

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarter ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware

43-1792717

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

1341 West Battlefield
Springfield, Missouri

(Address of principal executive offices)

65807

(Zip Code)

Telephone Number: (417) 520-4333

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding as of November 5, 2008
Common Stock, Par Value \$0.10 per share	2,702,233 Shares



GUARANTY FEDERAL BANCSHARES, INC.

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PART I

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
 SEPTEMBER 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

ASSETS	9/30/08	12/31/07
Cash	\$ 12,089,702	\$ 11,135,960
Interest-bearing deposits in other financial institutions	1,068,452	910,242
Cash and cash equivalents	13,158,154	12,046,202
Available-for-sale securities	64,098,996	14,729,938
Held-to-maturity securities	592,812	654,775
Stock in Federal Home Loan Bank, at cost	7,683,800	4,014,700
Mortgage loans held for sale	545,394	2,141,998
Loans receivable, net of allowance for loan losses of September 30, 2008 - \$11,506,589 - December 31, 2007 - \$5,962,923	566,090,092	514,100,035
Accrued interest receivable	4,167,532	3,323,448
Prepaid expenses and other assets	4,145,133	2,841,411
Foreclosed assets held for sale	6,545,058	727,422
Premises and equipment	11,098,841	9,442,350
Income taxes receivable	317,639	-
Deferred income taxes	4,403,386	1,755,701
	\$ 682,846,837	\$ 565,777,980

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits	\$ 436,106,488	\$ 418,191,284
Federal Home Loan Bank advances	148,436,000	76,086,000
Securities sold under agreements to repurchase	39,750,000	9,849,295
Subordinated debentures	15,465,000	15,465,000
Notes payable	1,435,190	718,190
Advances from borrowers for taxes and insurance	574,505	157,811
Accrued expenses and other liabilities	527,452	299,005
Accrued interest payable	1,763,757	1,793,663
Dividend payable	-	469,373
Income taxes payable	-	61,699
	644,058,392	523,091,320

COMMITMENTS AND CONTINGENCIES

- -

STOCKHOLDERS' EQUITY

Common Stock: \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2008 - 6,779,800 shares; December 31, 2007 - 6,736,485 shares	677,980	673,649
Additional paid-in capital	58,529,241	57,571,929
Unearned ESOP shares	(945,930)	(1,116,930)
Retained earnings, substantially restricted	42,893,938	45,402,449
Accumulated other comprehensive income (loss)	(553,430)	503,767

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	100,601,799	103,034,864
Treasury stock, at cost; September 30, 2008 - 4,077,567 shares; December 31, 2007 - 4,017,166 shares	(61,813,354)	(60,348,204)
	38,788,445	42,686,660
	\$ 682,846,837	\$ 565,777,980

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2008	9/30/2007	9/30/2008	9/30/2007
INTEREST INCOME				
Loans	\$ 8,337,626	\$ 9,535,244	\$ 24,985,140	\$ 27,869,745
Investment securities	863,757	119,660	2,267,945	308,682
Other	66,416	79,049	170,951	258,273
	9,267,799	9,733,953	27,424,036	28,436,700
INTEREST EXPENSE				
Deposits	3,341,155	4,179,228	10,847,725	11,636,397
Federal Home Loan Bank advances	873,536	737,296	2,368,981	2,726,634
Other	532,512	285,221	1,543,273	813,597
	4,747,203	5,201,745	14,759,979	15,176,628
NET INTEREST INCOME	4,520,596	4,532,208	12,664,057	13,260,072
PROVISION FOR LOAN LOSSES	1,675,000	210,000	8,179,079	630,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,845,596	4,322,208	4,484,978	12,630,072
NONINTEREST INCOME				
Service charges	528,609	533,718	1,490,587	1,650,794
Other fees	12,911	27,957	27,120	81,038
Gain (loss) on investment securities	-	181,632	(97,788)	567,603
Gain on sale of loans	207,870	282,357	696,375	906,225
Loss on foreclosed assets	(75,006)	(24,826)	(120,833)	(25,436)
Other income	174,510	167,989	555,694	511,153
	848,894	1,168,827	2,551,155	3,691,377
NONINTEREST EXPENSE				
Salaries and employee benefits	1,853,483	1,802,147	5,665,040	5,357,239
Occupancy	452,510	400,916	1,247,203	1,219,123
FDIC deposit insurance premiums	82,499	10,954	207,497	31,201
Data processing	95,335	96,136	277,668	298,405
Other expense	683,445	676,405	2,084,372	1,950,926
	3,167,272	2,986,558	9,481,780	8,856,894
INCOME (LOSS) BEFORE INCOME TAXES	527,218	2,504,477	(2,445,647)	7,464,555
PROVISION (CREDIT) FOR INCOME TAXES	227,759	891,786	(865,684)	2,682,100
NET INCOME (LOSS)	\$ 299,459	\$ 1,612,691	\$ (1,579,963)	\$ 4,782,455
BASIC EARNINGS (LOSS) PER SHARE				
	\$ 0.11	\$ 0.60	\$ (0.61)	\$ 1.75
DILUTED EARNINGS (LOSS) PER SHARE				
	\$ 0.11	\$ 0.59	\$ (0.61)	\$ 1.70

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2008	\$ 673,649	\$ 57,571,929	\$ (1,116,930)	\$ (60,348,204)	\$ 45,402,449	\$ 503,767	\$ 42,686,660
Comprehensive loss							
Net loss	-	-	-	-	(1,579,963)	-	(1,579,963)
Change in unrealized appreciation on available-for-sale securities and change in fair value of interest rate swaps, net of income taxes	-	-	-	-	-	(1,057,197)	(1,057,197)
Total comprehensive loss							(2,637,160)
Dividends (\$0.36 per share)	-	-	-	-	(931,013)	-	(931,013)
Stock award plans	-	187,877	-	-	-	-	187,877
Stock options exercised	4,331	574,330	-	-	-	-	578,661
Release of ESOP shares	-	195,105	171,000	-	-	-	366,105
Treasury stock purchased	-	-	-	(1,465,150)	-	-	(1,465,150)
Balance, September 30, 2008	\$ 677,980	\$ 58,529,241	\$ (945,930)	\$ (61,813,354)	\$ 42,893,938	\$ (553,430)	\$ 38,788,445

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2007 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2007	\$ 665,353	\$ 55,730,352	\$ (1,344,930)	\$ (52,869,086)	\$ 41,183,006	\$ 1,534,548	\$ 44,899,243
Comprehensive income							
Net income	-	-	-	-	4,782,455	-	4,782,455
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	(567,673)	(567,673)
Total comprehensive income							4,214,782
Dividends (\$0.52 per share)	-	-	-	-	(1,414,757)	-	(1,414,757)
Stock award plans	-	327,426	-	-	-	-	327,426
Stock options exercised	7,295	978,381	-	-	-	-	985,676
Release of ESOP shares	-	335,530	171,000	-	-	-	506,530
Treasury stock purchased	-	-	-	(4,969,299)	-	-	(4,969,299)
Balance, September 30, 2007	\$ 672,648	\$ 57,371,689	\$ (1,173,930)	\$ (57,838,385)	\$ 44,550,704	\$ 966,875	\$ 44,549,601

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

	9/30/2008	9/30/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (1,579,963)	\$ 4,782,455
Items not requiring (providing) cash:		
Deferred income taxes	(2,026,792)	(84,008)
Depreciation	677,993	663,496
Provision for loan losses	8,179,079	630,000
Gain on loans and investment securities	(598,587)	(1,473,828)
Loss (gain) on sale of foreclosed assets	26,826	(396)
Amortization of deferred income, premiums and discounts	10,114	5,100
Stock award plan expense	72,211	50,840
Origination of loans held for sale	(40,497,385)	(54,656,645)
Proceeds from sale of loans held for sale	42,790,364	57,900,255
Release of ESOP shares	366,105	506,530
Changes in:		
Accrued interest receivable	(844,084)	(78,950)
Prepaid expenses and other assets	(689,431)	212,682
Accounts payable and accrued expenses	198,541	336,860
Income taxes payable	(263,672)	1,204,909
Net cash provided by operating activities	5,821,319	9,999,300
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	(67,319,462)	(3,846,875)
Principal payments on held-to-maturity securities	62,113	82,999
Principal payments on available-for-sale securities	1,763,996	211,085
Proceeds from maturities of available-for-sale securities	1,850,000	500,000
Purchase of premises and equipment	(2,334,484)	(2,429,303)
Purchase of available-for-sale securities	(55,383,487)	(10,630,694)
Proceeds from sale of available-for-sale securities	-	1,068,601
Redemption (purchase) of FHLB stock	(3,669,100)	2,340,657
Proceeds from sale of foreclosed assets	1,305,864	1,351,803
Net cash used in investing activities	(123,724,560)	(11,351,727)
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock options exercised	578,661	985,676
Cash dividends paid	(1,397,921)	(1,400,870)
Net increase in demand deposits, NOW and savings accounts	4,214,518	8,510,522
Net increase in certificates of deposit	13,700,686	48,977,464
Net increase in securities sold under agreements to repurchase	29,900,705	-
Proceeds from FHLB advances	1,884,050,075	1,266,588,600
Repayments of FHLB advances	(1,811,700,075)	(1,321,502,600)
Proceeds from issuance of notes payable	1,064,000	-
Repayments of notes payable	(347,000)	-
Advances from borrowers for taxes and insurance	416,694	434,235
Treasury stock purchased	(1,465,150)	(4,969,299)
Net cash provided by (used in) financing activities	119,015,193	(2,376,272)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,111,952	(3,728,699)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,046,202	14,880,601
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 13,158,154	\$ 11,151,902

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

The results of operations for the periods are not necessarily indicative of the results to be expected for the full year.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2007 filed with the Securities and Exchange Commission. The condensed consolidated statement of financial condition of the Company as of December 31, 2007, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Guaranty Federal Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Benefit Plans

The Company has stock-based employee compensation plans, which are described fully in the Company's December 31, 2007 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for the nine months ended September 30, 2008:

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2008	118,033	114,206	\$ 20.48
Granted	33,000	20,000	27.07
Exercised	(28,313)	(15,002)	13.36
Forfeited	(15,470)	(2,500)	21.17
Balance outstanding as of September 30, 2008	107,250	116,704	\$ 23.36
Options exercisable as of September 30, 2008	33,950	74,204	\$ 19.18

Stock-based compensation expense recognized for the three months ended September 30, 2008 and 2007 was \$23,735 and \$19,605, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2008 and 2007 was \$72,211 and \$50,840, respectively. As of September 30, 2008, there was \$252,203 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

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Note 4: Earnings Per Share

	For three months ended September 30, 2008			For nine months ended September 30, 2008		
	Income Available to Stockholders	Average Shares Outstanding	Per-share	Income Available to Stockholders	Average Shares Outstanding	Per-share
Basic Earnings per Share	\$ 299,459	2,603,686	\$ 0.11	\$ (1,579,963)	2,602,706	\$ (0.61)
Effect of Dilutive Securities:						
Stock Options		2,789			N/A	
Diluted Earnings per Share	\$ 299,459	2,606,475	\$ 0.11	\$ (1,579,963)	2,602,706	\$