material respects with the applicable provisions of the Community Reinvestment Act of 1977 and the regulations promulgated thereunder and has received a Community Reinvestment Act rating of satisfactory in its most recently completed exam, and Company has no Knowledge of the existence of any fact or circumstance or set of facts or circumstances which would reasonably be expected to result in Company or any such Subsidiary having its current rating lowered.

3.24 Investment Securities. Company and its Subsidiaries has good and valid title to all securities held by it (except securities sold under repurchase agreements or held in any fiduciary or agency capacity) free and clear of any liens, except to the extent such securities are pledged in the ordinary course of business consistent with prudent business practices to secure obligations of Company or any of its Subsidiaries and except for such defects in title or liens that would not be material to Company and its Subsidiaries. Such securities are valued on the books of Company and its Subsidiaries in accordance with GAAP.

3.25 Regulatory Capitalization. Liberty Bank is well-capitalized, as such term is defined in the rules and regulations promulgated by the FDIC.

3.26 Allowance for Loan Losses. Liberty Bank's allowance for loan losses as reflected in the latest balance sheet included in the Audited Financial Statements and in the balance sheet as of March 31, 2013, included in the Interim Financial Statements, was, in the opinion of management, as of each of the dates thereof, in compliance with Liberty Bank's existing methodology for determining the adequacy of its allowance for loan losses as well as the standards established by applicable Governmental Authority, the Financial Accounting Standards Board and GAAP.

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**ARTICLE IV.**

**REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

Subject to such exceptions as are disclosed in the Purchaser Disclosure Schedule dated as of the date hereof, Purchaser hereby makes the following representations and warranties to Company as of the date hereof and as of the Closing Date.

4.1 Corporate Status and Authority; Non-Contravention.

(a) *Status of Purchaser.* HBI is a corporation duly organized, validly existing and in good standing under the laws of the State of Arkansas. Centennial is a state bank duly organized, validly existing and in good standing under the laws of the State of Arkansas. Purchaser has the corporate power to own its property and conduct its business in the manner in which such business is now being conducted and has full power and capacity to enter into this Agreement, carry out the Contemplated Transactions to which it is a party, and duly observe and perform all its obligations contained in this Agreement.

(b) *Due Authorization.* The execution and delivery of this Agreement and all documents, instruments and agreements required to be executed and delivered by Purchaser pursuant to this Agreement and the completion and performance of the transactions and obligations contemplated by or contained in this Agreement have been duly authorized by all necessary organizational or corporate action on the part of Purchaser, and this Agreement has been duly executed and delivered by Purchaser and constitutes a legal, valid and binding obligation of Purchaser is enforceable in accordance with its terms.

(c) *Non-contravention.* Neither the execution and delivery of this Agreement nor the completion and performance of the Contemplated Transactions will (i) contravene any of the provisions of Purchaser's Articles of Incorporation or Bylaws, or (ii) result in a material breach of or material default under, or contravene, any material indenture, contract, agreement or instrument to which Purchaser is a party or by which Purchaser is bound.

4.2 Capitalization of Purchaser. The authorized capital stock of HBI consists of 100,000,000 shares of HBI Common Stock, of which 56,228,594 shares of HBI Common Stock are outstanding as of June 12, 2013. No other shares of capital stock of HBI are issued or outstanding. All of the outstanding shares of HBI Common Stock have been duly authorized and validly issued, are fully paid and nonassessable with no personal liability attaching to the ownership thereof, have been issued in full compliance with all federal and state securities laws and other Legal Requirements, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and are free and clear of all encumbrances.

4.3 Business Operations.

(a) *Permits.* Centennial holds all Permits material to its business, including without limitation all Permits required from the FDIC, to conduct a commercial banking business (each, a Purchaser Material Permit ). All of the Purchaser Material Permits are validly issued, are in full force and effect and are being complied with by Centennial. No notice of breach or default in respect of any Purchaser Material Permit has been received by Centennial and there are no proceedings in progress, pending or threatened which would reasonably be expected to result in the cancellation, revocation, suspension or adverse alteration of any of them, and Purchaser is not aware of any existing matters or state of facts which is reasonably likely to give rise to any such notice or proceeding.

(b) *Governmental Authorizations.* Except for the filing of applications and notices with, and the receipt of consents, authorizations, approvals, exemptions or nonobjections from, as applicable, the Governmental Authorities set forth on Section 4.3 of the Purchaser Disclosure Schedule (the Purchaser Required Approvals ), no consents, or approvals of or filings or registrations with any Governmental Authority are necessary on the part

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of Purchaser or its Affiliates in connection with the execution and delivery by Purchaser of this Agreement and the consummation by Purchaser of the Contemplated Transactions. As of the date of this Agreement and as of the Closing Date, Purchaser does not know of any reason why any of the Purchaser Required Approvals will not be obtained or that any of the Purchaser Required Approvals will not be granted without imposition of a burdensome condition.

4.4 Regulatory Reports. Purchaser has filed with the FDIC, the Arkansas State Bank Department and any other applicable Governmental Authorities, as the case may be, in correct form in all material respects the reports, returns and filing information data required to be filed under any applicable Legal Requirement, including any and all federal and state banking authorities, and such reports were complete and accurate in all material respects and in compliance in all material respects with any applicable Legal Requirement. As of their respective dates (or, if amended, as of the date of such amendment), such reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading.

4.5 Deposits. All of the deposits held by Centennial (including the records and documentation pertaining to such deposits) have been established and are held in compliance in all material respects with (i) all applicable policies, practices and procedures of Centennial, and (ii) all applicable Legal Requirements, including anti-money laundering, anti-terrorism, or embargoed persons requirements. All of the deposits held by Centennial Bank are insured to the maximum limit set by the FDIC and the FDIC premium and all assessments have been fully paid, and no proceedings for the termination or revocation of such insurance are pending, or, to the Knowledge of Purchaser, threatened.

### 4.6 Financial Matters.

(a) *Purchaser's Financial Statements*. Purchaser's audited financial statements for year ended December 31, 2012, were filed on March 4, 2013, with the Securities and Exchange Commission on Form 10-K (the Purchaser Audited Financial Statements), and its unaudited financial statements for quarter ended March 31, 2013, were filed on May 7, 2013, with the Securities and Exchange Commission on Form 10-Q (the Purchaser Interim Financial Statements). The Purchaser Audited Financial Statements and the Purchaser Interim Financial Statements (i) are true, accurate and complete in all material respects, (ii) have been prepared in accordance with GAAP and regulatory accounting principles consistently applied except as may be otherwise indicated in the notes thereto and except with respect to the Purchaser Interim Financial Statements for the omission of footnotes and (iii) fairly present in all material respects the financial condition of Purchaser as of the respective dates set forth therein and the results of operations, stockholders' equity and cash flows of Purchaser for the respective periods set forth therein, subject in the case of the Purchaser Interim Financial Statements to year-end adjustments (none of which are reasonably expected to be material). The consolidated financial statements of Purchaser to be prepared after the date of this Agreement and prior to the Closing (A) will be true, accurate and complete in all material respects, (B) will have been prepared in accordance with GAAP and regulatory accounting principles consistently applied except as may be otherwise indicated in the notes thereto and except with respect to unaudited financial statements for the omission of footnotes and (C) will fairly present in all material respects the financial condition of Purchaser as of the respective dates set forth therein and the results of operations, stockholders' equity and cash flows of Purchaser for the respective periods set forth therein, subject in the case of unaudited financial statements to year-end adjustments (none of which would reasonably be expected to be material).

(b) *Call Reports*. Purchaser has previously delivered to Company true and complete copies of the Call Reports of Centennial for the periods ending December 31, 2012, and March 31, 2013. The financial statements contained in such Call Reports (i) are true, accurate and complete in all material respects, (ii) have been prepared in accordance with GAAP and regulatory accounting principles consistently applied, except as may be otherwise indicated in the notes thereto and except for the omission of footnotes, and (iii) fairly present in all material respects the financial condition of Centennial Bank as of the respective dates set forth therein and the results of

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operations and stockholders' equity for the respective periods set forth therein, subject to year-end adjustments (none of which are reasonably expected to be material). The financial statements contained in the Call Reports of Centennial to be prepared after the date of this Agreement and prior to the Closing (A) will be true, accurate and complete in all material respects, (B) will have been prepared in accordance with GAAP and regulatory accounting principles consistently applied, except as may be otherwise indicated in the notes thereto and except for the omission of footnotes, and (C) will fairly present in all material respects the financial condition of Centennial as of the respective dates set forth therein and the results of operations and stockholders' equity for the respective periods set forth therein, subject to year-end adjustments (none of which are reasonably expected to be material).

(c) *Systems and Processes.* Purchaser has in place sufficient systems and processes that are customary for a bank of the size of Centennial and that are designed to (x) provide reasonable assurances regarding the reliability of Purchaser's financial statements and (y) in a timely manner accumulate and communicate to Purchaser's principal executive officer and principal financial officer the type of information that would be required to be disclosed in Purchaser's financial statements.

(d) *Auditor Independence.* During the periods covered by the Call Reports, Purchaser's external auditor was independent of Purchaser and its management. As of the date hereof, Purchaser's external auditor has not resigned or been dismissed as a result of or in connection with any disagreements with Purchaser on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(e) *Books and Records.* The books and records of Purchaser have been and are being maintained in the Ordinary Course of Business in accordance and compliance with all applicable accounting requirements and Legal Requirements and are complete in all material respects to reflect corporate actions by Purchaser.

4.7 Tax Matters.

(a) Purchaser has filed all federal income tax returns and all other material tax returns required to be filed by it. All such tax returns were true, correct and complete in all material respects and accurately reflected in all material respects the taxable income (or other measure of tax) of Centennial.

(b) Purchaser has paid all material taxes required to be paid by it, its Subsidiaries or the consolidated, combined, affiliated, unitary or other tax group including Purchaser, whether or not shown on any tax return. Purchaser has established reserves in accordance with GAAP that are adequate for the payment of all taxes not yet due and payable with respect to its assets and operations.

(c) Purchaser has withheld and paid to the appropriate taxing authority all material taxes required to be withheld and paid, including in connection with any amounts owing to any employee, independent contractor, creditor, stockholder or other third party and all Forms W-2 and 1099 and any other forms required with respect thereto have been properly completed and timely filed.

(d) Purchaser has not received from any taxing authority written notice of, and, to the Knowledge of Purchaser, there is not threatened, any audit, claim, action, suit, request for information, ruling, determination, investigation or administrative or judicial proceeding that is pending or being conducted with respect to taxes of Purchaser. Purchaser has not received from any taxing authority (including in jurisdictions in which Centennial Bank or its Subsidiaries has not filed tax returns) written notice of, and, to the Knowledge of Purchaser, there is not threatened, any proposed assessment, adjustment or deficiency for any amount of taxes proposed, asserted, or assessed against Purchaser. Purchaser is not a party to or bound by any tax sharing, allocation or indemnification agreement or similar agreement or arrangement.

(e) During the five-year period ending on the Closing Date, Purchaser has not been a distributing corporation as the term is defined in Section 355 of the Code.

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(f) Purchaser will not be required, for income tax purposes for any taxable period ending after the Closing Date, to include in its taxable income any item of income or gain or to exclude from its taxable income any item of deduction or loss as a result of any (i) change in method of accounting under Section 481(c) of the Code (or any corresponding or similar provision of state, local or foreign law) for a taxable period ending on or prior to the Closing Date, (ii) closing agreement under Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign law) executed on or prior to the Closing Date, (iii) installment sale or open transaction disposition occurring on or prior to the Closing Date, or (iv) prepaid amount received on or prior to the Closing Date for which adequate reserves have not been established in accordance with GAAP.

(g) There are no liens or encumbrances for taxes on any of the assets of Purchaser other than liens or encumbrances for taxes not yet due and payable.

(h) No written claim has been received in the last six years by Purchaser from a taxing authority in a jurisdiction where it does not file tax returns that it is or may be subject to taxation by that jurisdiction or should have been included in a combined, consolidated, affiliated, unitary or other group tax return of that jurisdiction.

(i) Purchaser has not engaged in any reportable transactions within the meaning of Treasury Regulations Section 1.6011-4(b).

4.8 Litigation and Claims. There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Purchaser is a party or of which any of its property is the subject.

4.9 Brokers or Finders. Except for the Broker's Fees disclosed in Section 4.9 of the Purchaser Disclosure Schedule, neither Purchaser nor any of its representatives has incurred any liability for brokerage or finders' fees or agents' commissions or other similar payments in connection with the Contemplated Transactions.

4.10 Purchaser Information. The information relating to Purchaser that is provided by Purchaser or its representatives for inclusion in the Joint Proxy Statement and Form S-4, or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Authority in connection with the Contemplated Transactions, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The portions of the Joint Proxy Statement relating to Purchaser and other portions within the reasonable control of Purchaser and its Subsidiaries will comply in all material respects with the provisions of the Exchange Act, and the rules and regulations thereunder.

4.11 Regulatory Capitalization. Centennial is well-capitalized, as such term is defined in the rules and regulations promulgated by the FDIC.

4.12 Allowance for Loan Losses. Centennial's allowance for loan losses as reflected in the latest balance sheet included in the Purchaser Audited Financial Statements and in the balance sheet as of March 31, 2013, included in the Purchaser Interim Financial Statements, was, in the opinion of management, as of each of the dates thereof, in compliance with Centennial's existing methodology for determining the adequacy of its allowance for loan losses as well as the standards established by applicable Governmental Authority, the Financial Accounting Standards Board and GAAP.

4.13 Investment Intent. HBI is acquiring the shares of LBI Common Stock for its own account and not with the view toward distribution within the meaning of Section 2(a)(11) of the Securities Act of 1933, as amended (the Securities Act), other than in compliance with all applicable Legal Requirements, including United States federal securities laws.

4.14 Non-reliance. Purchaser acknowledges and agrees that in entering into this Agreement it has not relied and is not relying on any representations, warranties or other statements whatsoever, whether written or oral

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(from or by Company or any Person acting on its behalf) other than those expressly set out in this Agreement (or other related documents referred to herein) and that it will not have any right or remedy rising out of any representation, warranty or other statement not expressly set out in this Agreement.

**ARTICLE V.**

**PRE-CLOSING MATTERS AND OTHER COVENANTS**

5.1 **Operations until Closing.** Except as expressly otherwise provided in this Agreement or as may be otherwise required by any Governmental Authority having jurisdiction of Company, unless otherwise agreed or consented to in writing by HBI, which agreement or consent shall not be unreasonably withheld or delayed, from the date of this Agreement to the Closing:

(a) **Conduct of Business.** Company shall: (i) carry on and conduct its business in all material respects in the Ordinary Course consistent with past practice; (ii) use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships with, but not limited to, customers, suppliers and employees, and retain the services of its key officers and key employees; (iii) take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of Company or Purchaser to obtain any necessary approvals of any Governmental Authority required for the Contemplated Transactions or to perform its covenants and agreements under this Agreement or to consummate the Contemplated Transactions; (iv) maintain its books and records in the usual, regular and ordinary manner; (v) renew and maintain liability insurance policies for Company with reasonably comparable coverage and amounts and terms and conditions which are not less advantageous than Company's existing policy at an amount not to exceed more than 200% of the amount expended by Company for prior coverage; and (vi) provide to Purchaser and its employees, representatives and agents, reasonable access during normal business hours to Company's personnel and its facilities and properties, to its books and records, and to all, or true copies of all, title documents, indentures, contracts, encumbrances, instruments, leases and other documents relating to its business, and furnish them with all such information relating to its business as Purchaser from time to time reasonably requests; provided that (A) all such materials shall be made available to Purchaser and its employees, representatives and agents at the premises of Company and may not be removed therefrom without Company's consent, and (B) in exercising such access rights, Purchaser and its employees, representatives and agents shall not unduly disturb or interfere with the activities of Company or Liberty Bank's customers.

(b) **Company Forbearances.** Without prior approval of HBI, Company shall not: (i) enter into any new line of business or materially change its lending, investment, underwriting, risk and asset liability management, and other banking and operating policies, except as required by any applicable Legal Requirement or policies imposed by any Governmental Authority; (ii) make any capital expenditures in excess of Fifty Thousand Dollars (\$50,000) individually, other than as required pursuant to contracts already entered into; (iii) terminate, enter into, amend, modify or renew any Benefit Arrangement, Company Significant Agreement or Material Permit, other than in the Ordinary Course of Business; (iv) issue, sell or otherwise permit to become outstanding, or dispose of or encumber or pledge, or authorize or propose the creation of, any additional shares of Company's stock or any additional options or other rights, grants or awards with respect to Company's stock; (v) make, declare, pay or set aside for payment any dividend on or in respect of, or declare or make any distribution on any shares of its capital stock other than LBI's usual and customary dividend of \$2.25 per share during the third quarter of 2013 (to be paid on August 1, 2013) and its usual and customary dividend of \$2.25 per share during the fourth quarter of 2013 (to be paid on February 1, 2014, if the Closing has not occurred by December 31, 2013); (vi) sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of its assets, deposits, businesses or properties, except for sales, transfers, mortgages, encumbrances or other dispositions or discontinuances in the Ordinary Course of Business consistent with past practice and in a transaction that individually or taken together with all other such transactions is not material to Company; (vii) incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for the obligations of, any other Person, provided that Liberty Bank may continue to

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purchase federal funds and borrow money from the Federal Home Loan Bank System, the Federal Reserve or any other Governmental Authority in a manner consistent with past practice; (viii) make, renew or amend any extension of credit, individually or in the aggregate with other extensions of credit to the same relationship, in excess of Five Hundred Thousand Dollars (\$500,000); provided that Liberty Bank may renew or amend any extension of credit in the Ordinary Course of Business and consistent with past practice less than One Million Dollars (\$1,000,000) if, with respect to a pre-existing relationship with a borrower, (A) there has been no material adverse change in the relationship with such borrower, or (B) there has been such a material adverse change but Liberty Bank is attempting to mitigate loss with respect to the borrower in the Ordinary Course of Business and consistent with past practice; (ix) enter into, renew or amend any interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements, whether entered into for its account or for the account of a customer of it, except in the Ordinary Course of Business and consistent with past practice; (x) acquire (other than by way of foreclosures, acquisitions of control in a fiduciary or similar capacity, acquisitions of loans or participation interests, or in satisfaction of debts previously contracted in good faith, in each case in the Ordinary Course of Business and consistent with past practice) all or any portion of the assets, business, deposits or properties of any other Person; (xi) merge or consolidate with or into any legal entity, dissolve, liquidate, or otherwise terminate its existence; (xii) file any application to establish, or to relocate or terminate the operations of, any banking office; (xiii) amend the Company Articles or Company Bylaws or similar organizational documents for its Subsidiaries or otherwise add, amend or modify in any respect the duties or obligations of indemnification by Company with respect to any of its respective directors, officers, employees, agents or other Persons; (xiv) implement or adopt any change in its accounting principles, practices or methods, other than as may be required by GAAP or applicable accounting requirements of a Governmental Authority; (xv) make, change or revoke any tax election, file any amended tax return (unless to correct an error with the prior written consent of HBI, such consent not to be unreasonably withheld or delayed), enter into any closing agreement, settle any tax audit, claim or assessment, surrender or reduce any right to claim a refund of taxes, agree to extend any statute of limitations relating to taxes, fail to duly and timely file with appropriate taxing authorities all tax returns required to be filed by or with respect to Company or fail to remit any taxes due, whether or not shown on any tax return; (xvi) without the prior written consent of HBI, such consent not to be unreasonably withheld or delayed, settle any action, suit, claim or proceeding against Company, except for any action, suit, claim or proceeding arising out of or in connection with this Agreement or the Contemplated Transactions or for any other action, suit, claim or proceeding that is settled in a manner consistent with past practice in an amount or for consideration not in excess of One Hundred Thousand Dollars (\$100,000) that would not (A) impose any material restriction on the business, after the Closing, of Purchaser or its Affiliates or (B) create precedent for claims that are reasonably likely to be material to Liberty Bank or, after the Closing, Purchaser or its Affiliates; (xvii) other than in the Ordinary Course of Business and consistent with past practice, terminate, enter into, amend, modify (including by way of interpretation) or renew any employment, consulting, severance, change in control or similar contract, agreement or arrangement with any director, officer, employee or consultant, or other than in the Ordinary Course of Business and consistent with past practice, grant any salary or wage increase or increase any employee benefit, including incentive or bonus payments (or, with respect to any of the preceding, communicate any intention to take such action), except to make changes that are required by any applicable Legal Requirements; (xviii) terminate, enter into, establish, adopt, amend, modify (including by way of interpretation), make new grants or awards under or renew any Benefit Arrangement, except (A) as required by applicable Legal Requirements, or (B) to satisfy contractual obligations existing as of the date hereof described in Section 5.1(b) of the Company Disclosure Schedule; (xix) (A) grant, extend, amend (except as required in the diligent prosecution of the Proprietary Rights owned (beneficially, and of record where applicable) by or developed for Company, waive, or modify any material rights in or to, sell, assign, lease, transfer, license, let lapse, abandon, cancel, or otherwise dispose of, or extend or exercise any option to sell, assign, lease, transfer, license, or otherwise dispose of, any Proprietary Rights, or (B) fail to exercise a right of renewal or extension under any material agreement under which Company is licensed or otherwise permitted by a third party to use any Proprietary Rights (other than shrink wrap or click through licenses), unless Company obtains a substantially similar license or right to use such Proprietary Rights on terms as favorable as the terms under the existing agreement; (xx) participate in any program sponsored or administered by any Governmental Authority, which program is not part of the usual and customary banking business of Liberty

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Bank; (xxi) engage in (or modify in a manner adverse to Company) any transactions with any Person known to be a shareholder of LBI or any director or officer of Company (or any Affiliate of any such Person), other than deposit relationships in the Ordinary Course of Business consistent with past practice and extensions of credit which are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with Persons unaffiliated with Company and did not involve more than the normal risk of collectability or present other unfavorable features; (xxii) notwithstanding any other provision hereof, knowingly take, or knowingly omit to take, any action that would result in any of the conditions set forth in Article VI not being satisfied, or any action that would result in any of the representations and warranties of Company in this Agreement becoming untrue or prevent Company from performing its obligations under this Agreement or consummating the Closing; (xxiii) enter into any contract with respect to, or otherwise agree or commit to do, any of the foregoing; or (xxiv) enter into, or extend, any leases or rental agreements.

5.2 Confidentiality. Each party acknowledges that any information, materials and documentation it receives or observes pursuant to or as contemplated by the Contemplated Transactions, either before or after execution of this Agreement, is confidential; provided, however, that the foregoing shall not include information which (a) is or becomes available to the public other than as a result of a disclosure by the recipient party, (b) was known to the recipient party or in its possession prior to its disclosure to the recipient party, (c) becomes available to the recipient party from a source other than the disclosing party, provided that such source is not known by the recipient party to be bound by a confidentiality agreement with the disclosing party and is not otherwise prohibited from transmitting the information to the recipient party by a contractual, legal or fiduciary obligation, or (d) is or was developed independently by the recipient party without reference to confidential information provided by the disclosing party. Each party shall take, and shall cause its employees, representatives and agents to take, all reasonable steps and precautions to protect and maintain the confidentiality of such information, materials and documentation; provided that the foregoing will not prevent Purchaser from disclosing or making available to its and its Affiliates' respective directors, officers, employees, members, partners, agents, representatives or advisors (including, without limitation, attorneys, accountants, insurers, rating agencies, consultants, bankers and financial advisors) any such information, materials and documentation on a confidential basis for the purpose of carrying out the Contemplated Transactions, or to the extent required by a Legal Requirement. Notwithstanding the foregoing, the parties shall continue to comply in all respects with the Confidentiality Agreement.

5.3 Return of Information. If the Contemplated Transactions pursuant to this Agreement are not completed, each party shall, upon the written request of the other party, return to the other party or destroy (such destruction to be confirmed in writing to the other party upon written request) all materials, documentation, data, records and other papers and copies thereof (whether on paper or in electronic, magnetic, photographic, mechanical or optical storage) relating to Purchaser or its Affiliates or to Company or its Affiliates which is confidential and which is in the possession of such party and maintain the confidentiality of all information or knowledge obtained from the other party, and not use any such information or knowledge for any purpose whatsoever; provided that a party may maintain such information to the extent required by applicable Legal Requirements or such party's established document retention policies (including any requirement to retain e-mail on an automated e-mail archival system) or relating to the safeguarding or backup storage of electronic data or in connection with a legal dispute with the other party. Notwithstanding the foregoing, the parties shall continue to comply in all respects with the Confidentiality Agreement.

5.4 Consents and Approvals.

(a) *Purchaser Required Approvals*. Purchaser agrees to use commercially reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under any applicable Legal Requirement to consummate the Contemplated Transactions (the Purchaser Required Approvals ).

(b) *Preparation of Applications*. Subject to the terms and conditions of this Agreement, each of the parties to the Agreement agrees to use commercially reasonable best efforts to publish or cause to be published all



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required notices and prepare all necessary documentation and effect all necessary filings in order to obtain the Purchaser Required Approvals. Purchaser and Company will cooperate with each other and will each furnish the other and the other's counsel with all information concerning themselves, their Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with any application, petition or any other statement or application made by or on behalf of Purchaser, Company or their respective Subsidiaries to any Governmental Authority in connection with the Contemplated Transactions. Purchaser and Company shall have the right to review and approve in advance all characterizations of the information relating to them and any of their respective Subsidiaries which appear in any filing made, or written materials submitted, in connection with the Contemplated Transactions with any Governmental Authority.

(c) *Submission of Applications for Purchaser Required Approvals.* Purchaser and Company shall use their commercially reasonable best efforts to:

- i. cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry relating to the Purchaser Required Approvals, including but not limited to Purchaser, Company and their respective Subsidiaries cooperating and using commercially reasonable best efforts to make, on a timely basis, all registrations, filings and applications with, give all notices to, and obtain any approvals, orders, qualifications and waivers from a Governmental Authority necessary for the consummation of the transactions contemplated hereby; provided, however, that neither Company nor any of its Affiliates and neither Purchaser nor any of its Affiliates shall be required to commence or be a plaintiff in any litigation in connection with any such registration, filing, application, notice, approval, order, qualification or waiver;
- ii. subject to any Legal Requirement, permit each other to review and discuss in advance, and consider in good faith the views of the other in connection with, any proposed written communication (or other correspondence or memoranda) between any such party and any Governmental Authority relating to the other party; and
- iii. promptly inform each other of and supply to each other any written communication (or other correspondence or memoranda) received by them from any Governmental Authority, in each case regarding any of the Contemplated Transactions.

(d) *Access and Investigation.* Without in any way limiting anything else contained in this Agreement, Company shall, in connection with the procurement of any and all Purchaser Required Approvals, permit Purchaser and its representatives reasonable access to the properties and personnel of Company, and shall disclose and make available to Purchaser and its representatives all books, papers and records relating to the assets, stock ownership, properties, operations, obligations and liabilities of Company, including, without limitation, all books of account (including the general ledger), tax records, minute books of meetings of boards of directors (and any committees thereof) and stockholders, organizational documents, bylaws, material contracts and agreements, filings with any regulatory authority (except for any confidential portions thereof), accountants' work papers, litigation files, loan files, plans affecting employees and any other business activities or prospects; provided, that such access shall be reasonably related to the procurement of the Purchaser Required Approvals hereunder and, in the reasonable opinion of Company, not unduly interfere with normal operations or violate any Legal Requirement. Without in any way limiting anything else contained in this Agreement, Company shall make their respective directors, officers, employees and agents and authorized representatives (including counsel and independent public accountants) available to confer with the other party and their representatives; provided, that such access shall be reasonably related to the procurement of the Purchaser Required Approvals hereunder and shall not unduly interfere with normal operations.

5.5 Public Announcements. Other than mutually agreed upon press releases and other materials to be issued upon the announcement of this Agreement or thereafter, with respect to which the parties shall cooperate in good faith to jointly prepare or communicate consistent with the joint communication policy of the parties, from and after the date hereof, neither party shall make any public announcement or public comment regarding this

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Agreement or the Contemplated Transactions without the prior written consent of the other party (which consent shall not be unreasonably withheld, delayed or conditioned), unless and only to the extent that (i) the furnishing or use of information is required in making any filing or obtaining any Governmental Authorization required for the consummation of the Contemplated Transactions or (ii) the furnishing or use of such information is required by Legal Requirements, legal proceedings or the rules or regulations of the SEC.

5.6 Preparation and Filing of Tax Returns; Taxes. Company shall timely prepare and file (or cause to be prepared and filed) Company tax returns, and shall prepare all Company tax returns in a manner consistent with prior practice unless otherwise required by applicable law or unless Purchaser consents to such different treatment, such consent not to be unreasonably withheld. Company shall provide (or cause to be provided) to Purchaser a copy of any Company tax return at least twenty (20) Business Days prior to the due date for filing such return, and Purchaser shall have ten (10) Business Days in which to review and comment on such return prior to the filing thereof. Company shall not unreasonably withhold its consent to reflecting such Purchaser comments on such returns to the extent permitted by applicable law. Purchaser and Company agree to report all transactions not in the ordinary course of business occurring on the Closing Date after the Closing on Purchaser's federal and state income tax returns to the extent permitted by Treasury Regulations Section 1.1502-76(b)(1)(ii)(B).

## **ARTICLE VI.**

### **ADDITIONAL AGREEMENTS**

#### **6.1 Regulatory Matters.**

(a) Purchaser and Company shall promptly prepare and file with the SEC the Form S-4, in which the Joint Proxy Statement will be included as a prospectus. Each of Purchaser and Company shall use its commercially reasonable best efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing, and each of LBI and HBI shall thereafter mail or deliver the Joint Proxy Statement to its shareholders. Purchaser shall also use its commercially reasonable best efforts to obtain all necessary state securities law or blue sky permits and approvals required to carry out the Contemplated Transactions, and Company shall furnish all information concerning Company and the holders of LBI Common Stock as may be reasonably requested in connection with any such action.

(b) The parties shall cooperate with each other and use their respective commercially reasonable best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and Governmental Authorities that are necessary or advisable to consummate the Contemplated Transactions as soon as possible, and in any event no later than March 1, 2014, to the extent reasonably practicable, and to comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such third parties or Governmental Authorities. Company and Purchaser shall have the right to review in advance and, to the extent practicable, each will consult the other on, in each case subject to applicable laws, all the non-confidential information relating to Company or Purchaser (excluding any confidential financial information relating to individuals), as the case may be, and any of their respective Subsidiaries, that appear in any filing made with, or written materials submitted to, any third party or any Governmental Authority in connection with the Contemplated Transactions. In exercising the foregoing right, each of the parties shall act reasonably and as promptly as practicable. The parties shall consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Authorities necessary or advisable to consummate the Contemplated Transactions and each party will keep the other apprised of the status of matters relating to completion of the Contemplated Transactions. Each party shall consult with the other in advance of any meeting or conference with any Governmental Authority in connection with the Contemplated Transactions and to the extent permitted by such Governmental Authority, give the other party and/or its counsel the opportunity to attend and participate in such meetings and conferences.

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(c) Each of Purchaser and Company shall, upon request, furnish to the other all information concerning itself, its Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the Joint Proxy Statement, the Form S-4 or any other statement, filing, notice or application made by or on behalf of Purchaser, Company or any of their respective Subsidiaries to any Governmental Authority in connection with the Merger and the other Contemplated Transactions. Each of Purchaser and Company agrees, as to itself and its Subsidiaries, that none of the information supplied or to be supplied by it for inclusion or incorporation by reference in (i) the Form S-4 will, at the time the Form S-4 and each amendment or supplement thereto, if any, becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Joint Proxy Statement and any amendment or supplement thereto will, at the date of mailing to shareholders and at the time of Company's meeting of its shareholders to consider and vote upon approval of this Agreement, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which such statement was made, not misleading. Each of Purchaser and Company further agrees that if it becomes aware that any information furnished by it would cause any of the statements in the Form S-4 or the Joint Proxy Statement to be false or misleading with respect to any material fact, or to omit to state any material fact necessary to make the statements therein not false or misleading, to promptly inform the other party thereof and to take appropriate steps to correct the Form S-4 or the Joint Proxy Statement.

(d) In furtherance and not in limitation of the foregoing, each of Purchaser and Company shall use its commercially reasonable best efforts to (i) avoid the entry of, or to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that would restrain, prevent or delay the Closing, and (ii) avoid or eliminate each and every impediment under any applicable law and resolve any questions or issues raised by any Governmental Authority so as to enable the Closing to occur as soon as possible, and in any event no later than March 1, 2014, including, without limitation, making expenditures and incurring costs, raising capital, divesting or otherwise disposing of businesses or assets of Purchaser, Company and their respective Subsidiaries, effecting the dissolution, internal merger or consolidation of Subsidiaries of Purchaser or Company effective upon the Effective Time, or enhancing internal controls (including by increasing staffing levels and external hires).

(e) Each of Purchaser and Company shall promptly advise the other upon receiving any communication from any Governmental Authority the consent or approval of which is required for consummation of the Contemplated Transactions that causes such party to believe that there is a reasonable likelihood that any Requisite Regulatory Approval will not be obtained or that the receipt of any such approval may be materially delayed.

**6.2 Access to Information.**

(a) Upon reasonable notice and subject to applicable laws, Company shall, and shall cause each of its Subsidiaries to, afford to the officers, employees, accountants, counsel, advisors, agents and other representatives of Purchaser, reasonable access, during normal business hours during the period prior to the Effective Time or the termination of this Agreement in accordance with its terms, to all its properties, books, contracts, commitments, personnel and records, and, during such period, Company shall, and shall cause its Subsidiaries to, make available to Purchaser (i) a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal securities laws or federal or state banking or insurance laws (other than reports or documents that Company is not permitted to disclose under applicable law), (ii) all other information concerning its business, properties and personnel as Purchaser may reasonably request and (iii) access to the necessary information (including Company's own good faith estimates as available and third-party reports, if any, commissioned by Company at Purchaser's request) in order to prepare a good faith estimate of the potential impact of Sections 280G and 4999 of the Code with respect to amounts potentially payable to senior executives of Company in connection with the consummation of the Contemplated Transactions. Upon the reasonable request of Purchaser, Company shall furnish such reasonable information

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about it and its business as is relevant to Company and the LBI shareholders in connection with the Contemplated Transactions, including such title reports and environmental reports pertaining to Company Real Property not previously made available to Purchaser. Neither Company nor Purchaser, nor any of their Subsidiaries shall be required to provide access to or to disclose information to the extent such access or disclosure would jeopardize the attorney-client privilege of such party or its Subsidiaries (after giving due consideration to the existence of any common interest, joint defense or similar agreement between the parties) or contravene any law, rule, regulation, order, judgment, decree, fiduciary duty or binding agreement entered into prior to the date of this Agreement. The parties shall make appropriate substitute disclosure arrangements under circumstances in which the restrictions of the preceding sentence apply.

(b) All nonpublic information and materials provided pursuant to this Agreement shall be subject to the provisions of the Confidentiality Agreement.

(c) No investigation by a party hereto or its representatives shall affect or be deemed to modify or waive any representations, warranties or covenants of the other party set forth in this Agreement.

6.3 Shareholder Approval.

(a) The board of directors of LBI has resolved to recommend to LBI's shareholders that they approve this Agreement (the LBI Board Recommendation) and, subject to Sections 6.8(b)-(c) and 8.1(e), will submit to LBI's shareholders this Agreement and any other matters required to be approved by its shareholders in order to carry out the intentions of this Agreement. Subject to Section 8.1(e), LBI shall duly take, in accordance with applicable law and the Company Articles and Company Bylaws, all action necessary to call, give notice of, convene and hold a meeting of its shareholders, as promptly as reasonably practicable after the Form S-4 is declared effective under the Securities Act by the SEC, for the purpose of obtaining the LBI Shareholder Approval (the LBI Shareholder Meeting). Subject to Sections 6.8(b)-(c) and 8.1(e), the board of directors of Company will include in the Joint Proxy Statement the LBI Board Recommendation and use all commercially reasonable best efforts to obtain from its shareholders the LBI Shareholder Approval. Unless this Agreement is terminated in accordance with its terms, including pursuant to Section 8.1(e) hereof, nothing otherwise contained in this Agreement shall be deemed to relieve Company of its obligation to submit this Agreement to its shareholders for a vote. For purposes of this Agreement, LBI Shareholder Approval shall mean the affirmative vote of a majority of all the votes entitled to be cast by holders of outstanding LBI Common Stock.

(b) The board of directors of HBI has resolved to recommend to HBI's shareholders that they approve the issuance of HBI Common Stock in connection with the Merger for purposes of NASDAQ Listing Rule 5635 (the HBI Board Recommendation), and will submit to its shareholders the proposed issuance of HBI Common Stock and any other matters required to be approved by its shareholders in order to carry out the intentions of this Agreement. HBI shall duly take, in accordance with applicable law and the governing organization documents of HBI, all action necessary to call, give notice of, convene and hold a meeting of its shareholders, as promptly as reasonably practicable after the Form S-4 is declared effective under the Securities Act by the SEC, for the purpose of obtaining the HBI Shareholder Approval (the HBI Shareholder Meeting). The board of directors of HBI will include in the Joint Proxy Statement the HBI Board Recommendation and use all commercially reasonable best efforts to obtain from its shareholders the HBI Shareholder Approval. Nothing contained in this Agreement shall be deemed to relieve HBI of its obligation to submit this Agreement to its shareholders to a vote. For purposes of this Agreement, HBI Shareholder Approval shall mean the affirmative vote of a majority of all the votes entitled to be cast by holders of outstanding HBI Common Stock.

(c) If on the date of the LBI Shareholder Meeting, LBI has not received proxies representing a sufficient number of shares of LBI Common Stock to obtain the LBI Shareholder Approval, LBI shall adjourn the LBI Shareholder Meeting until such date as shall be mutually agreed upon by LBI and HBI, which date shall not be less than five (5) days nor more than ten (10) days after the date of adjournment, and subject to the terms and conditions of this Agreement shall continue to use all commercially reasonable best efforts, together with its

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proxy solicitor, to assist in the solicitation of proxies from shareholders relating to the LBI Shareholder Approval. LBI shall only be required to adjourn or postpone the LBI Shareholder Meeting one time pursuant to this Section 6.3(c).

(d) If on the date of the HBI Shareholder Meeting, HBI has not received proxies representing a sufficient number of shares of HBI Common Stock to obtain the HBI Shareholder Approval, HBI shall adjourn the HBI Shareholder Meeting until such date as shall be mutually agreed upon by LBI and HBI, which date shall not be less than five (5) days nor more than ten (10) days after the date of adjournment, and subject to the terms and conditions of this Agreement shall continue to use all commercially reasonable best efforts, together with its proxy solicitor, to assist in the solicitation of proxies from shareholders relating to the HBI Shareholder Approval. HBI shall only be required to adjourn or postpone the HBI Shareholder Meeting one time pursuant to this Section 6.3(d).

6.4 NASDAQ Listing. HBI shall cause the shares of HBI Common Stock to be issued in the Merger to have been authorized for listing on the NASDAQ Stock Exchange, subject to official notice of issuance, prior to the Effective Time.

6.5 Employee Matters.

(a) Purchaser shall, or shall cause the Surviving Corporation to, provide each employee who is actively employed by Company and its Subsidiaries on the Closing Date (each a Continuing Employee ) while employed by Purchaser or any of its Subsidiaries following the Effective Time with employee benefits which, in the aggregate, are no less favorable than employee benefits provided by Purchaser to similarly situated employees of Purchaser; provided, however, that until such time as Purchaser shall cause Continuing Employees to participate in the benefit plans of Purchaser, a Continuing Employee's continued participation in the Employee Benefit Plans shall be deemed to satisfy the foregoing provision of this sentence (it being understood that participation in Purchaser benefit plans may commence at different times with respect to each Employee Benefit Plan). Accordingly, Company shall cooperate with Purchaser to ensure that from the Closing Date through the next open enrollment date for Purchaser's group health, dental, vision and life insurance plans, the Continuing Employees shall continue to be covered by Company's group health, dental, vision and life insurance plans; provided, however, that Company shall terminate, effective as of the Effective Time, its plans and programs with respect to long term care and health savings accounts.

(b) Upon Continuing Employees' enrollment in Purchaser's employee benefit plans, such Continuing Employees will, consistent with the provisions of Section 6.5(a) above, become participants in all Purchaser's employee benefit plans, practices, and policies on the same terms and conditions as similarly situated employees of Purchaser. Without limiting the generality of the foregoing, prior service credit for each of Continuing Employee's service with Company, except as expressly provided otherwise herein, shall be given by Purchaser with respect to all Purchaser's retirement plans, employee benefit plans, practices, and policies, including, but not limited to, vacations, sick leave and personal time, to the extent that such crediting of service does not result in duplication of benefits, but not for accrual of benefits under any defined benefit. If any Continuing Employee becomes eligible to participate in any Purchaser employee benefit plan, practice, or policy that provides medical, hospitalization or dental benefits, Purchaser shall (A) cause any pre-existing condition limitations or eligibility waiting periods under such Purchaser benefit plan to be waived with respect to such Continuing Employee and his or her covered dependents to the extent such limitation would have been waived or satisfied under the Employee Benefit Plan in which such Continuing Employee participated immediately prior to the Effective Time, and (B) recognize any health expenses incurred by such Continuing Employee and his or her covered dependents in the year that includes the Closing Date (or, if later, the year in which such Continuing Employee is first eligible to participate) for purposes of any applicable deductible and annual out-of-pocket expense requirements under any such Purchaser benefit plan.

(c) From and after the Effective Time, subject to the requirements of applicable law, Purchaser shall assume the employment and change in control arrangements of Continuing Employees who were employed with

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Company or its Subsidiaries as of the date of this Agreement and who continue such employment through the Effective Time; provided, that any changes that were made to such employment or change in control arrangements after July 1, 2013, shall have been discussed with and approved by Purchaser prior to their effectiveness.

(d) Prior to the Closing Date, Company's board of directors (or the appropriate committee thereof) shall adopt resolutions and take such corporate action as is necessary to terminate Company's 401(k) plan (the Company 401(k) Plan) and to ensure that the account balances of the participants in the Company 401(k) Plan are fully vested upon such plan termination, in each case effective as of the day prior to the Closing Date. Following the Effective Time and as soon as practicable following receipt of a favorable determination letter from the IRS on the termination of the Company 401(k) Plan, the assets thereof shall be distributed to the participants, and Purchaser shall take the action necessary (including the amendment of Purchaser's 401(k) Plan (the Purchaser 401(k) Plan)) to permit the Continuing Employees to roll over any eligible rollover distributions (within the meaning of Section 401(a)(31) of the Code, including of loans) in cash or notes (in the case of loans) in an amount equal to the full account balance distributed to such Continuing Employee from the Company 401(k) Plan to the Purchaser 401(k) Plan. Each Continuing Employee shall be eligible immediately as of the Effective Time to participate in the Purchaser 401(k) Plan.

(e) Without limiting the generality of Section 9.10, the provisions of this Section 6.5 are solely for the benefit of the parties to this Agreement, and no current or former employee, independent contractor or any other individual associated therewith shall be regarded for any purpose as a third-party beneficiary of this Agreement. In no event shall the terms of this Agreement be deemed to (i) establish, amend, or modify any Employee Benefit Plan, Purchaser Benefit Plan or any employee benefit plan as defined in Section 3(3) of ERISA, or any other benefit plan, program, agreement or arrangement maintained or sponsored by Purchaser, Company or any of their respective affiliates; (ii) alter or limit the ability of Purchaser or any of its Subsidiaries (including, after the Closing Date, the Surviving Corporation and its Subsidiaries) to amend, modify or terminate any Employee Benefit Plan, Purchaser Benefit Plan, employment agreement or any other benefit or employment plan, program, agreement or arrangement after the Closing Date; or (iii) confer upon any current or former employee, independent contractor or other service provider any right to employment or continued employment or continued service with Purchaser or any of its Subsidiaries (including, following the Closing Date, the Surviving Corporation and its Subsidiaries), or constitute or create an employment or other agreement with any employee, independent contractor or other service provider.

6.6 Indemnification: Directors and Officers Insurance.

(a) From and after the Effective Time, each of HBI and the Surviving Corporation shall indemnify and hold harmless each present and former director and officer of Company and its Subsidiaries (in each case, when acting in such capacity) (collectively, the Indemnified Parties) against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, including the Contemplated Transactions, to the fullest extent permitted under applicable law; and HBI and the Surviving Corporation shall also advance such indemnified expenses as incurred to the fullest extent permitted under applicable law; provided that the Indemnified Party to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such Indemnified Party is not entitled to indemnification.

(b) Subject to the following sentence, for a period of six years following the Effective Time, HBI will provide director's and officer's liability insurance that serves to reimburse the present and former officers and directors of Company or any of its Subsidiaries (determined as of the Effective Time) (providing only for the Side A coverage for Indemnified Parties where the existing policies also include Side B coverage for Company) with respect to claims against such directors and officers arising from facts or events occurring before the Effective Time (including the Contemplated Transactions), which insurance will contain at least the same coverage and amounts, and contain terms and conditions no less advantageous to the Indemnified Party as that

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coverage currently provided by Company; provided that in no event shall HBI be required to expend, on an annual basis, an amount in excess of 150% of the aggregate annual premiums or renewals paid as of the date hereof by Company for any such insurance (the Premium Cap ); provided, further, that if any such annual expense at any time would exceed the Premium Cap, then HBI will cause to be maintained policies of insurance which provide the maximum coverage available at an annual premium equal to the Premium Cap. Prior to the Effective Time and in lieu of the foregoing, Company will use commercially reasonable best efforts to purchase a tail policy for directors and officers liability insurance on the terms described in the prior sentence and fully pay for such policy prior to the Effective Time.

(c) Any Indemnified Party wishing to claim indemnification under Section 6.6(a), upon learning of any claim, action, suit, proceeding or investigation described above, will promptly notify HBI in writing; provided that failure to so notify will not affect the obligations of HBI under Section 6.6(a) unless and to the extent that HBI is actually and materially prejudiced as a consequence.

(d) If HBI or any of its successors or assigns consolidates with or merges into any other entity and is not the continuing or surviving entity of such consolidation or merger or transfers all or substantially all of its assets to any other entity, then and in each case, HBI will cause proper provision to be made so that the successors and assigns of HBI will assume the obligations set forth in this Section 6.6.

6.7 Exemption from Liability Under Rule 16(b)-3. Prior to the Effective Time, Purchaser and Company shall each take all such steps as may be necessary or appropriate to cause any disposition of shares of LBI Common Stock or conversion of any derivative securities in respect of such shares of LBI Common Stock in connection with the consummation of the Contemplated Transactions to be exempt under Rule 16b-3 promulgated under the Exchange Act.

6.8 No Solicitation.

(a) Company shall immediately cease, and Company shall cause each of its representatives to immediately cease, any discussions or negotiations with any parties conducted prior to the date hereof with respect to an Acquisition Proposal. After the execution and delivery of this Agreement, Company and its directors, executive officers and Subsidiaries shall not, and Company shall cause each of its and its Subsidiaries representatives not to, directly or indirectly, (i) solicit, initiate or encourage any inquiry with respect to, or the making of, any proposal that constitutes or could reasonably be expected to lead to an Acquisition Proposal, (ii) participate in any negotiations regarding an Acquisition Proposal with, or furnish any nonpublic information relating to an Acquisition Proposal to, any Person that has made or, to the Knowledge of Company, has indicated without solicitation that it is considering making an Acquisition Proposal, or (iii) engage in discussions regarding an Acquisition Proposal with any Person that has made, or, to the Knowledge of Company, without solicitation is considering making, an Acquisition Proposal, except to notify such Person of the existence of the provisions of this Section 6.8. Notwithstanding the foregoing, if at any time after the date hereof but before approval of this Agreement by LBI's shareholders, (1) Company receives an unsolicited written Acquisition Proposal that LBI's board of directors believes in good faith to be bona fide, (2) such Acquisition Proposal was not the result of a violation of this Section 6.8, (3) LBI's board of directors determines in good faith (after receiving advice from outside counsel and its financial advisor) that such Acquisition Proposal constitutes a Superior Proposal and (4) LBI's board of directors determines in good faith (after receiving advice from outside counsel) that the failure to take the actions referred to in clause (x) or (y) below would be reasonably likely to violate its fiduciary duties under applicable law, then Company may (and may authorize its representatives to) (x) furnish nonpublic information regarding Company to the Person making such Acquisition Proposal (and its representatives) pursuant to a customary confidentiality agreement containing terms substantially similar to, and no less favorable to Company than, those contained in the Confidentiality Agreement with Purchaser, and (y) participate in discussions and negotiations with the Person making such Acquisition Proposal.

(b) The board of directors of LBI shall not (i) withhold, withdraw, amend, modify, change or qualify (or publicly propose to withhold, withdraw, amend, modify, change or qualify), in a manner adverse in any respect to the interests of Purchaser, its recommendation referred to in Section 6.3, or (ii) approve or recommend (or publicly

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propose to approve or recommend or announce its intention to approve, recommend or propose) any Acquisition Proposal (either (i) or (ii), an Adverse Recommendation Change ). Company shall not, and the board of directors of LBI shall not allow Company to, and Company shall not allow any of its Subsidiaries to, enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement or other agreement relating to any Acquisition Proposal. Notwithstanding the foregoing, at any time before obtaining approval of the Merger by LBI's shareholders, LBI's board of directors may, if LBI's board of directors determines in good faith (after receiving advice from outside counsel) that the failure to do so would be reasonably likely to violate its fiduciary duties under applicable law, taking into account all adjustments to the terms of this Agreement that may be offered by Purchaser under this Section 6.8(b), make an Adverse Recommendation Change; provided that Company may not make any Adverse Recommendation Change in response to an Acquisition Proposal unless (x) Company shall not have breached this Section 6.8 in any respect and (y):

(i) LBI's board of directors determines in good faith (after receiving advice from outside counsel and its financial advisor) that such Acquisition Proposal is a Superior Proposal and such Superior Proposal has been made and has not been withdrawn and continues to be a Superior Proposal after taking into account all adjustments to the terms of this Agreement that may be offered by Purchaser under this Section 6.8(b);

(ii) Company has given Purchaser at least four (4) Business Days prior written notice of its intention to take such action, which notice shall specify the material terms and conditions of any such Superior Proposal (including the identity of the party making such Superior Proposal) and has contemporaneously provided an unredacted copy of the relevant proposed transaction agreements with the Person making such Superior Proposal; and

(iii) Before effecting such Adverse Recommendation Change, Company has negotiated, and has caused its representatives to negotiate, in good faith with Purchaser during such notice period to the extent Purchaser wishes to negotiate, to enable Purchaser to revise the terms of this Agreement to give Purchaser the opportunity to match or exceed the terms of the Acquisition Proposal such that such Acquisition Proposal would no longer constitute a Superior Proposal.

In the event of any material change to the terms of such Superior Proposal, Company shall, in each case, be required to deliver to Purchaser a new written notice, the notice period shall have recommenced and Company shall be required to comply with its obligations under this Section 6.8 with respect to such new written notice.

(c) In addition to the obligations of Company under Section 6.8(a) and Section 6.8(b), Company shall notify Purchaser promptly (but in no event later than 24 hours) after receipt of any Acquisition Proposal, or any material modification of or material amendment to any Acquisition Proposal, or any request for nonpublic information relating to Company or any of its Subsidiaries or for access to the properties, books or records of Company or any Subsidiary by any Person that informs LBI's board of directors or any Subsidiary that it is considering making, or has made, an Acquisition Proposal. Such notice to Purchaser shall be made orally and in writing, and shall indicate the identity of the Person making the Acquisition Proposal or intending to make or considering making an Acquisition Proposal or requesting nonpublic information or access to the books and records of Company or any Subsidiary, and the material terms of any such Acquisition Proposal or modification or amendment to an Acquisition Proposal. Company shall keep Purchaser fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such Acquisition Proposal, indication or request. Company shall also promptly, and in any event within 24 hours, notify Purchaser, orally and in writing, if it enters into discussions or negotiations concerning any Acquisition Proposal in accordance with Section 6.8(a).

(d) Nothing contained in this Agreement shall prohibit Company from informing any Person of the existence of the provisions contained in this Section 6.8.

For purposes of this Agreement, an Acquisition Proposal means any proposal or offer other than this Agreement or any amendment hereto after the date hereof with respect to any Acquisition Transaction or any public announcement by any Person (which shall include any regulatory application or notice) of a proposal, plan or intention with respect to any Acquisition Transaction.



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For purposes of this Agreement, an Acquisition Transaction means any of the following (other than the transactions contemplated hereby) involving Company: (a) any merger, consolidation, share exchange, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets that constitute a substantial portion of the assets of Company in a single transaction or series of transactions; or (c) any tender offer or exchange offer for 20% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act, in connection therewith.

For purposes of this Agreement, a Superior Proposal means any unsolicited bona fide Acquisition Proposal (with the percentages set forth in or incorporated into the definition of such term changed from 20% to 50%) that LBI's board of directors determines in good faith (after receiving advice from outside counsel and its financial advisor), taking into account all legal, financial, regulatory and other aspects of the proposal and the Person (or group of Persons) making the proposal (including the Company Termination Fee and conditions to consummation), (A) if consummated, would be more favorable to the shareholders of LBI from a financial point of view than the Contemplated Transactions (including taking into account any adjustment to the terms and conditions proposed by Purchaser in response to such proposal under Section 6.8 or otherwise) and (B) if accepted, is reasonably likely to be completed on the terms proposed on a timely basis.

6.9 Takeover Laws. No party will take any action that would cause the Contemplated Transactions to be subject to requirements imposed by any Takeover Law and each of them will take all necessary steps within its control to exempt (or ensure the continued exemption of) those transactions from, or if necessary challenge the validity or applicability of, any applicable Takeover Law, as now or hereafter in effect. For purposes of this Agreement, Takeover Laws means any moratorium, control share, fair price, interested stockholder or other anti-takeover law and regulations of any jurisdiction.

6.10 Financial Statements and Other Current Information. As soon as reasonably practicable after they become available, but in no event more than 15 days after the end of each calendar month ending after the date hereof, Company will furnish to Purchaser, and Purchaser will furnish to Company, (a) consolidated financial statements (including balance sheets, statements of operations and stockholders' equity) of it or any of its Subsidiaries (to the extent available) as of and for such month then ended, (b) internal management reports showing actual financial performance against plan, and (c) to the extent permitted by applicable law, any reports provided to its board of directors or any committee thereof relating to the financial performance and risk management of it or any of its Subsidiaries.

6.11 Notification of Certain Matters. Company and Purchaser will give prompt notice to the other of any fact, event or circumstance known to it that (a) is reasonably likely, individually or taken together with all other facts, events and circumstances known to it, to result in any Material Adverse Effect with respect to it or (b) would cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein that reasonably could be expected to give rise, individually or in the aggregate, to the failure of a condition in Article VII.

6.12 Company Trust Preferred Securities. Company will cooperate with Purchaser with respect to effecting the redemption of Company's trust preferred securities of Liberty (AR) Statutory Trust I, Liberty (AR) Statutory Trust II, Russellville Statutory Trust I, and the Small Business Lending Fund Preferred Shares.

6.13 Formation of Sub: Accession. As soon as reasonably practicable after the date hereof, HBI shall form Sub as an Arkansas corporation and a wholly-owned subsidiary of HBI. Promptly after incorporating Sub, (x) HBI, as the sole shareholder of Sub, shall approve and adopt this Agreement, and (y) HBI shall cause Sub to accede to this Agreement by executing a signature page to this Agreement, after which time Sub shall be a party hereto for all purposes set forth herein. Notwithstanding any provisions herein to the contrary, the obligations of Sub to perform its covenants under this Agreement shall commence only at the time of its incorporation. Prior to the Effective Time, HBI shall take such actions as are reasonably necessary to cause the board of directors of Sub to unanimously approve this Agreement and declare it advisable for Sub to enter into this Agreement.

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**ARTICLE VII.**

**CONDITIONS PRECEDENT**

7.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of the parties to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) *Shareholder Approval*. The LBI Shareholder Approval and the HBI Shareholder Approval shall have been obtained.

(b) *NASDAQ Listing*. The shares of HBI Common Stock to be issued to the holders of LBI Common Stock upon consummation of the Merger shall have been authorized for listing on the NASDAQ Stock Exchange, subject to official notice of issuance.

(c) *Form S-4*. The Form S-4 shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Form S-4 shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(d) *No Injunctions or Restraints; Illegality*. No order, injunction or decree issued by any court or agency of competent jurisdiction or other law preventing or making illegal the consummation of the Merger or any of the other Contemplated Transactions shall be in effect.

(e) *Regulatory Approvals*. (i) The necessary regulatory approvals from the Federal Reserve and the Arkansas State Bank Department, and (ii) any other regulatory approvals set forth in Sections 3.3 and 4.3, the failure of which to be obtained would reasonably be expected to have a Material Adverse Effect on Purchaser or Company, in each case required to consummate the Contemplated Transactions, including the Merger, shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred to as the Requisite Regulatory Approvals ).

7.2 Conditions to Obligations of Purchaser. The obligation of Purchaser and Sub to effect the Merger is also subject to the satisfaction, or waiver by Purchaser, at or prior to the Effective Time, of the following conditions:

(a) *Representations and Warranties*. The representations and warranties of Company set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date).

(b) *Performance of Obligations of Company*. Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time; and Purchaser shall have received a certificate signed on behalf of Company by the Chief Executive Officer or the Chief Financial Officer of LBI to such effect.

(c) *Tax Opinion*. Purchaser shall have received an opinion of Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., dated the Closing Date and based on facts, representations and assumptions described in such opinion, to the effect that the Mergers, taken together, will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., will be entitled to receive and rely upon any customary certificates and representations of officers of Purchaser and Company.

(d) *Fairness Opinion*. Purchaser shall have received a fairness opinion (the Purchaser Fairness Opinion ) to the effect that the Merger Consideration to be paid by Purchaser is fair to Purchaser and its shareholders from a financial point of view, and the Purchaser Fairness Opinion shall not have been modified or withdrawn.

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7.3 Conditions to Obligations of Company. The obligation of Company to effect the Merger is also subject to the satisfaction or waiver by Company at or prior to the Effective Time of the following conditions:

- (a) *Representations and Warranties*. The representations and warranties of Purchaser set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date).
- (b) *Performance of Obligations of Purchaser*. Purchaser shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Company shall have received a certificate signed on behalf of Purchaser by the Chief Executive Officer or the Chief Financial Officer of HBI to such effect.
- (c) *Tax Opinion*. Company shall have received an opinion dated the Closing Date and based on facts, representations and assumptions described in such opinion, to the effect that the Mergers, taken together, will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, issuer will be entitled to receive and rely upon customary certificates and representations of officers of Purchaser and Company.
- (d) *Fairness Opinion*. Company shall have received a fairness opinion (the Company Fairness Opinion ) to the effect that the Merger Consideration to be received by LBI shareholders is fair to such shareholders from a financial point of view, and the Company Fairness Opinion shall not have been modified or withdrawn.

**ARTICLE VIII.**

**TERMINATION AND AMENDMENT**

8.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of the matters presented in connection with the Merger by the shareholders of LBI or HBI:

- (a) *Mutual Consent* by mutual consent of Company and Purchaser in a written instrument authorized by the boards of directors of LBI and HBI;
- (b) *Either Party* by either Company or Purchaser:
- (i) *No Regulatory Approval* if any Governmental Authority that must grant a Requisite Regulatory Approval has denied approval of the Merger and such denial has become final and nonappealable or any Governmental Authority of competent jurisdiction shall have issued a final and nonappealable order, injunction or decree permanently enjoining or otherwise prohibiting or making illegal the consummation of the Contemplated Transactions;
- (ii) *Delay* if the Merger shall not have been consummated on or before March 1, 2014; provided that if as of such date, the conditions to the Closing set forth in Section 7.1(e) shall not have been satisfied, then March 1, 2014, shall be extended to and including July 1, 2014, if either Company or Purchaser notifies the other party in writing on or prior to March 1, 2014, of its election to extend March 1, 2014, to July 1, 2014; provided, further that the right to terminate this Agreement pursuant to this Section 8.1(b)(ii) shall not be available to any party whose failure to perform or observe the covenants and agreements of such party set forth in this Agreement resulted in the failure of the Merger to be consummated by March 1, 2014;
- (iii) *Breach* if there shall have been a breach of any of the covenants or agreements or any of the representations or warranties set forth in this Agreement on the part of Company, in the case of a termination by Purchaser, or on the part of Purchaser, in the case of a termination by Company, which breach, either individually or in the aggregate with other breaches by such party, would result in, if occurring or continuing on

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the Closing Date, the failure of the conditions set forth in Section 7.2 or 7.3, as the case may be, and which is not cured within 30 days following written notice to the party committing such breach or by its nature or timing cannot be cured within such time period; provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein;

(iv) *No LBI Shareholder Approval* if the LBI Shareholder Approval shall not have been obtained at the LBI Shareholder Meeting duly convened therefor or at any adjournment or postponement thereof at which a vote on the adoption of this Agreement was taken; provided, however, that no party may terminate this Agreement pursuant to this Section 8.1(b)(iv) if such party has breached in any material respect any of its obligations under this Agreement, in each case in a manner that caused the failure to obtain the LBI Shareholder Approval at the LBI Shareholder Meeting, or at any adjournment or postponement thereof;

(v) *No HBI Shareholder Approval* if the HBI Shareholder Approval shall not have been obtained at the HBI Shareholder Meeting duly convened therefor or at any adjournment or postponement thereof at which a vote on the adoption of this Agreement was taken; provided, however, that no party may terminate this Agreement pursuant to this Section 8.1(b)(v) if such party has breached in any material respect any of its obligations under this Agreement, in each case in a manner that caused the failure to obtain the HBI Shareholder Approval at the HBI Shareholder Meeting, or at any adjournment or postponement thereof;

(c) *Superior Proposal* by Company, prior to such time as the LBI Shareholder Approval is obtained, in order to enter into a definitive agreement providing for a Superior Proposal; provided that the Company Termination Fee is paid to Purchaser in advance of or concurrently with such termination in accordance with Section 8.3(b);

(d) *Dissenting Shares* by Purchaser, if holders of 5% or more of the outstanding shares of LBI Common Stock are Proposed Dissenting Shares; or

(e) *HBI Average Closing Price Increase or Decrease* by either party, by written notice to the other party in the event that the 20-day average closing price of HBI increases or decreases by more than twenty-five percent (25%) from the date of execution of this Agreement until the Closing Date (with a proportionate adjustment in the event that outstanding shares of HBI Common Stock shall be changed into a different number of shares by reason of any stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the date of this Agreement and the Closing Date); provided, however, that if Company elects to terminate pursuant to this Section 8.1(e) and provides such written notice to Purchaser, then within two (2) business days following Purchaser's receipt of such notice, Purchaser may elect by written notice to Company to adjust the Merger Consideration by increasing the Total Cash Consideration. If Purchaser makes such election to increase the Total Cash Consideration, no termination will occur pursuant to this Section 8.1(e) and this Agreement will remain in effect according to its terms (except as the Total Cash Consideration has been increased).

8.2 Effect of Termination. In the event of termination of this Agreement by either Company or Purchaser as provided in Section 8.1, this Agreement shall forthwith become void and have no effect, and none of Company, Purchaser, any of their respective Subsidiaries or any of the officers or directors of any of them shall have any liability of any nature whatsoever under this Agreement, or in connection with the Contemplated Transactions, except that (i) Sections 6.2(b), 8.2, 8.3, and 9.3 through 9.11 shall survive any termination of this Agreement, and (ii) neither Company nor Purchaser shall be relieved or released from any liabilities or damages arising out of its knowing breach of any provision of this Agreement (which, in the case of Company, shall include the loss to Company's shareholders of the economic benefits of the Merger).

8.3 Fees and Expenses.

(a) *General Fees*. Except for the registration fee for the Form S-4 filing and other fees paid to the SEC in connection with the Merger, which shall be paid by Purchaser, all fees and expenses incurred in connection with

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the Merger, this Agreement, and the Contemplated Transactions (including costs and expenses of printing and mailing the Joint Proxy Statement) shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) *Company Termination Fee*. In the event that this Agreement is terminated by Company pursuant to Section 8.1(c), then Company shall pay Purchaser a fee, in immediately available funds, in the amount of \$11,200,000.00 (the Company Termination Fee ) in advance of or concurrently with such termination.

8.4 Amendment. This Agreement may be amended by the parties, by action taken or authorized by their respective boards of directors, at any time before or after approval of the matters presented in connection with the Merger by the shareholders of LBI or HBI; provided, however, that after any approval of the Contemplated Transactions by such shareholders, there may not be, without further approval of such shareholders, any amendment of this Agreement that requires further approval under applicable law. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

8.5 Extension; Waiver. At any time prior to the Effective Time, the parties, by action taken or authorized by their respective boards of directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or (c) waive compliance with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

**ARTICLE IX.**

**GENERAL PROVISIONS**

9.1 Closing. On the terms and subject to conditions set forth in this Agreement, the closing of the Merger (the Closing ) shall take place at such time and place as agreed upon by the parties (the Closing Date ).

9.2 Nonsurvival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and agreements set forth in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time, except for Section 6.6 and for those other covenants and agreements contained in this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time.

9.3 Notices. All notices and other communications in connection with this Agreement shall be in writing and shall be deemed given if delivered personally, sent via facsimile (with confirmation), mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Purchaser or Sub, to:  
Home BancShares, Inc.

719 Harkrider, Suite 100

Conway, Arkansas 72032

Attention: C. Randall Sims

Telephone: (501) 328-4657

Facsimile: (501) 328-4697

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with a copy (which shall not constitute notice) to:

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

425 W. Capitol Avenue, Suite 1800

Little Rock, Arkansas 72201

Attention: C. Douglas Buford, Jr.

Telephone: (501) 688-8866

Facsimile: (501) 918-7866

(b) if to Company, to:  
Liberty Bancshares, Inc.

Post Office 7414

Jonesboro, Arkansas 72403

Attention: Wallace W. Fowler

Telephone: (870) 972-8894

Facsimile: (870) 935-8306

with a copy (which shall not constitute notice) to:

Dover Dixon Horne PLLC

425 West Capitol, Suite 3700

Little Rock, Arkansas 72201

Attention: Garland W. Binns, Jr.

Telephone: (501) 978-9923

Facsimile: (501) 375-6484

9.4 Interpretation. When a reference is made in this Agreement to Articles, Sections, Exhibits or Schedules, such reference shall be to an Article or Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation. References to date hereof shall mean the date of this Agreement. As used in this Agreement, the phrase to the Knowledge of Company or words of similar import means what is known or should have been known based on reasonable inquiry by any of Company's officers listed on Section 9.4 of the Company Disclosure Schedule, and the phrase to the Knowledge of Purchaser or words of similar import means what is known or should have been known based on reasonable inquiry by any of Purchaser's officers listed on Section 9.4 of the Purchaser Disclosure Schedule. All schedules and exhibits hereto shall be deemed part of this Agreement and included in any reference to this Agreement. If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and

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effect, and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that any provision, covenant or restriction is invalid, void or unenforceable, it is the express intention of the parties that such provision, covenant or restriction be enforced to the maximum extent permitted.

9.5 Counterparts. This Agreement may be executed in two or more counterparts (including by facsimile or other electronic means), all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other party, it being understood that each party need not sign the same counterpart.

9.6 Entire Agreement. This Agreement (including the documents and the instruments referred to in this Agreement), together with the Confidentiality Agreement, constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement, other than the Confidentiality Agreement.

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9.7 Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of Arkansas, without giving effect to its principles of conflicts of laws. The parties hereto agree that any suit, action or proceeding brought by either party to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby shall be brought in any federal or state court located in the State of Arkansas. Each of the parties hereto submits to the jurisdiction of any such court in any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of, or in connection with, this Agreement or the transactions contemplated hereby and hereby irrevocably waives the benefit of jurisdiction derived from present or future domicile or otherwise in such action or proceeding. Each party hereto irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

9.8 Waiver of Jury Trial. Each party hereto acknowledges and agrees that any controversy that may arise under this Agreement is likely to involve complicated and difficult issues, and therefore each party hereby irrevocably and unconditionally waives any right such party may have to a trial by jury in respect of any litigation, directly or indirectly, arising out of, or relating to, this Agreement, or the Contemplated Transactions. Each party certifies and acknowledges that (a) no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver, (b) each party understands and has considered the implications of this waiver, (c) each party makes this waiver voluntarily, and (d) each party has been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 9.8.

9.9 Publicity. Neither Company nor Purchaser shall, and neither Company nor Purchaser shall permit any of its Subsidiaries to, issue or cause the publication of any press release or other public announcement with respect to, or otherwise make any public statement, or, except as otherwise specifically provided in this Agreement, any disclosure of nonpublic information to a third party, concerning, the Contemplated Transactions without the prior consent (which shall not be unreasonably withheld or delayed) of Purchaser, in the case of a proposed announcement, statement or disclosure by Company, or Company, in the case of a proposed announcement, statement or disclosure by Purchaser; provided, however, that either party may, without the prior consent of the other party (but after prior consultation with the other party to the extent practicable under the circumstances) issue or cause the publication of any press release or other public announcement to the extent required by law or by the rules and regulations of the SEC or NASDAQ.

9.10 Assignment; Third-Party Beneficiaries. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned by either of the parties (whether by operation of law or otherwise) without the prior written consent of the other party (which shall not be unreasonably withheld or delayed). Any purported assignment in contravention hereof shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by each of the parties and their respective successors and permitted assigns. Except for Section 6.6, which is intended to benefit each Indemnified Party and his or her heirs and representatives, (1) Purchaser and Sub, on the one hand, and Company, on the other hand, hereby agree that their respective representations, warranties and covenants set forth herein are solely for the benefit of the other party hereto, in accordance with and subject to the terms of this Agreement, and (2) this Agreement (including the documents and instruments referred to in this Agreement) is not intended to and does not confer upon any Person other than the parties hereto any rights or remedies under this Agreement, including the right to rely upon the representations and warranties set forth herein.

9.11 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to seek specific performance of the terms hereof, this being in addition to any other remedies to which they are entitled at law or equity.



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9.12 Disclosure Schedule. Before entry into this Agreement, Company delivered to Purchaser a schedule (a Company Disclosure Schedule ) and Purchaser delivered to Company a schedule ( Purchaser Disclosure Schedule ), each of which sets forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Article III or Article IV, respectively, or to one or more covenants contained herein; provided, however, that notwithstanding anything in this Agreement to the contrary, (i) no such item is required to be set forth as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect and (ii) the mere inclusion of an item as an exception to a representation or warranty shall not be deemed an admission that such item represents a material exception or material fact, event or circumstance or that such item has had or would be reasonably likely to have a Material Adverse Effect.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]*

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**IN WITNESS WHEREOF**, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

**HOME BANCSHARES, INC.**

an Arkansas corporation

By: /s/ John W. Allison  
John W. Allison

Chairman of the Board of Directors

**CENTENNIAL BANK**

an Arkansas state bank

By: /s/ John W. Allison  
John W. Allison

Chairman of the Board of Directors

**LIBERTY BANCSHARES, INC.**

an Arkansas corporation

By: /s/ Wallace W. Fowler  
Wallace W. Fowler

Chairman and Chief Executive Officer

**LIBERTY BANK OF ARKANSAS**

an Arkansas state bank

By: /s/ Wallace W. Fowler  
Wallace W. Fowler

Chairman and Chief Executive Officer

Acceded to as of \_\_\_\_\_, 2013

\_\_\_\_\_ [ACQUISITION SUB]

an Arkansas corporation

By: \_\_\_\_\_

\_\_\_\_\_

Name: \_\_\_\_\_

\_\_\_\_\_

Title: \_\_\_\_\_  
\_\_\_\_\_

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**FIRST AMENDMENT TO AGREEMENT AND PLAN OF MERGER**

**THIS FIRST AMENDMENT TO AGREEMENT AND PLAN OF MERGER**, dated as of July 31, 2013 (the Amendment ), is by and among **HOME BANCSHARES, INC.**, an Arkansas corporation (HBI ), and **CENTENNIAL BANK**, an Arkansas state bank (Centennial ); HBI and Centennial are collectively referred to herein as Purchaser ); **LIBERTY BANCSHARES, INC.**, an Arkansas corporation (LBI ), and **LIBERTY BANK OF ARKANSAS**, an Arkansas state bank (Liberty Bank ); LBI and Liberty Bank are collectively referred to herein as Company ); and, from and after its accession to this Amendment in accordance with Section 6.13 of the Agreement and Plan of Merger dated June 25, 2013 (the Agreement ), **ACQUISITION SUB**, an Arkansas corporation (Sub ).

**RECITAL OF FACTS:**

**A.** On June 25, 2013, the parties entered into the Agreement setting out the terms of the mergers as more particularly described therein.

**B.** The parties desire to amend the Agreement subject to the terms and conditions set forth herein.

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements contained herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

**1. Recitals.** All recitals set forth herein are contractual in nature, not merely recitals of fact and are incorporated herein by reference as if fully set forth word for word.

**2. Definitions.** All capitalized terms not otherwise defined herein have the same meanings as provided in the Agreement.

**3. Amendments.** The Agreement hereby is amended as follows:

(a) Section 1.2 entitled Effective Time is hereby deleted and the following Section 1.2 is hereby added in lieu thereof:

Effective Time. Subject to the terms and conditions of this Agreement, on or after the Closing Date, Purchaser shall cause to be filed with the Secretary of State of the State of Arkansas (the Arkansas Secretary ), in accordance with the ABCA, articles of merger (Articles of Merger ) relating to the Merger. The term Effective Time shall be the Closing Date when the Merger becomes effective as set forth in the Articles of Merger.

(b) The definition of Total Stock Consideration as set out in Section 1.4 is hereby deleted and a new definition is hereby added in lieu thereof:

Total Stock Consideration means that number of shares of HBI Common Stock that, valued at the HBI Average Closing Price, shall have a total value of \$250,000,000; provided, however, that in the event that the HBI Average Closing Price shall be \$28.525 or greater (with a proportionate adjustment in the event that outstanding shares of HBI Common Stock shall be changed into a different number of shares by reason of any stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the date of this Agreement and the Closing Date), the number of shares of HBI Common Stock shall be 8,764,242 shares.

(c) Section 8.1(e) entitled HBI Average Closing Price Increase or Decrease is hereby deleted and the following Section 8.1(e) is hereby added in lieu thereof:

(e) HBI Stock Price Decrease by either party, by written notice to the other party in the event that the HBI Average Closing Price is less than \$17.115 (with a proportionate adjustment in the event that outstanding shares of HBI Common Stock shall be changed into a different number of shares by reason

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of any stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the date of this Agreement and the Closing Date).

**4. Governing Law.** This Amendment and the Agreement shall be governed by and interpreted under the laws of the State of Arkansas.

**5. Miscellaneous Provisions.** Except as specifically modified by this Amendment, the terms and provisions of the Agreement shall remain in full force and effect. This Amendment may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

*[Signature page follows.]*

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**IN WITNESS WHEREOF**, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

**HOME BANCSHARES, INC.**

an Arkansas corporation

By: /s/ JOHN W. ALLISON  
John W. Allison  
Chairman of the Board of Directors

**CENTENNIAL BANK**

an Arkansas state bank

By: /s/ JOHN W. ALLISON  
John W. Allison  
Chairman of the Board of Directors

**LIBERTY BANCSHARES, INC.**

an Arkansas corporation

By: /s/ WALLACE W. FOWLER  
Wallace W. Fowler  
Chairman and Chief Executive Officer

**LIBERTY BANK OF ARKANSAS**

an Arkansas state bank

By: /s/ WALLACE W. FOWLER  
Wallace W. Fowler  
Chairman and Chief Executive Officer

Acceded to as of \_\_\_\_\_, 2013  
\_\_\_\_\_ [ACQUISITION SUB]  
an Arkansas corporation

By:  
Name:  
Title:

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**APPENDIX B**

June 25, 2013

Board of Directors

Home BancShares, Inc.

719 Harkrider, Suite 100

P.O. Box 966

Conway, AR 72032

Members of the Board:

You have requested our opinion (the Opinion) as to the fairness, from a financial point of view, to Home BancShares, Inc. (the Company) of the consideration to be paid by the Company in connection with the proposed merger (the Merger) of Liberty Bancshares, Inc. (the Target) with and into a newly formed, wholly owned acquisition subsidiary of the Company pursuant and subject to the Agreement and Plan of Merger between the Company and the Target dated as of June 25, 2013 (the Agreement). For the purposes of our Opinion we have assumed, with your consent, the consideration to be paid by the Company in exchange for all the outstanding common stock of the Target to have an aggregate value of \$280 million (the Merger Consideration).

In connection with our review of the proposed Merger and the preparation of this Opinion, we have, among other things, reviewed:

1. the financial terms and conditions of the Merger as set forth in a draft of the Agreement, including an analysis of the Merger Consideration to be paid;
2. the Target's audited and unaudited financial statements for the years ended December 31, 2010, December 31, 2011, and December 31, 2012 and for the quarter ended March 31, 2013;
3. the Target's reports and schedules filed with its regulators for the years ended December 31, 2010, December 31, 2011, and December 31, 2012 and for the quarter ended March 31, 2013;
4. other financial and operating information provided by the Target;
5. and discussed with members of the senior management of the Company and Target certain information regarding the historical and current financial and operating performance of the Target as provided by the Company and certain internal financial forecasts regarding the future financial results and condition of the Target (the Projections) prepared and provided to us by the Company's senior management, which were approved for our use in connection with the preparation of this Opinion by the Company;
6. comparative financial and operating data on the banking industry, the Target, and certain institutions which we deemed to be comparable to the Target;

7. certain publicly available information regarding actual and proposed business combinations involving companies deemed comparable to the Target, including valuations for such companies; and
8. such other analyses and information relating to the Target and the Merger as Raymond James deemed relevant for the purpose of the Opinion.

One Embarcadero Center // San Francisco, CA 94111 // T 415.616.8900 // raymondjames.com

**Raymond James & Associates, Inc.**, member New York Stock Exchange/SIPC

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Board of Directors

Home BancShares, Inc.

June 25, 2013

With your consent, we have assumed and relied upon the accuracy and completeness of all information supplied or otherwise made available to us by or on behalf of the Company, the Target or any other party, as well as publicly available information, and we have not undertaken any duty or responsibility to verify independently any of such information and have not so verified, any of such information. In addition, we have not received or reviewed any individual credit files nor have we made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of the Target or any of its respective subsidiaries and we have not been furnished with any such evaluations or appraisals. We are not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for loan losses, accordingly, we have assumed that such allowances for losses are in the aggregate adequate to cover such losses. With respect to the Projections, we have been advised by the Company and we have assumed that the Projections have been reasonably prepared and reflect the best currently available estimates, judgments and assumptions of the management of the Company as to the future financial performance of the Target. We have been authorized by the Company to rely upon such forecasts and other information and data, including without limitation the Projections, and we express no view as to any such forecasts or other information or data, or the bases or assumptions on which they were prepared. We have assumed that each party to the Agreement would advise us promptly if any information previously provided to us became inaccurate or was required to be updated during the period of our review. We have assumed that the final form of the Agreement, when executed by the parties thereto, will conform to the draft reviewed by us in all respects material to our analyses, that the Merger will be consummated in accordance with the terms of the Agreement without waiver, modification or amendment of any terms or conditions thereof and that, in the course of obtaining any necessary legal, regulatory or third party consents or approvals for the Merger, no delays, limitations, restrictions or conditions will be imposed that would have an adverse effect on the Company, Target or the contemplated benefits of the Merger.

Our Opinion is based upon market, economic, financial and other circumstances and conditions existing and known to us as of the date hereof. Although subsequent developments may affect this Opinion, we do not have any obligation to update, revise or reaffirm this Opinion. We express no opinion as to the underlying business decision of the Board of Directors of the Company to effectuate the Merger, the structure or legal, tax, accounting or regulatory aspects or consequences of the Merger or the availability or advisability of any alternatives to the Merger. We did not structure the Merger, negotiate the terms of the Merger or determine the Merger Consideration. We have relied upon, without independent verification, the assessment by the respective managements of the Company and the Target and their legal, tax, accounting and regulatory advisors with respect to all legal, tax, accounting and regulatory matters, including without limitation that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. We do not express any opinion as to the value of Company's common stock or the Target's common stock following the announcement of the proposed Merger, the value of the Company's common stock following the consummation of the Merger, or the prices at which shares of Company's common stock or Target's common stock may be purchased or sold at any time, which in each case, may vary depending on numerous factors, including factors outside of the control of the Company and the Target.

Our Opinion is limited to the fairness, from a financial point of view, to the Company of the Merger Consideration to be paid in the Merger pursuant to the Agreement and does not address any other term, aspect or implication of the Agreement, the Merger or any other agreement, arrangement or understanding entered into in connection therewith or otherwise including, without limitation, the fairness (financial or otherwise) of the amount or nature of, or any other aspect relating to, any compensation to be received by any officers, directors or employees of any parties to the Merger, or class of such persons, relative to the Merger Consideration, any change of control, or otherwise.

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Board of Directors

Home BancShares, Inc.

June 25, 2013

In arriving at our Opinion expressed herein, we have taken into account such analyses and information and considerations as we have deemed relevant, including, among other things, a review of (i) historical and projected assets, loans, deposits, revenues, net income and capitalization of the Target and certain other publicly held companies, with publicly traded equity securities, that we believe relevant; (ii) the current and projected financial position and results of operations of the Target; (iii) financial and operating information concerning selected business combinations which we deemed comparable in whole or in part; and (iv) the general condition of the securities markets. The delivery of this Opinion was approved by our internal opinion committee in conformity with its policies and procedures.

In arriving at this Opinion, Raymond James & Associates, Inc. ( Raymond James ) did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all analyses, would create an incomplete view of the process underlying this Opinion.

Raymond James is actively engaged in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. Raymond James will receive a fee upon the delivery of this Opinion. In addition, the Company has agreed to indemnify us and certain related parties against certain liabilities, including liabilities under the federal securities laws, arising out of our engagement.

Raymond James and its affiliates have in the past provided investment banking and other financial services to the Company, and may in the future provide investment banking and other financial services to the Company, the Target and certain of their respective affiliates for which we and our affiliates would expect to receive compensation. In the ordinary course of our business, Raymond James may trade in the securities of the Company for our own account or for the accounts of our customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is for the information of the Board of Directors (in its capacity as such) in evaluating the Merger and may not be used for any other purpose without our prior written consent, except that this Opinion may be disclosed in and filed with a proxy statement used in connection with the Merger that is required to be filed with the Securities and Exchange Commission, provided that this Opinion is quoted in full in such proxy statement, and does not constitute a recommendation to the Board of Directors or any holder of the Company's common shares regarding how to act or vote or make any election with respect to any matter relating to the Merger. Furthermore, this letter should not be construed as creating any fiduciary duty on the part of Raymond James to any party.

Based upon and subject to the foregoing, it is our opinion that, as of June 25, 2013, the Merger Consideration to be paid by the Company pursuant to the Agreement is fair, from a financial point of view, to the Company.

Very truly yours,

RAYMOND JAMES & ASSOCIATES, INC.

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**APPENDIX C**

June 24, 2013

Board of Directors

Liberty Bancshares, Inc.

2901 East Highland Drive

Jonesboro, Arkansas 72401

Members of the Board:

You have requested Sheshunoff & Co. Investment Banking ( Sheshunoff ) to render its opinion as to the fairness, from a financial point of view, to Liberty Bancshares, Inc. ( Liberty ), a bank holding company organized as an Arkansas corporation, of the consideration to be paid to the Liberty shareholders in the proposed merger of Liberty with and into Home Bancshares, Inc., an Arkansas corporation ( Home ) (the Merger ). Liberty s subsidiary, Liberty Bank of Arkansas, will be merged into Home s wholly-owned subsidiary, Centennial Bank, at the completion of the Merger.

Pursuant to an Agreement and Plan of Merger dated on or about June 24, 2013 (the Agreement ), Home has agreed to exchange approximately \$30 million of cash and \$250 million of common stock for all of the outstanding shares of common stock of Liberty for total merger consideration of approximately \$280 million.

Sheshunoff is regularly engaged in the valuation of securities in connection with mergers and acquisitions and valuations for tax, financial reporting, corporate and other purposes. Sheshunoff is experienced in these activities and has performed assignments similar in nature to that requested by Liberty. Except for some limited advisory services regarding certain elements of the definitive agreement, Sheshunoff did not advise Liberty in connection with the proposed merger. The type and amount of consideration and the terms and conditions of the Merger were negotiated directly by and between Liberty and Home.

In connection with its opinion, Sheshunoff, among other things:

1. Reviewed the latest draft of the Agreement;
2. Discussed the terms of the Agreement with the management of Liberty and Liberty s legal counsel;
3. Conducted conversations with management of Liberty regarding recent and projected financial performance of Liberty;
4. Evaluated the financial condition of Liberty based upon a review of regulatory reports for the five-year period ended December 31, 2012 and interim period through March 31, 2013, and internally-prepared financial reports for the interim period through May 31, 2013;

5. Compared Liberty's recent operating results with those of certain other banks in the United States that have recently been acquired;
6. Compared the pricing multiples for Liberty in the Merger to recent acquisitions of banks in the United States with similar characteristics to Liberty;
7. Analyzed the present value of the after-tax cash flows based on projections on a stand-alone basis approved by Liberty through the year 2017;

901 South Mopac Expressway, Building V, Suite 140, Austin, TX 78746 | Phone 800.279.2241 | Fax 512.479.8200 | [www.SheshunoffIB.com](http://www.SheshunoffIB.com)

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Board of Directors

Liberty Bancshares, Inc.

June 24, 2013

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8. Reviewed the potential pro forma impact of the Merger on the combined company's results and certain financial performance measures of Liberty and Home;
9. Discussed certain matters regarding Home's regulatory standing, financial performance, and business prospects with Home executives and representatives;
10. Reviewed certain internal information regarding Home that Sheshunoff deemed relevant;
11. Analyzed the deposit market share and demographics of Liberty and Home, including potential deposit concentration issues;
12. Compared Home's recent operating results and pricing multiples with those of certain other publicly traded banks in the United States that Sheshunoff deemed relevant;
13. Compared the historical stock price data and trading volume of Home to certain relevant indices; and
14. Performed such other analyses deemed appropriate.

For the purposes of this opinion, Sheshunoff assumed and relied upon, without independent verification, the accuracy and completeness of the information provided to us by Liberty for the purposes of this opinion. Sheshunoff assumed that any projections provided or approved by Liberty were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Liberty's management. Sheshunoff has assumed such forecasts and projections will be realized in the amounts and at the times contemplated thereby. Sheshunoff assumes no responsibility for and expresses no opinion on any such projections or the assumptions on which they are based. In addition, where appropriate, Sheshunoff relied upon publicly available information that is believed to be reliable, accurate, and complete; however, we cannot guarantee the reliability, accuracy, or completeness of any such publicly available information.

Sheshunoff did not make an independent evaluation of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities) of Liberty or Home nor was Sheshunoff furnished with any such appraisals. Sheshunoff assumed that any off-balance sheet activities of Liberty or Home will not materially and adversely impact the future financial position or results of operations of Home after the Merger. Sheshunoff is not an expert in the evaluation of loan portfolios for the purposes of assessing the adequacy of the allowance for loan and lease losses and assumed that such allowances for Liberty and Home are, respectively, adequate to cover such losses. In addition, we have not reviewed any individual credit files or made an independent evaluation, appraisal or physical inspection of the assets or individual properties of Liberty or Home nor has Sheshunoff been furnished with any such evaluations or appraisals. Sheshunoff did not perform an onsite review of Liberty or Home in the preparation of this opinion.

Sheshunoff assumed that the latest draft of the Agreement, as provided to Sheshunoff, will be without any amendment or waiver of, or delay in the fulfillment of, any terms or conditions set forth in the terms provided to Sheshunoff or any subsequent development that would have a material adverse effect on Liberty or Home and thereby on the results of our analyses. Sheshunoff assumed that any and all regulatory approvals, if required, will be received in a timely fashion and without any conditions or requirements that could adversely affect the operations or financial condition of Home after the completion of the Merger.

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Sheshunoff's opinion is necessarily based on economic, market, regulatory, and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect the assumptions used in preparing this opinion and the resulting conclusion, and we assume no responsibility for advising any person of any change in any matter affecting this opinion. Sheshunoff assumed that there are no material changes in the assets, financial condition, results of operations, regulatory standing,

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Board of Directors

Liberty Bancshares, Inc.

June 24, 2013

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business or prospects of Liberty since the date of the last financial statement reviewed by us. Liberty's management has advised us that they know of no additional information that would have a material effect on this opinion. This opinion does not address any legal, regulatory, tax or accounting matters, as to which Liberty has informed us that they have received such advice as they deem necessary from qualified professionals.

Sheshunoff expresses no opinion on the underlying decision by Liberty to engage in the Merger or the relative merits of the Merger as compared to the other transactions or business strategies that might be available to Liberty. This opinion is not an appraisal or opinion of value but is limited to the fairness of the Merger, from a financial point of view, to Liberty. We do not express any view, nor does this opinion, on any other term or aspect of the Merger, including, without limitation, (i) the fairness of the Merger to any class of securities, creditors or constituencies of Liberty or (ii) the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors, or employees of Liberty resulting directly or indirectly from the completion of the transactions as contemplated in the Merger.

This letter and the opinion expressed herein do not constitute a recommendation to any shareholder as to any approval of the Merger. Sheshunoff is an independent contractor for the purposes of this engagement and owes its duty solely to Liberty and not to any third party, including, without limitation, any individual board members or shareholders. Sheshunoff specifically disclaims any liability or fiduciary duties to Liberty's shareholders or any third parties. It is understood that this letter, and the opinion expressed herein, is for the information of the Board of Directors of Liberty and may not be used for any other purpose without Sheshunoff's prior written consent, except as may be required by law or by a court of competent jurisdiction and except that this opinion may be included in any filing with respect to the Merger with the Securities and Exchange Commission or proxy statement or similar communication to Liberty's stockholders provided that this opinion is included in its entirety.

Sheshunoff's fairness opinion is solely for the information of the Board of Directors of Liberty in the discharge of its fiduciary obligations and not for any other third party, including, without limitation, individual board members or Liberty's shareholders. Liberty retained Sheshunoff based upon Sheshunoff's reputation in bank valuations, mergers and acquisitions, and familiarity with the banking business. Liberty placed no limit on the scope of our analyses. In addition, Liberty agreed to reimburse Sheshunoff's expenses and to indemnify Sheshunoff and its officers, employees and affiliates for certain liabilities that may arise out of this engagement.

Sheshunoff will receive a fee for rendering its opinion that is not contingent upon the completion of the Merger. Neither Sheshunoff nor our affiliates have provided other services to Liberty for which they received compensation during the last two years. This opinion and the analyses supporting it were approved by a fairness committee of Sheshunoff.

Based on the foregoing and such other matters Sheshunoff deemed relevant, it is our opinion, as of the date hereof, that the consideration to be received by the Liberty shareholders pursuant to the Merger is fair, from a financial point of view.

Very truly yours,

SHESHUNOFF & CO.

INVESTMENT BANKING, L.P.





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**APPENDIX D**

**ARKANSAS CODE ANNOTATED**

**DISSENTERS RIGHTS**

**Ark. Code Ann. § 4-27-1301 *et seq.***

**§ 4-27-1301. Definitions**

In this subchapter:

- (1) Corporation means the issuer of the shares held by a dissenter before the corporate action, or the surviving or acquiring corporation by merger or share exchange of that issuer.
- (2) Dissenter means a shareholder who is entitled to dissent from corporate action under § 4-27-1302 and who exercises that right when and in the manner required by §§ 4-27-1320 4-27-1328.
- (3) Fair value, with respect to a dissenter's shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable.
- (4) Interest means interest from the effective date of the corporate action until the date of payment, at the average rate currently paid by the corporation on its principal bank loans or, if none, at a rate that is fair and equitable under all the circumstances.
- (5) Record shareholder means the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.
- (6) Beneficial shareholder means the person who is a beneficial owner of shares held in a voting trust or by a nominee as the record shareholder.
- (7) Shareholder means the record shareholder or the beneficial shareholder.

**§ 4-27-1302. Right of dissent**

- (a) A shareholder is entitled to dissent from and obtain payment of the fair value of the shareholder's shares in the event of any of the following corporate actions:
- (1) Consummation of a plan of conversion to which the corporation is a party;
  - (2) Consummation of a plan of merger to which the corporation is a party if:
    - (A) Shareholder approval is required for the merger by § 4-27-1107 or the articles of incorporation and the shareholder is entitled to vote on the merger; or
    - (B) The corporation is a subsidiary that is merged with its parent under § 4-27-1108;

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- (3) Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the shareholder is entitled to vote on the plan;
- (4) Consummation of a sale or exchange of all, or substantially all, of the property of the corporation other than in the usual and regular course of business, if the shareholder is entitled to vote on the sale or exchange, including a sale in dissolution, but not including a sale under court order or a sale for cash under a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within one (1) year after the date of sale;
- (5) An amendment to the articles of incorporation that materially and adversely affects rights in respect of a dissenter's shares because it:
- (i) Alters or abolishes a preferential right of the shares;
  - (ii) Creates, alters, or abolishes a right in respect of redemption, including a provision respecting a sinking fund for the redemption or repurchase of the shares;
  - (iii) Alters or abolishes a preemptive right of the holder of the shares to acquire shares or other securities;
  - (iv) Excludes or limits the right of the shares to vote on any matter, or to cumulate votes, other than a limitation by dilution through issuance of shares or other securities with similar voting rights; or
  - (v) Reduces the number of shares owned by the shareholder to a fraction of a share if the fractional share so created is to be acquired for cash under § 4-27-604; or
- (6) Any corporate action taken pursuant to a shareholder vote to the extent the articles of incorporation, bylaws, or a resolution of the board of directors provide that voting or nonvoting shareholders are entitled to dissent and obtain payment for their shares.
- (b) A shareholder entitled to dissent and obtain payment for the shareholder's shares under this subchapter may not challenge the corporate action creating the shareholder's entitlement unless the action is unlawful or fraudulent with respect to the shareholder or the corporation.

**§ 4-27-1303. Partial dissenters**

- (a) A record shareholder may assert dissenters' rights as to fewer than all the shares registered in his name only if he dissents with respect to all shares beneficially owned by any one (1) person and notifies the corporation in writing of the name and address of each person on whose behalf he asserts dissenters' rights. The rights of a partial dissenter under this subsection are determined as if the shares as to which he dissents and his other shares were registered in the names of different shareholders.
- (b) A beneficial shareholder may assert dissenters' rights as to shares held on his behalf only if:
- (1) he submits to the corporation the record shareholder's written consent to the dissent not later than the time the beneficial shareholder asserts dissenters' rights; and
  - (2) he does so with respect to all shares of which he is the beneficial shareholder or over which he has power to direct the vote.

**§§ 4-27-1304 to 4-27-1319. Reserved**

**§§ 4-27-1304 to 4-27-1319. Reserved**

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**Part B. Procedure for Exercise of Dissenters' Rights**

**§ 4-27-1320. Notice; general provision**

- (a) If proposed corporate action creating dissenters' rights under § 4-27-1302 is submitted to a vote at a shareholders' meeting, the meeting notice must state that shareholders are or may be entitled to assert dissenters' rights under this chapter and be accompanied by a copy of this chapter.
- (b) If corporate action creating dissenters' rights under § 4-27-1302 is taken without a vote of shareholders, the corporation shall notify in writing all shareholders entitled to assert dissenters' rights that the action was taken and send them the dissenters' notice described in § 4-27-1322.

**§ 4-27-1321. Payment upon demand; notice**

- (a) If proposed corporate action creating dissenters' rights under § 4-27-1302 is submitted to a vote at a shareholders' meeting, a shareholder who wishes to assert dissenters' rights (1) must deliver to the corporation before the vote is taken written notice of his intent to demand payment for his shares if the proposed action is effectuated and (2) must not vote his shares in favor of the proposed action.
- (b) A shareholder who does not satisfy the requirements of subsection (a) of this section is not entitled to payment for his shares under this subchapter.

**§ 4-27-1322. Notice; procedure in content**

- (a) If proposed corporate action creating dissenters' rights under § 4-27-1302 is authorized at a shareholders' meeting, the corporation shall deliver a written dissenters' notice to all shareholders who satisfied the requirements of § 4-27-1321.
- (b) The dissenters' notice must be sent no later than ten (10) days after the corporate action was taken, and must:
- (1) state where the payment demand must be sent and where and when certificates for certificated shares must be deposited;
  - (2) inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received;
  - (3) supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action and requires that the person asserting dissenters' rights certify whether or not he acquired beneficial ownership of the shares before that date;
  - (4) set a date by which the corporation must receive the payment demand, which date may not be fewer than thirty (30) nor more than sixty (60) days after the date subsection (a) the notice is delivered; and
  - (5) be accompanied by a copy of this subchapter.

**§ 4-27-1323. Payment upon demand; procedure**

- (a) A shareholder sent a dissenters' notice described in § 4-27-1322 must demand payment, certify whether he acquired beneficial ownership of the shares before the date required to be set forth in the dissenters' notice pursuant to § 4-27-1322(b)(3), and deposit his certificates in accordance with the terms of the notice.
- (b) The shareholder who demands payment and deposits his share certificates under subsection (a) of this section retains all other rights of a shareholder until these rights are cancelled or modified by the taking of the proposed corporate action.

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(c) A shareholder who does not demand payment or deposit his share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for his shares under this subchapter.

### **§ 4-27-1324. Transfer restrictions; uncertificated shares**

(a) The corporation may restrict the transfer of uncertificated shares from the date the demand for their payment is received until the proposed corporate action is taken or the restrictions released under § 4-27-1326.

(b) The person for whom dissenters' rights are asserted as to uncertificated shares retains all other rights of a shareholder until these rights are cancelled or modified by the taking of the proposed corporate action.

### **§ 4-27-1325. Payment by corporation**

(a) Except as provided in § 4-27-1327, as soon as the proposed corporate action is taken, or upon receipt of a payment demand, the corporation shall pay each dissenter who complied with § 4-27-1323 the amount the corporation estimates to be the fair value of his shares, plus accrued interest.

(b) The payment must be accompanied by:

(1) the corporation's balance sheet as of the end of a fiscal year ending not more than sixteen (16) months before the date of payment, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any;

(2) a statement of the corporation's estimate of the fair value of the shares;

(3) an explanation of how the interest was calculated;

(4) a statement of the dissenter's right to demand payment under § 4-27-1328; and

(5) a copy of this subchapter.

### **§ 4-27-1326. Corporate action; time limitation**

(a) If the corporation does not take the proposed action within sixty (60) days after the date set for demanding payment and depositing share certificates, the corporation shall return the deposited certificates and release the transfer restrictions imposed on uncertificated shares.

(b) If after returning deposited certificates and releasing transfer restrictions, the corporation takes the proposed action, it must send a new dissenters' notice under § 4-27-1322 and repeat the payment demand procedure.

### **§ 4-27-1327. Election to withhold payment**

(a) A corporation may elect to withhold payment required by § 4-27-1325 from a dissenter unless he was the beneficial owner of the shares before the date set forth in the dissenters' notice as the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action.

(b) To the extent the corporation elects to withhold payment under subsection (a) of this section, after taking the proposed corporate action, it shall estimate the fair value of the shares, plus accrued interest, and shall pay this amount to each dissenter who agrees to accept it in full satisfaction of his demand. The corporation shall send with its offer a statement of its estimate of the fair value of the shares, an explanation of how the interest was calculated, and a statement of the dissenter's right to demand payment under § 4-27-1328.

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### **§ 4-27-1328. Disputed payment or offer; procedure**

(a) A dissenter may notify the corporation in writing of his own estimate of the fair value of his shares and amount of interest due, and demand payment of his estimate (less any payment under § 4-27-1325), or reject the corporation's offer under § 4-27-1327 and demand payment of the fair value of his shares and interest due, if:

(1) the dissenter believes that the amount paid under § 4-27-1325 or offered under § 4-27-1327 is less than the fair value of his shares or that the interest due is incorrectly calculated;

(2) the corporation fails to make payment under § 4-27-1325 within sixty (60) days after the date set for demanding payment; or

(3) the corporation, having failed to take the proposed action, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within sixty (60) days after the date set for demanding payment.

(b) A dissenter waives his right to demand payment under this section unless he notifies the corporation of his demand in writing under subsection (a) of this section within thirty (30) days after the corporation made or offered payment for his shares.

### **§ 4-27-1329. Reserved**

## **Part C. Judicial Appraisal of Shares**

### **§ 4-27-1330. Judicial proceedings**

(a) If a demand for payment under § 4-27-1328 remains unsettled, the corporation shall commence a proceeding within sixty (60) days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the sixty-day period, it shall pay each dissenter whose demand remains unsettled the amount demanded.

(b) The corporation shall commence the proceeding in the circuit court of the county where the corporation's principal office is located or the Pulaski County Circuit Court if the corporation does not have a principal office in this state. If the corporation is a foreign corporation, it shall commence the proceeding in the county in this state where the principal office of the domestic corporation merged with or whose shares were acquired by the foreign corporation was located.

(c) The corporation shall make all dissenters (whether or not residents of this state) whose demands remain unsettled parties to the proceeding as in an action against their shares and all parties must be served with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as provided by law.

(d) The jurisdiction of the court in which the proceeding is commenced under subsection (b) of this section is plenary and exclusive. The court may appoint one (1) or more persons as appraisers to receive evidence and recommend decision on the question of fair value. The appraisers have the powers described in the order appointing them, or in any amendment to it. The dissenters are entitled to the same discovery rights as parties in other civil proceedings.

(e) Each dissenter made a party to the proceeding is entitled to judgment (1) for the amount, if any, by which the court finds the fair value of his shares, plus interest, exceeds the amount paid by the corporation or (2) for the fair value, plus accrued interest, of his after-acquired shares for which the corporation elected to withhold payment under § 4-27-1327.

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**§ 4-27-1331. Costs and attorneys fees**

(a) The court in an appraisal proceeding commenced under § 4-27-1330 shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment under § 4-27-1328.

(b) The court may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(1) against the corporation and in favor of any or all dissenters if the court finds the corporation did not substantially comply with the requirements of §§ 4-27-1320 4-27-1328; or

(2) against either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(c) If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to these counsel reasonable fees to be paid out of the amounts awarded the dissenters who were benefited.