FORM 10-Q/A

(Amendment No. 2)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Mark One
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-22423

HCB BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

OKLAHOMA	62-1670792
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
237 Jackson Street, Camden, Arkansas	71701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(870) 836-6841

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

Yes [ ]   No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 15, 1998: 2,645,000 shares.

CONTENTS

HCB BANCSHARES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition
March 31, 1998 (unaudited) and June 30, 1997

<TABLE>
<CAPTION>

Assets	March 31, 1998	June 30, 1997
<S>	<C>	<C>
Cash on hand	$ 1,355,778	$ 1,057,943
Interest-bearing deposits	6,071,051	18,273,882
Investment securities available for sale	32,342,554	17,260,383
Mortgage-backed securities		
Available for sale	35,496,381	18,361,987
Held to maturity	29,649,003	36,493,086
Stock in Federal Home Loan Bank	2,099,800	1,246,500
Loans receivable(net of allowance of $1,484,603 and $1,492,473, respectively)	106,300,518	98,642,635
Accrued interest receivable	1,672,534	1,305,952
Foreclosed assets	33,501	36,179

Premises and equipment	3,387,354	4,621,444
Goodwill	--	1,415,223
Core deposit intangible	450,000	--
Prepaid expenses and other assets	2,774,437	1,783,302
	$221,632,911	200,498,516

Liabilities and Stockholders' Equity

Liabilities:		
Deposits	$140,998,609	151,192,591
Advances from borrowers for taxes, insurance and other	355,497	209,140
Borrowings from FHLB of Dallas:		
Short-term advances	3,394,800	--
Long-term advances	36,652,638	10,000,000
Other borrowings	320,000	400,000
Accrued interest payable	350,071	410,477
Accrued expenses and other liabilities	1,532,963	355,456
Total liabilities	183,604,578	162,567,664
Stockholders' equity		
Common stock, $.01 par value; authorized 10,000,000 shares; issued and outstanding, 2,645,000 shares	26,450	26,450
Additional paid-in capital	25,747,727	25,775,523
Note receivable from ESOP	(1,831,620)	(1,990,320)
Retained earnings	14,022,093	14,152,552
Unrealized gain (loss) on available for sale securities	63,683	(33,353)
Total stockholders' equity	38,028,333	37,930,852
	$221,632,911	200,498,516

</TABLE>
See accompanying notes to condensed consolidated financial statements.

HCB BANCSHARES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations For the Three Months and Nine Months Ended March 31, 1998 and 1997
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Interest income				
Loans	$ 2,138,676	$ 2,004,727	$ 6,343,006	$ 5,874,307

Investment securities	385,369	208,093	1,033,804	600,658
Mortgage-backed and related securities	1,060,075	825,943	2,805,911	2,663,225
Other interest income	224,618	106,632	797,737	369,858
Total interest income	3,808,738	3,145,395	10,980,458	9,508,048
Interest expense				
Deposits	1,804,034	1,872,763	5,515,164	5,630,757
Borrowings from FHLB	446,336	152,962	799,614	482,889
Other interest	6,000	10,000	19,000	24,000
Total interest expense	2,256,370	2,035,725	6,333,778	6,137,646
Net interest income	1,552,368	1,109,670	4,646,680	3,370,402
Provision for loan losses	--	24,820	24,000	168,144
Net interest income after provision for loan losses	1,552,368	1,084,850	4,622,680	3,202,258
Noninterest income				
Service fees on deposits	75,564	44,471	202,585	133,562
Other service fees and commissions	9,506	6,184	26,236	10,116
Gains (losses) on sales of investment securities and mortgage-backed and related securities available for sale	--	(22,525)	3,765	(21,215)
Gains on sales of loans held for sale	9,611	3,745	32,776	3,745
Gains on sales of foreclosed assets, net	--	5,720	12,437	8,220
Other income, net	141,755	33,943	297,437	168,387
Total noninterest income	236,436	71,538	575,236	302,815
Noninterest expense				
Compensation, payroll taxes and fringe benefits	717,788	506,808	2,154,370	1,533,412
Rent and other occupancy expense	133,599	95,307	444,055	291,061

</TABLE>
See accompanying notes to consolidated financial statements.

HCB BANCSHARES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations For the Three Months and Nine Months Ended March 31, 1998 and 1997
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,		Nine Months Ended March 31,	

	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Communication, postage, printing and office supplies	$ 104,372	$ 64,466	$ 257,374	$ 228,394
Deposit and other insurance premiums	55,522	17,384	136,537	1,095,391
Marketing expense	32,178	33,460	112,480	161,492
Expenses of officers, directors and employees, including directors fees	40,557	48,186	163,997	129,216
Data processing expense	107,185	83,400	292,443	245,130
Amortization of goodwill	23,291	40,018	104,383	120,055
Professional fees	109,660	138,887	302,356	347,225
Other expenses	461,744	(122,635)	512,032	38,276
Total noninterest expense	1,785,896	905,281	4,480,027	4,189,652
Income (loss) before income tax expense (benefit)	2,908	251,107	717,889	(684,579)
Income tax expense(benefit)	(19,348)	129,950	226,356	(261,900)
Net income(loss)	$ 22,256	121,157	491,533	(422,679)
Basic earnings per share	$ 0.01	N/A	$ 0.20	$ N/A

</TABLE>

See accompanying notes to condensed consolidated financial statements.

HCB BANCSHARES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows For the Nine Months Ended March 31, 1998 and 1997
(Unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
Cash flows from operating activities		
Net income(loss)	$491,533	(422,679)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	187,835	122,211
Amortization (accretion) of		
Deferred loan origination fees	(1,734)	36,092
Goodwill	104,383	120,055
Premiums and discounts on loans	(463)	(2,572)
Premiums and discounts on mortgage-backed securities and investment securities	145,251	119,518
Deferred income taxes	--	(57,986)
Provision for loan losses	24,000	168,144

Provision for loss on foreclosed assets	--	15,247
(Gain) loss on disposition of other assets	(12,437)	(8,220)
Net (gain) loss on sale of assets held for sale or available for sale	(36,541)	17,470
Change in accrued interest receivable	(366,582)	(92,766)
Change in other assets	(991,135)	(276,560)
Change in accrued interest payable	(60,406)	(15,142)
Change in other liabilities	1,177,507	(107,149)
Change in prepaid income taxes	--	(214,364)
Net cash provided (used) by operating activities	661,211	(598,701)
Cash flows from investing activities:		
Net change in loans	(7,650,013)	(11,415,022)
Purchase of loans	--	(2,254,560)
Proceeds from sales of loans	1,982,469	1,425,419
Proceeds from sale of investment securities available for sale	--	2,576,477
Purchases of investment securities available for sale	(50,604,901)	(23,060,510)
Principal payments on investment securities and mortgage-backed and related securities	26,215,666	18,082,993

</TABLE>

See accompanying notes to consolidated financial statements

HCB BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended
March 31, 1998 and 1997
(Unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
Purchase of stock in FHLB	(853,300)	--
Purchases of property and equipment	(984,010)	(1,856,118)
Proceeds from sale of foreclosed assets	121,044	--
Proceeds from sale of subsidiary	3,100,000	--
Investment in subsidiary sold	(3,100,000)	--
Proceeds from sale of other assets	1,525	3,215
Purchase of core deposit intangible	(450,000)	--
Dividends paid	(264,500)	--
Net cash used by investing activities	(32,486,020)	(16,498,106)

Cash flows from financing activities:		
Net increase (decrease) in deposits	(10,193,982)	8,866,424
Increase (decrease) in advance payments from borrowers for property taxes and insurance	146,357	274,105
Net borrowings from FHLB	30,047,438	--
Increase (decrease) in other borrowings	(80,000)	400,000
Net cash provided by Financing activities	19,919,813	9,540,529
Net decrease in cash	(11,904,996)	(7,556,278)
Cash and due from banks, beginning of period	19,331,825	17,291,882
Cash and due from banks, end of period	$ 7,426,829	9,735,604
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	5,051,774	4,807,394

</TABLE>

See accompanying notes to consolidated financial statements.

HCB BANCSHARES, INC AND SUBSIDIARIES

Notes to Condensed Consolidated (Unaudited) Financial Statements

Note 1 HCB Bancshares, Inc.

HCB Bancshares, Inc. (the "Company") was incorporated under the laws of the state of Oklahoma for the purpose of becoming the bank holding company of Heartland Community Bank and its subsidiaries (the "Bank"), in connection with the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank, pursuant to its Plan of Conversion. On April 30, 1997, the Bank completed the Conversion and became a wholly owned subsidiary of the Company. The Company has no other operations and conducts no business of its own other than owning the Bank, investing its portion of the net proceeds received in the Conversion, and lending funds to the Employee Stock Ownership Plan which was formed in connection with the Conversion.

Note 2 Basis of Consolidation

The accompanying condensed consolidated financial statements were prepared by the Company in accordance with instructions for Form 10-Q. To the extent that information and footnotes required by generally accepted accounting principles for complete financial statements are contained in the audited financial statements included in the Company's 1997 Annual Report to Stockholders, attached as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1997, such information and footnotes have not been duplicated herein. All material intercompany balances and transactions have been eliminated in the consolidation. The unaudited statements reflect all adjustments, consisting of normal recurring accruals, which are in the opinion of management, necessary for fair presentation of the results of operations, changes in equity and cash flows for the three months and nine months periods ended March 31, 1998 and 1997. The statements of operations for the three-month and nine-month periods ended March 31, 1998, are not necessarily indicative of the results which may be expected for the entire year.

Note 3 Stockholders' Equity and Stock Conversion

The Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank pursuant to its Plan of Conversion, which was approved by the Bank's members on April 25, 1997. The conversion was effective on April 30, 1997 and resulted in the issuance of 2,645,000 shares of common stock (par value $.01) at $10.00 per share for the gross sale price of $26,450,000. Costs related to the conversion (primarily to underwriters' commissions, printing and professional fees) approximated $750,000 and were deducted from the proceeds to arrive at net proceeds of $25,700,000. The Company also established an Employee Stock Ownership Plan and Trust which purchased 211,600 shares of common stock of the Company at the issuance price of $10 per share with funds borrowed from the Company.

Note 3 Sale of Subsidiary

On November 19, 1997, the Bank entered into an agreement to sell all of the shares of stock of Heritage Banc Holding, Inc., a subsidiary of the Bank and the parent of HEARTLAND Community Bank, FSB ("FSB"), subject to approval of the transaction by the OTS. Approval of the transaction was granted in February, 1998. The transaction was completed on February 23, 1998. Pursuant to the terms of the agreement, the Bank of the Ozarks, Inc. acquired the deposits, premises and equipment of the Little Rock, Arkansas office of FSB in addition to its holding company's charter and stock, and, in a series of transactions, the Bank retained the loans and certain other assets and certain liabilities of FSB's Little Rock, AR office and all assets and liabilities of FSB's Monticello, AR office and Bryant, AR loan production office.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The Bank's principal business consists of attracting deposits from the general public and investing those funds in (i) loans secured by first mortgages on existing owner-occupied single-family residences in the Bank's primary market area and,

(ii) to a lesser but growing extent, commercial and multi-family real estate loans and consumer and commercial business loans. The Bank also maintains a substantial investment portfolio of mortgage-related securities and U.S. government and agency securities.

The Bank's net income is dependent primarily on its net interest income, which is the difference between interest income earned on its loans, mortgage-backed securities and securities portfolio and interest paid on customers' deposits. The Bank's net income is also affected by the level of noninterest income, such as service charges on customers' deposit accounts, net gains or losses on the sale of securities and other fees. In addition, net income is affected by the level of noninterest expense, which primarily consists of employee compensation expenses, deposit insurance premiums and other expenses.

The financial condition and results of operations of the Bank and the thrift and banking industries as a whole are significantly affected by prevailing economic conditions, competition and the monetary and fiscal policies of governmental agencies. Lending activities are influenced by demand for and supply of credit, competition among lenders and the level of interest rates in the Bank's market area. The Bank's deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, as well as account maturities and the levels of personal income and savings in the Bank's market area.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 1998 AND JUNE 30, 1997

The Company had total assets of $221.6 million and $200.5 million at March 31, 1998 and June 30, 1997, respectively. During the nine month period ended March 31, 1998 the Bank experienced an increase in its loan portfolio from $98.6 million at June 30, 1997, to $106.3 million. This increase is due to the positive results realized from the implementation of the Bank's long term business plan for growth in its targeted markets of commercial, consumer and multi-family lending along with natural growth. During this same period, investment and mortgage-backed securities and other short-term interest-earning assets fluctuated between $90.4 million at June 30, 1997 and $103.6 million at March 31, 1998. Investment securities and other short-term interest-earning deposits tend to vary in conjunction with variations in savings activity. Additionally, the Bank expended approximately $984,000 to purchase computer and network equipment, furnishings and make improvements to existing facilities during the nine-month period ended March 31, 1998, to consummate management's planned growth projections.

Deposits decreased from $151.2 million at June 30, 1997 to $141.0 million at March 31, 1998. This decrease in deposits of $10.2 million resulted from increased competition in the Bank's main market area of Camden, Arkansas and the sale of $9.4 million in deposits at the Little Rock, Arkansas office ("FSB") sold to the Bank of the Ozarks effective February 23, 1998. The Bank's level of deposits has been sufficient to fund its loan demand and provide for adequate liquidity. During the nine-month period ended March 31, 1998 and the year ended June

30, 1997, the Bank utilized a credit line with the Federal Home Loan Bank of Dallas ("FHLB") to obtain advances to implement its plan of pursuing a more aggressive investing program. The outstanding balances of FHLB advances were $40.0 million and $10.0 million at March 31, 1998 and June 30, 1997, respectively. These advances were utilized to reduce interest rate risk by better matching rates and maturities of existing interest-earning assets and interest-bearing liabilities.

Equity amounted to $38.0 million at March 31, 1998, and to $37.9 million at June 30, 1997, respectively. The changes in equity were due primarily to the Bank's net income earned for such periods, changes to unrealized gain on available for sale securities, less dividends. At June 30, 1997, the Bank's regulatory capital substantially exceeded all applicable regulatory capital requirements. Regulatory capital levels at March 31, 1998 were not substantially different from those at June 30, 1997.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1998 AND 1997

Net Income (Loss). Net income for the three months ended March 31, 1998 was $22,000 compared to $121,000 for the three months ended March 31, 1997. The changes were attributable to increases in the volume of interest-earning assets when compared to the previous year, a increase in interest expense, and significant increases in noninterest income and expenses In addition, Income tax expense (benefit) for the three months ended March 31, 1998 was ($19,000), compared to $130,000 for the three months ended March 31, 1997.

Net income for the nine months ended March 31, 1998 was $492,000 compared to a loss of $423,000 for the nine months ended March 31, 1997. The changes were attributable to a non-recurring one time, special deposit insurance assessment of $889,000 and professional fees of $307,000, incurred in the nine months ended March 31, 1997, an increase in net interest income of $1.3 million and an increase in noninterest income of $272,000 for the nine months ended March 31, 1998, as compared to the nine months ended March 31, 1997. Income tax expense for the nine months ended March 31, 1998 was a tax expense of $226,000 compared to a tax benefit of $262,000 for the nine months ended March 31, 1997.

Net Interest Income. Net interest income for the three months ended March 31, 1998 was $1.6 million, an increase of 39.9% when compared to net interest income of $1.1 million for the three months ended March 31, 1997. This increase of $443,000 was attributable to an increase in total interest-earning assets during the three months ended March 31, 1998 combined with an increase of $221,000 in total interest expense. The decrease of $69,000 in interest expense on deposits was the result of a decrease in the average rate paid on interest-bearing liabilities. The remaining increase in interest expense was the result of increased utilization of a line of credit with the FHLB to further the Company's long range plans for growth and expansion.

Net interest income for the nine months ended March 31, 1998 was $4.6 million, an increase of 37.7% when compared to net interest income of $3.4 million for the nine months ended March 31, 1997. This increase was attributable to an increase in total interest income of $1.5 million combined with an increase in total interest expense of $200,000. The net interest margin for the nine months ended March 31, 1998 was 2.96% compared to 3.21% for the nine months ended March 31, 1997. The increase in net interest income and decrease in net interest margin was due to an increase in the average volume of interest-earning assets combined with a decrease in average deposit liabilities and an increase in the average rate paid on interest bearing liabilities. The average volume of interest-earning assets increased from $170.3 million for the nine months ended March 31, 1997 to $192.2 million for the nine months ended March 31, 1998, which had the effect of increasing interest income by approximately $411,000. Average interest-earning assets increased , in part, when comparing the nine months ended March 31, 1998 to the nine months ended March 31, 1997 because of the increased purchases of investment securities and the increase in the balance of loans receivable. The average rate paid on interest-bearing liabilities increased during the nine months ended March 31, 1998 from 5.10% to 5.22%.

For the nine months ended March 31, 1998, the average yield on interest-earning assets was 7.46%, compared to 7.51% for the nine months ended March 31, 1997, which had the effect of decreasing total interest income by $24,000. The average volume of interest-bearing liabilities increased by 5.72%, reflecting the change in deposits and the utilization of liquidity in the implementation of the Company's long term business plan for growth in its targeted markets. when comparing March 31, 1998 to March 31, 1997.

The average yield on interest-earning assets remained relatively unchanged between the two periods, which is indicative of the fact that the Bank's interest-earning assets are not highly sensitive to the increases in market interest rates which occurred between the two periods.

Provision for Loan Losses. During the year ended June 30, 1997, the Bank's management initiated an extensive internal loan review of all loan files both of the parent and subsidiary. The review resulted in the adoption of more conservative loan loss allowance standards than had been used in the past. This new policy on allowance for loan losses was deemed prudent in establishing credit underwriting standards for future expected lending areas, such as commercial real estate, business and consumer loans, which inherently have more risk. Management made a provision for loan losses in the nine months ended March 31, 1998 of $24,000, compared to a provision for loan loss of approximately $168,000 in the nine months ended March 31, 1997. The allowance for loan losses, after this provision, of $1.5 million, represented 1.38 % of outstanding loans at March 31, 1998. Nonperforming loans as of March 31, 1998 were 1.12% of total loans and below 1.0% at March 31, 1997.

Management evaluates the carrying value of the loan portfolio periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In particular, management recognizes that recent and planned changes in the amounts and types of lending by the Bank will result in further growth of the Bank's loan loss allowance and may justify further changes in the Bank's loan loss allowance policy in the future. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize changes to the allowance based upon their judgments and the information available to them at the time of their examination.

Noninterest Income. Noninterest income is comprised primarily of insurance commissions from sales of credit life insurance, banking service charges, loan origination and commitment fees earned and sales of investment and mortgage-backed securities. Noninterest income for the three months ended March 31, 1998 was $236,000, compared to $71,000 for the three months ended March 31, 1997. This represents an increase of $165,000. This increase is due primarily to increases in loan fees earned as the Bank pursues its long term goals of expanding its loan portfolio, and increases in service fees on deposits.

Noninterest income for the nine months ended March 31, 1998, was $575,000, compared to $303,000 for the nine months ended March 31, 1997. This represents an increase of $272,000. This increase is due primarily to increases in loan fees earned as a result of more aggressive lending activities and new fee earning banking services offered by the Bank to its deposit customers. In light of the increasingly competitive markets for deposits and loans, management has recently shifted the Bank's deposit taking and loan origination activities to reflect, among other things, the importance of offering valued customer services that generate additional fee income, and it is expected that management will continue this trend for the foreseeable future.

Noninterest Expense. The major components of noninterest expense are compensation and benefits paid to the Bank's employees and directors, occupancy expense for ownership and maintenance of the Bank's building and furniture and equipment, professional fees related to the sale of FSB and the recruitment of additional managerial staff, and insurance premiums paid to the FDIC for insurance of deposits. Total noninterest expense for the three months ended March 31, 1998 was $1.8 million compared to $900,000 for the three months ended March 31, 1997. Compensation expense, including director and officer retirement plans and other benefits accounted for $211,000 of the total increase in noninterest expenses of $881,000. Other expenses, including total expenses of $130,000 related to the sale of FSB and the conversion of customer accounts in the Monticello branch, were $462,000, compared to $(123,000) for the three months ended March 31, 1997, which resulted from the reclassification of expenses related to the conversion of the Bank from a mutual to a stock association and the formation of the holding company.

Total noninterest expense for the nine months ended March 31, 1998 was $4.5 million, compared to $4.2 million for the nine months ended March 31, 1997. The largest component of noninterest expense for the nine months ended March 31, 1998 was compensation expense, including director and officer retirement plans and other benefits, which totaled $2.2 million, compared to $1.5 million for the nine months ended March 31, 1997. This increase was attributable to increases in salary expense due to an increase in personnel for future growth, accrual of contributions to an Employee Stock Ownership Plan established in conjunction with the conversion of the Bank to a stock association, and increased directors fees due to additional time incurred by the Board in evaluating and working on various strategic plans for the Bank. Professional fees associated with the sale of FSB amounted to $136,000; other costs associated with the sale, including additional data processing costs and costs to convert customer information totaled $53,000.

Professional fees were incurred in the nine months ended March 31, 1998 and 1997 for personnel placement services to attract key personnel for hire and marketing consultants were approached for market strategies and implementation. During the nine months ended March 31, 1997, amounts were also incurred to facilitate the name change of the Bank to HEARTLAND Community Bank. These expense categories decreased $94,000 during the nine months ended March 31, 1998 compared with the same period in 1997. Overall, noninterest expense increased for the nine month period ended March 31, 1998, compared to the nine-month period ended March 31, 1997, by $1.2 million, exclusive of the FDIC one time, special assessment of $889,000 recognized by the Bank in the nine months ended March 31, 1997. In light of the substantial costs associated with the recent, pending and planned expansions of the Bank's activities, facilities and staff, including the additional costs associated with adding staff, building or renovating branches, introducing new deposit and loan products and services and implementing the planned stock benefit plans after the Conversion, it is expected that the Bank's noninterest expense levels may remain somewhat high relative to the historical levels for the Bank, as well as the prevailing levels for institutions that are not undertaking such expansions, for an indefinite period of time, as management implements the Bank's business strategy. Among the activities planned are increased loan originations in the areas of multi-family residential, commercial real estate, commercial business and consumer loans. Customer products introduced in the current quarter include ATM and debit cards and an expanded deposit account mix. In addition, two new branch facilities were constructed and completed in the quarter ended September 30, 1997. Other existing facilities will be renovated to attract and serve an increased customer base.

During the years in which thrifts as an industry suffered many publicized and non-publicized "bailouts" by the SAIF, and its predecessor, the Federal Savings and Loan Insurance Corporation, the deposit insurance fund for the thrift industry was severely depleted. After several years of debate Congress with the assistance of the FDIC, which administers the SAIF, consummated a plan of action to replenish the SAIF to a level of coverage required by statute (the designated reserve ratio of 1.25% of insured deposits) for the remaining covered deposits. The plan of remedy included a one time assessment to each thrift institution based on capital levels and deposits, among other factors. This one time assessment was recognized by the Bank in the three months ended March 31, 1997, in the amount of $889,000 and was expensed in the same period. This assessment was paid November 27, 1997. The effective deposit insurance rate prior to the assessment was .23% compared to a rate of .065% after the assessment.

Income Taxes. The effective income tax rate for the Bank for the nine months ended March 31, 1998 and 1997 was 31.5% which includes federal and Arkansas tax components. A tax benefit of $262,000 for 1997 and an expense of $226,000 for 1998 were recognized, resulting in an increase of $488,000.

SOURCES OF CAPITAL AND LIQUIDITY

The Bank is required to maintain minimum levels of liquid assets as defined by the OTS regulations. This requirement which may be varied at the discretion of the OTS depending on economic conditions and deposit outflows, is based upon a percentage of deposits and short term borrowings. Current OTS regulations require that a savings association maintain liquid assets of not less than 5% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less, of which short-term liquid assets must consist of not less than 1%. At March 31, 1998, the Bank's liquidity, as measured for regulatory purposes, was 14.32%, or $15.2 million in excess of the minimum OTS liquidity requirement of 5%. Management of the Bank seeks to maintain a relatively high level of liquidity in order to retain flexibility in terms of investment opportunities and deposit pricing and in order to meet funding needs of loan commitments. Historically, the Bank has been able to meet its liquidity demands through internal sources of funding supplemented from time to time by advances from the FHLB of Dallas.

The Bank's primary sources of funds are deposits, proceeds from principal and interest payments on loans and mortgage-backed securities, interest payments and maturities of investment securities, and earnings. While scheduled principal repayments on loans and mortgage-backed securities and interest payments on investment securities are a relatively predictable source of funds, deposit flows and loan and mortgage-backed prepayments are greatly influenced by general interest rates, economic conditions, competition and other factors. The Bank does not solicit deposits outside of its market area through brokers or other financial institutions.

The Bank has also designated certain securities as available for sale in order to meet liquidity demands. At March 31, 1998, the Bank had designated securities with a fair value of approximately $67.8 million as available for sale. In addition to internal sources of funding, the Bank as a member of the FHLB has substantial borrowing authority with the FHLB. The Bank's use of a particular source of funds is based on need, comparative total costs and availability.

Another source of liquidity is the net proceeds of the Conversion. Following the completion of the Conversion, effective April 30, 1997, the Bank received over half of the net proceeds of the Conversion. These funds are expected to be used by the Bank for its business activities, including investment in interest-earning assets.

For additional information about cash flows from the Bank's operating, investing and financing activities see the consolidated financial statements presented elsewhere herein.

At March 31, 1998, the Bank had outstanding $6.2 million in commitments to originate loans (including unfunded portions of construction loans) and $135,000 in unused lines of credit. At the same date, the total amount of certificates of deposit which were scheduled to mature in one year or less was $59.0 million. Management anticipates that the Bank will have adequate resources to meet its current commitments through internal funding sources described above. Historically, the Bank has been able to retain a significant amount of its deposits as they mature.

Management is not aware of any current recommendations by its regulatory authorities, legislation, competition, trends in interest rate sensitivity, new accounting guidance or other material events and uncertainties that would have a material effect on the Bank's ability to meet its liquidity demands.

As the year 2000 approaches, an important business issue has emerged regarding how existing application software programs and operating systems can accommodate this date value. Many computer programs that can only distinguish the final two digits of the year entered (a common programming practice in earlier years) are expected to read entries for the year 2000 as the year 1900 and compute payment, interest or delinquency based on the wrong date or are expected to be unable to compute payment, interest or delinquency. Rapid and accurate data processing is essential to the operations of the Company.

All of the material computer programs of the Company that could be affected by this problem are provided by major third party vendors. Currently, the Company is in the process of replacing/upgrading all computer systems and programs, as well as most equipment, in order to provide cost-effective and efficient delivery of services to its customers, information to management, and to provide additional capacity for processing information and transactions due to acquisitions. The third party vendors of the Company have advised the Company that all such computer systems and programs will be year 2000 compliant. However, if the third party vendors are unable to resolve year 2000 issues in time, the Company would likely experience significant data processing delays, mistakes or failures. These delays, mistakes or failures could have a significant adverse impact on the financial condition and results of operations of the Company.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HCB BANCSHARES, INC.
Registrant

Date: July 26, 1999

/s/ Vida H. Lampkin

Vida H. Lampkin
Chairman, President and
Chief Executive Officer
(Duly Authorized Representative)

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