

GUARANTY FEDERAL BANCSHARES INC  
Form 10-Q  
November 08, 2016

**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 September 30, 2016

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** **65807**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

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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

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

<u>Class</u>	<u>Outstanding as of November 1, 2016</u>
Common Stock, Par Value \$0.10 per share	4,432,027 Shares

**GUARANTY FEDERAL BANCSHARES, INC.**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2016 (UNAUDITED) AND DECEMBER 31, 2015**

	<b>9/30/16</b>	<b>12/31/15</b>
<b>ASSETS</b>		
Cash and due from banks	\$3,494,693	\$3,561,272
Interest-bearing deposits in other financial institutions	7,454,012	15,213,147
Cash and cash equivalents	10,948,705	18,774,419
Available-for-sale securities	96,573,046	97,292,487
Held-to-maturity securities	30,363	43,099
Stock in Federal Home Loan Bank, at cost	3,767,000	2,837,500
Mortgage loans held for sale	2,564,342	1,902,933
Loans receivable, net of allowance for loan losses of September 30, 2016 - \$6,396,580 - December 31, 2015 - \$5,811,940	525,862,944	491,001,907
Accrued interest receivable	1,808,980	1,986,692
Prepaid expenses and other assets	3,217,504	3,525,032
Foreclosed assets held for sale	2,246,839	2,391,727
Premises and equipment, net	10,864,395	10,540,428
Bank owned life insurance	19,149,610	18,779,915
Deferred and receivable income taxes	2,571,531	3,758,933
	<b>\$679,605,259</b>	<b>\$652,835,072</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits	\$515,764,148	\$517,385,695
Federal Home Loan Bank advances	74,600,000	52,100,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	534,471	190,853
Accrued expenses and other liabilities	1,953,098	1,074,957
Accrued interest payable	203,417	196,102
	608,520,134	586,412,607
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-

**STOCKHOLDERS' EQUITY**

Capital Stock:

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2016 and December 31, 2015 - 6,875,503 and 6,859,003 shares, respectively	687,550	685,900
Additional paid-in capital	50,472,294	50,441,464
Retained earnings, substantially restricted	56,268,937	53,258,126
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities, net of income taxes	588,095	(683,956 )
	108,016,876	103,701,534
Treasury stock, at cost; September 30, 2016 and December 31, 2015 - 2,443,476 and 2,466,462 shares, respectively	(36,931,751 )	(37,279,069 )
	71,085,125	66,422,465
	\$679,605,259	\$652,835,072

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
<b>Interest Income</b>				
Loans	\$5,854,069	\$5,846,935	\$17,184,094	\$17,740,376
Investment securities	461,587	350,679	1,445,151	1,055,210
Other	38,647	31,477	134,417	107,652
	6,354,303	6,229,091	18,763,662	18,903,238
<b>Interest Expense</b>				
Deposits	560,168	612,091	1,715,179	1,832,281
FHLB and Federal Reserve advances	349,575	298,952	963,847	895,137
Subordinated debentures	146,438	135,329	429,348	402,187
Other	-	289	-	121,122
	1,056,181	1,046,661	3,108,374	3,250,727
<b>Net Interest Income</b>	5,298,122	5,182,430	15,655,288	15,652,511
<b>Provision for Loan Losses</b>	200,000	200,000	950,000	350,000
<b>Net Interest Income After Provision for Loan Losses</b>	5,098,122	4,982,430	14,705,288	15,302,511
<b>Noninterest Income</b>				
Service charges	303,958	317,385	849,026	914,019
Gain (loss) on sale of investment securities	44,060	(4,152 )	155,465	151,161
Gain on sale of mortgage loans held for sale	528,521	419,952	1,260,978	1,075,937
Gain on sale of Small Business Administration loans	85,624	378	237,862	344,817
Net loss on foreclosed assets	(33,808 )	(21,151 )	(53,313 )	(38,913 )
Other income	387,146	397,548	1,153,718	1,088,611
	1,315,501	1,109,960	3,603,736	3,535,632
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,694,069	2,483,512	7,950,867	7,424,824
Occupancy	465,237	474,885	1,343,062	1,411,472
FDIC deposit insurance premiums	117,311	105,878	362,025	326,216
Prepayment penalty on securities sold under agreements to repurchase	-	-	-	463,992
Data processing	223,618	198,291	650,283	592,114
Advertising	131,250	131,250	393,750	393,750
Other expense	686,222	658,187	2,036,590	2,033,301
	4,317,707	4,052,003	12,736,577	12,645,669
<b>Income Before Income Taxes</b>	2,095,916	2,040,387	5,572,447	6,192,474
<b>Provision for Income Taxes</b>	554,009	621,751	1,497,783	1,906,346
<b>Net Income Available to Common Shareholders</b>	\$1,541,907	\$1,418,636	\$4,074,664	\$4,286,128
<b>Basic Income Per Common Share</b>	\$0.35	\$0.33	\$0.93	\$0.99

<b>Diluted Income Per Common Share</b>	\$0.35	\$0.32	\$0.92	\$0.98
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See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
<b>NET INCOME</b>	\$1,541,907	\$1,418,635	\$4,074,664	\$4,286,128
<b>OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):</b>				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(272,470 )	828,626	2,174,594	585,013
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	(44,060 )	4,152	(155,465 )	(151,161 )
Total other items of comprehensive income (loss)	(316,530 )	832,778	2,019,129	433,852
Income tax expense (benefit) related to other items of comprehensive income	(117,115 )	308,128	747,078	160,524
Other comprehensive income (loss)	(199,415 )	524,650	1,272,051	273,328
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$1,342,492</b>	<b>\$1,943,285</b>	<b>\$5,346,715</b>	<b>\$4,559,456</b>

See Notes to Condensed Consolidated Financial Statements



**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)**

	Common Stock	Additional Paid- In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2016</b>	\$ 685,900	\$ 50,441,464	\$ (37,279,069)	\$ 53,258,126	\$ (683,956 )	\$ 66,422,465
Net income	-	-	-	4,074,664	-	4,074,664
Change in unrealized gain on available-for-sale securities, net of income taxes	-	-	-	-	1,272,051	1,272,051
Dividends on common stock (\$0.24 per share)	-	-	-	(1,063,853 )	-	(1,063,853 )
Stock award plans	-	(53,320 )	347,318	-	-	293,998
Stock options exercised	1,650	84,150	-	-	-	85,800
<b>Balance, September 30, 2016</b>	\$ 687,550	\$ 50,472,294	\$ (36,931,751)	\$ 56,268,937	\$ 588,095	\$ 71,085,125

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

	<b>9/30/2016</b>	<b>9/30/2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$4,074,664	\$4,286,128
Items not requiring (providing) cash:		
Deferred income taxes	(88,504 )	(17,622 )
Depreciation	615,224	678,648
Provision for loan losses	950,000	350,000
Gain on sale of mortgage loans held for sale and investment securities	(1,416,443 )	(1,368,477 )
Loss (gain) on sale of foreclosed assets	2,798	(8,905 )
Gain on sale of Small Business Administration Loans	(237,862 )	(344,817 )
Amortization of deferred income, premiums and discounts	469,088	558,319
Stock award plan expense	293,998	239,548
Origination of loans held for sale	(47,274,120 )	(41,881,391)
Proceeds from sale of loans held for sale	47,873,689	43,989,808
Increase in cash surrender value of bank owned life insurance	(369,695 )	(271,963 )
Changes in:		
Accrued interest receivable	177,712	359,635
Prepaid expenses and other assets	307,528	704,580
Accounts payable and accrued expenses	707,875	158,457
Income taxes receivable	703,175	(3,664 )
Net cash provided by operating activities	6,789,127	7,428,284
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of loans receivable	(11,132,508 )	-
Net change in loans	(24,782,137 )	(16,136,499)
Principal payments on available-for-sale securities	6,385,019	8,185,628
Principal payments on held-to-maturity securities	12,736	13,882
Proceeds from calls/maturities of available-for-sale securities	535,000	-
Purchase of premises and equipment	(939,191 )	(717,854 )
Purchase of available-for-sale securities	(71,652,913 )	(38,568,960)
Proceeds from sale of available-for-sale securities	67,177,538	24,636,698
Redemption (purchase) of Federal Home Loan Bank stock	(929,500 )	143,400
Proceeds from sale of foreclosed assets held for sale	463,863	608,920
Net cash used in investing activities	(34,862,093 )	(21,834,785)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid on common stock	(1,060,619 )	(654,253 )
Net increase in demand deposits, NOW accounts and savings accounts	5,344,326	29,545,375
Net decrease in certificates of deposit	(6,965,873 )	(4,201,038 )
Proceeds from Federal Home Loan Bank advances	173,400,000	-
Repayments of Federal Home Loan Bank and Federal Reserve advances	(150,900,000)	(3,850,000 )
Net decrease of securities sold under agreements to repurchase	-	(10,000,000)

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Advances from borrowers for taxes and insurance	343,618	346,117
Stock options exercised	85,800	144,874
Net cash provided by financing activities	20,247,252	11,331,075
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(7,825,714 )</b>	<b>(3,075,426 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>18,774,419</b>	<b>12,493,890</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$10,948,705</b>	<b>\$9,418,464</b>

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 condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 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") Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Annual Report") 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 balance sheet of the Company as of December 31, 2015, 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.

### **Note 2: Principles of Consolidation**

The accompanying condensed 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 were as follows:

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of September 30, 2016</b>				
Equity Securities	\$102,212	\$8,883	\$(17,176 )	\$93,919
Debt Securities:				
Municipals	39,461,752	818,344	(42,386 )	40,237,710
Corporates	5,994,436	60,880	(88,091 )	5,967,225
Government sponsored mortgage-backed securities and SBA loan pools	50,081,162	318,725	(125,695 )	50,274,192
	\$95,639,562	\$1,206,832	\$(273,348 )	\$96,573,046

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2015</b>				
Equity Securities	\$ 102,212	\$ 10,081	\$ (12,776 )	\$ 99,517
Debt Securities:				
U. S. government agencies	8,533,885	-	(137,101 )	8,396,784
Municipals	31,132,635	302,335	(85,808 )	31,349,162
Corporates	3,965,719	-	(152,019 )	3,813,700
Government sponsored mortgage-backed securities and SBA loan pools	54,643,681	13,764	(1,024,121)	53,633,324
	\$ 98,378,132	\$ 326,180	\$ (1,411,825)	\$ 97,292,487

Maturities of available-for-sale debt securities as of September 30, 2016:

	Amortized Cost	Approximate Fair Value
1 - 5 years	\$ 1,298,090	\$ 1,307,722
6 - 10 years	10,344,524	10,556,820
After 10 years	33,813,574	34,340,393
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	50,081,162	50,274,192
	\$ 95,537,350	\$ 96,479,127

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
<b>As of September 30, 2016</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 30,363	\$ 673	\$ (5 )	\$ 31,031

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2015</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 43,099	\$ 836	\$ -	\$ 43,935

Maturities of held-to-maturity securities as of September 30, 2016:

	Amortized	Approximate
	Cost	Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 30,363	\$ 31,031

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$54,850,847 and \$52,554,932 as of September 30, 2016 and December 31, 2015, respectively. The approximate fair value of pledged securities amounted to \$55,524,321 and \$52,095,842 as of September 30, 2016 and December 31, 2015, 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 \$155,465 and \$151,161 as of September 30, 2016 and September 30, 2015, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$57,522 and \$56,042 as of September 30, 2016 and September 30, 2015, 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 September 30, 2016 and December 31, 2015, was \$32,516,460 and \$68,123,480, respectively, which is approximately 34% and 70% 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.





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 September 30, 2016 and December 31, 2015.

September 30, 2016						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Equity Securities	\$-	\$-	\$30,751	\$(17,176 )	\$30,751
Municipals	5,529,687	(41,862 )	182,900	(524 )	5,712,587	(42,386 )
Corporates	-	-	3,019,725	(88,091 )	3,019,725	(88,091 )
Government sponsored mortgage-backed securities and SBA loan pools	22,214,153	(110,431 )	1,539,244	(15,269 )	23,753,397	(125,700 )
	\$27,743,840	\$(152,293 )	\$4,772,620	\$(121,060 )	\$32,516,460	\$(273,353 )

December 31, 2015						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Equity Securities	\$-	\$-	\$35,151	\$(12,776 )	\$35,151
U. S. government agencies	6,399,920	(83,965 )	1,996,864	(53,136 )	8,396,784	(137,101 )
Municipals	6,167,019	(70,266 )	715,410	(15,542 )	6,882,429	(85,808 )
Corporates	1,675,500	(79,708 )	2,138,200	(72,311 )	3,813,700	(152,019 )
Government sponsored mortgage-backed securities and SBA loan pools	33,072,102	(493,865 )	15,923,314	(530,256 )	48,995,416	(1,024,121)
	\$47,314,541	\$(727,804 )	\$20,808,939	\$(684,021 )	\$68,123,480	\$(1,411,825)

**Note 4: Loans and Allowance for Loan Losses**

Categories of loans at September 30, 2016 and December 31, 2015 include:

	September 30, 2016	December 31, 2015
Real estate - residential mortgage:		
One to four family units	\$ 109,391,522	\$ 98,257,417
Multi-family	38,192,064	41,603,670
Real estate - construction	41,305,779	45,462,895
Real estate - commercial	238,722,021	208,824,573
Commercial loans	81,739,377	81,006,897
Consumer and other loans	23,261,945	21,991,881
Total loans	532,612,708	497,147,333
Less:		
Allowance for loan losses	(6,396,580 )	(5,811,940 )
Deferred loan fees/costs, net	(353,184 )	(333,486 )
Net loans	\$ 525,862,944	\$ 491,001,907

Classes of loans by aging at September 30, 2016 and December 31, 2015 were as follows:

**As of September 30, 2016**

	30-59 Days	60-89 Days	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 244	\$ 295	\$ 164	\$ 703	\$ 108,689	\$ 109,392	\$ -
Multi-family	-	-	-	-	38,192	38,192	