

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
May 16, 2011

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 quarterly period ended March 31, 2011

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
(State or other jurisdiction of incorporation or
organization)

43-1792717
(IRS Employer Identification No.)

1341 West Battlefield
Springfield, Missouri
(Address of principal executive offices)

65807
(Zip Code)

Registrant's telephone number, including area code: (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

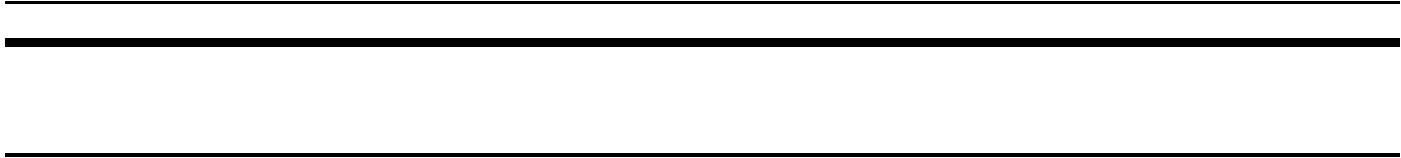
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated 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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 6, 2011
Common Stock, Par Value \$0.10 per share	2,672,359 Shares



GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
 MARCH 31, 2011 (UNAUDITED) AND DECEMBER 31, 2010

ASSETS	3/31/11	12/31/10
Cash	\$2,994,369	\$2,968,669
Interest-bearing deposits in other financial institutions	37,694,911	11,176,660
Cash and cash equivalents	40,689,280	14,145,329
Interest-bearing deposits	5,587,654	12,785,000
Available-for-sale securities	98,727,919	96,844,653
Held-to-maturity securities	246,083	260,956
Stock in Federal Home Loan Bank, at cost	5,025,200	5,025,200
Mortgage loans held for sale	280,500	2,685,163
Loans receivable, net of allowance for loan losses of March 31, 2011 - \$12,909,473 - December 31, 2010 - \$13,082,703	492,044,408	501,980,385
Accrued interest receivable:		
Loans	1,757,204	2,058,576
Investments and interest-bearing deposits	412,713	611,698
Prepaid expenses and other assets	6,932,485	6,161,861
Prepaid FDIC deposit insurance premiums	2,712,475	2,977,356
Foreclosed assets held for sale	10,850,102	10,539,867
Premises and equipment	11,295,444	11,324,685
Bank owned life insurance	10,529,434	10,449,630
Deferred income taxes	4,860,347	4,817,761
	\$691,951,248	\$682,668,120

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits	\$489,806,563	\$480,694,273
Federal Home Loan Bank advances	93,050,000	93,050,000
Securities sold under agreements to repurchase	39,750,000	39,750,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	231,450	134,002
Accrued expenses and other liabilities	633,540	655,404
Accrued interest payable	684,795	878,675
	639,621,348	630,627,354

COMMITMENTS AND CONTINGENCIES

- -

STOCKHOLDERS' EQUITY

Capital Stock:

Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding March 31, 2011 and December 31, 2010 - 17,000 shares	16,219,241	16,150,350
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued March 31, 2011 and December 31, 2010 - 6,779,800 shares;	677,980	677,980

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Common stock warrants; March 31, 2011 and December 31, 2010 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,349,490	58,505,046
Unearned ESOP shares	(375,930)	(432,930)
Retained earnings, substantially restricted	35,988,485	35,746,914
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes	1,708,981	1,843,004
	113,946,058	113,868,175
Treasury stock, at cost; March 31, 2011 and December 31, 2010 - 4,070,860 and 4,080,220 shares, respectively	(61,616,158)	(61,827,409)
	52,329,900	52,040,766
	\$691,951,248	\$682,668,120

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	3/31/2011	3/31/2010
Interest Income		
Loans	\$6,717,072	\$7,194,253
Investment securities	725,211	936,943
Other	87,835	134,086
	7,530,118	8,265,282
Interest Expense		
Deposits	1,599,941	2,834,114
Federal Home Loan Bank advances	600,379	778,876
Subordinated debentures	206,812	255,946
Other	279,179	286,869
	2,686,311	4,155,805
Net Interest Income	4,843,807	4,109,477
Provision for Loan Losses	900,000	950,000
Net Interest Income After Provision for Loan Losses	3,943,807	3,159,477
Noninterest Income		
Service charges	339,231	378,452
Other fees	7,197	6,478
Gain on sale of investment securities	3,704	160,275
Gain on sale of loans	278,200	298,317
Gain (loss) on foreclosed assets	(133,987)	44,833
Other income	263,554	286,017
	757,899	1,174,372
Noninterest Expense		
Salaries and employee benefits	2,265,151	2,065,502
Occupancy	426,865	425,017
FDIC deposit insurance premiums	285,744	309,654
Data processing	139,660	107,299
Advertising	75,000	75,000
Other expense	959,804	773,547
	4,152,224	3,756,019
Income Before Income Taxes	549,482	577,830
Provision for Income Taxes	26,520	101,964
Net Income	522,962	475,866
Preferred Stock Dividends and Discount Accretion	281,391	281,391
Net Income Available to Common Shareholders	\$241,571	\$194,475
Basic Income Per Common Share	\$0.09	\$0.07
Diluted Income Per Common Share	\$0.09	\$0.07

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2011 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2011	\$16,150,350	\$677,980	\$1,377,811	\$58,505,046	\$(432,930)	\$(61,827,409)	\$35,746,914	\$1,843,000
Comprehensive income								
Net income	-	-	-	-	-	-	522,962	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	(134,023)
Total comprehensive income								
Preferred stock discount accretion	68,891	-	-	-	-	-	(68,891)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	25,749	-	-	-	-
Treasury stock re-issued	-	-	-	(156,806)	-	256,823	-	-
Treasury stock purchased	-	-	-	-	-	(45,572)	-	-
Release of ESOP shares	-	-	-	(24,499)	57,000	-	-	-
Balance, March 31, 2011	\$16,219,241	\$677,980	\$1,377,811	\$58,349,490	\$(375,930)	\$(61,616,158)	\$35,988,485	\$1,708,980

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2010 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2010	\$15,874,788	\$677,980	\$1,377,811	\$58,523,646	\$(660,930)	\$(61,820,869)	\$35,741,705	\$1,696,500
Comprehensive income								
Net income	-	-	-	-	-	-	475,866	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	(127,970)
Total comprehensive income								
Preferred stock discount accretion	68,890	-	-	-	-	-	(68,890)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	28,399	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(2,012)	-	-
Release of ESOP shares	-	-	-	(31,139)	57,000	-	-	-
Balance, March 31, 2010	\$15,943,678	\$677,980	\$1,377,811	\$58,520,906	\$(603,930)	\$(61,822,881)	\$35,936,181	\$1,568,530

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	3/31/2011	3/31/2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$522,962	\$475,866
Items not requiring (providing) cash:		
Deferred income taxes	36,126	739,716
Depreciation	177,507	207,075
Provision for loan losses	900,000	950,000
Gain on loans and investment securities	(281,904)	(458,592)
(Gain) loss on sale of foreclosed assets	51,769	(90,619)
Accretion of gain on termination of interest rate swaps	-	(254,373)
Amortization of deferred income, premiums and discounts	(9,346)	(11,650)
Stock award plan expense	25,749	28,399
Origination of loans held for sale	(10,525,511)	(12,520,610)
Proceeds from sale of loans held for sale	13,208,374	14,465,014
Release of ESOP shares	32,501	25,861
Treasury shares re-issued	100,017	-
Increase in cash surrender value of bank owned life insurance	(79,804)	(100,146)
Changes in:		
Prepaid FDIC deposit insurance premiums	264,881	295,204
Accrued interest receivable	500,357	358,593
Prepaid expenses and other assets	141,333	118,846
Accounts payable and accrued expenses	(215,744)	(132,467)
Income taxes receivable	-	(637,751)
Net cash provided by operating activities	4,849,267	3,458,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	8,022,272	10,510,939
Principal payments on available-for-sale securities	3,812,706	3,332,230
Principal payments on held-to-maturity securities	14,873	57,308
Proceeds from maturities of available-for-sale securities	10,500,000	12,456,500
Purchase of premises and equipment	(148,266)	(139,662)
Purchase of available-for-sale securities	(17,142,280)	(33,686,763)
Proceeds from sale of available-for-sale securities	737,277	7,778,597
Purchase of interest-bearing deposits	-	(12,501,000)
Proceeds from maturities of interest-bearing deposits	7,197,346	5,788,983
Purchase of tax credit investments	(911,957)	-
Capitalized costs on foreclosed assets held for sale	(85,586)	(6,966)
Proceeds from sale of foreclosed assets held for sale	746,633	976,793
Net cash provided by (used in) investing activities	12,743,018	(5,433,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts and savings accounts	11,773,317	2,336,467
Net decrease in certificates of deposit	(2,661,027)	(5,858,550)
Advances from borrowers for taxes and insurance	97,448	116,428
Preferred cash dividends paid	(212,500)	(212,500)
Treasury stock purchased	(45,572)	(2,012)
Net cash provided by (used in) financing activities	8,951,666	(3,620,167)

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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,543,951	(5,594,842)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,145,329	33,016,697
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$40,689,280	\$27,421,855

See Notes to Condensed Consolidated Financial Statements

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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.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Form 10-K annual report for 2010 filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated statement of financial condition of the Company as of December 31, 2010, has been derived from the audited consolidated balance sheet 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.

Certain reclassifications have been made to the 2010 condensed consolidated financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Principles of Consolidation

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

Note 3: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of March 31, 2011				
Equity Securities	\$ 102,212	\$ 9,767	\$(30,680)	\$ 81,299
Debt Securities:				
U. S. government agencies	31,516,913	156,185	(218,338)	31,454,760
U. S. treasuries	2,499,216	-	(5,466)	2,493,750
Government sponsored mortgage-backed securities	61,896,909	2,801,242	(41)	64,698,110
	\$ 96,015,250	\$ 2,967,194	\$(254,525)	\$ 98,727,919

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2010				
Equity Securities	\$ 102,212	\$ 7,089	\$ (31,381)	\$ 77,920
Debt Securities:				
U. S. government agencies	27,409,482	222,014	(128,414)	27,503,082
Government sponsored mortgage-backed securities	66,407,555	2,865,745	(9,649)	69,263,651
	\$ 93,919,249	\$ 3,094,848	\$ (169,444)	\$ 96,844,653

Maturities of available-for-sale debt securities as of March 31, 2011:

	Amortized Cost	Approximate Fair Value
1-5 years	\$ 32,032,642	\$ 32,030,564
6-10 years	1,983,487	1,917,946
Government sponsored mortgage-backed securities not due on a single maturity date	61,896,909	64,698,110
	\$ 95,913,038	\$ 98,646,620

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of March 31, 2011				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 246,083	\$ 18,967	\$ -	\$ 265,050
	\$ 246,083	\$ 18,967	\$ -	\$ 265,050

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2010				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 260,956	\$ 20,828	\$ -	\$ 281,784
	\$ 260,956	\$ 20,828	\$ -	\$ 281,784

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Maturities of held-to-maturity securities as of March 31, 2011:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$246,083	\$ 265,050
	\$246,083	\$ 265,050

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$68,052,945 and \$60,631,261 as of March 31, 2011 and December 31, 2010, respectively. The approximate fair value of pledged securities amounted to \$70,654,327 and \$62,981,616 as of March 31, 2011 and December 31, 2010, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of \$3,704 and \$160,275 as of March 31, 2011 and March 31, 2010, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$1,370 and \$59,302 as of March 31, 2011 and March 31, 2010, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at March 31, 2011 and December 31, 2010, was \$21,315,592 and \$5,386,231, respectively, which is approximately 22% and 6% of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

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The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2011 and December 31, 2010.

Description of Securities	March 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$-	\$-	\$40,854	\$(30,680)	\$40,854	\$(30,680)
U. S. government agencies	17,916,736	(218,338)	-	-	17,916,736	(218,338)
U. S. treasuries	2,493,750	(5,466)	-	-	2,493,750	(5,466)
Government sponsored mortgage-backed securities	864,252	(41)	-	-	864,252	(41)
	\$21,274,738	\$(223,845)	\$40,854	\$(30,680)	\$21,315,592	\$(254,525)

Description of Securities	December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$-	\$-	\$40,153	\$(31,381)	\$40,153	\$(31,381)
U. S. government agencies	4,374,049	(128,414)	-	-	4,374,049	(128,414)
Government sponsored mortgage-backed securities	972,029	(9,649)	-	-	972,029	(9,649)
	\$5,346,078	\$(138,063)	\$40,153	\$(31,381)	\$5,386,231	\$(169,444)

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Note 4: Loans and Allowance for Loan Losses

Categories of loans at March 31, 2011 and December 31, 2010 include:

	March 31, 2011	December 31, 2010
Real estate - residential mortgage:		
One to four family units	\$ 102,555,697	\$ 103,052,035
Multi-family	48,840,024	44,138,034
Real estate - construction	59,796,346	63,308,397
Real estate - commercial	188,198,430	195,889,801
Commercial loans	83,617,854	85,427,589
Consumer and other loans	22,114,796	23,425,843
Total loans	505,123,147	515,241,699
Less:		
Allowance for loan losses	(12,909,473)	(13,082,703)
Deferred loan fees/costs, net	(169,266)	(178,611)
Net loans	\$ 492,044,408	\$ 501,980,385

Classes of loans by aging at March 31, 2011 and December 31, 2010 were as follows:

As of March 31,
2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
(In Thousands)							
Real estate - residential mortgage:							
One to four family units	\$ 1,015	\$ -	\$ 1,062	\$ 2,077	\$ 100,479	\$ 102,556	\$ -
Multi-family	-	-	-	-	48,840	48,840	-
Real estate - construction	-	22	102	124	59,672	59,796	-
Real estate - commercial	410	-	167	577	187,621	188,198	-
Commercial loans	1,334	1,940	1,956	5,230	78,388	83,618	-
Consumer and other loans	209	50	71	330	21,785	22,115	-
Total	\$ 2,968	\$ 2,012	\$ 3,358	\$ 8,338	\$ 496,785	\$ 505,123	\$ -

As of December 31,
2010

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and
--	------------------------	------------------------------	----------------------------	----------------------	---------	------------------------------	------------------------------------

(In Thousands)

Real estate - residential mortgage:

One to four family units	\$ 1,158	\$ 562	\$ 1,591	\$ 3,311	\$ 99,741	\$ 103,052	\$ -
Multi-family	-	-	-	-	44,138	44,138	-
Real estate - construction							