

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
May 08, 2015

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, 2015

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

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 May 1, 2015</u>
Common Stock, Par Value \$0.10 per share	4,375,969 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****MARCH 31, 2015 (UNAUDITED) AND DECEMBER 31, 2014**

ASSETS	3/31/15	12/31/14
Cash and due from banks	\$3,411,462	\$3,604,316
Interest-bearing deposits in other financial institutions	40,645,425	8,889,574
Cash and cash equivalents	44,056,887	12,493,890
Available-for-sale securities	87,255,740	86,467,985
Held-to-maturity securities	56,523	60,993
Stock in Federal Home Loan Bank, at cost	2,847,500	3,156,900
Mortgage loans held for sale	1,417,706	1,214,632
Loans receivable, net of allowance for loan losses of March 31, 2015 - \$6,755,671 - December 31, 2014 - \$6,588,597	494,728,868	486,586,636
Accrued interest receivable:		
Loans	1,565,888	1,704,374
Investments and interest-bearing deposits	262,946	325,684
Prepaid expenses and other assets	4,386,728	4,530,191
Foreclosed assets held for sale	3,160,316	3,165,447
Premises and equipment, net	10,668,600	10,602,763
Bank owned life insurance	14,507,656	14,417,220
Income taxes receivable	323,343	320,416
Deferred income taxes	3,199,794	3,412,513
	\$668,438,495	\$628,459,644

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits	\$525,821,413	\$479,818,282
FHLB and Federal Reserve advances	52,350,000	60,350,000
Securities sold under agreements to repurchase	10,000,000	10,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	246,307	143,984
Accrued expenses and other liabilities	973,311	963,386
Accrued interest payable	240,626	242,145
	605,096,657	566,982,797

COMMITMENTS AND CONTINGENCIES

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STOCKHOLDERS' EQUITY

Capital Stock:

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued March 31, 2015 and December 31, 2014 - 6,844,503 and 6,823,203 shares; respectively	684,450	682,320
Additional paid-in capital	50,264,026	50,366,546
Retained earnings, substantially restricted	49,660,437	48,549,691
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities, net of income taxes	43,302	(448,421)
	100,652,215	99,150,136
Treasury stock, at cost; March 31, 2015 and December 31, 2014 - 2,468,534 and 2,492,552 shares, respectively	(37,310,377)	(37,673,289)
	63,341,838	61,476,847
	\$668,438,495	\$628,459,644

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

	3/31/2015	3/31/2014
		Retrospectively adjusted - Note 7
Interest Income		
Loans	\$5,904,566	\$5,867,558
Investment securities	353,050	457,566
Other	30,021	34,940
	6,287,637	6,360,064
Interest Expense		
Deposits	594,929	606,793
FHLB and Federal Reserve advances	298,806	295,691
Subordinated debentures	132,861	133,163
Other	65,094	65,250
	1,091,690	1,100,897
Net Interest Income	5,195,947	5,259,167
Provision for Loan Losses	150,000	200,000
Net Interest Income After Provision for Loan Losses	5,045,947	5,059,167
Noninterest Income		
Service charges	281,359	312,985
Gain on sale of investment securities	6,797	3,088
Gain on sale of loans	379,066	185,578
Net loss on foreclosed assets	(11,099)	(15,783)
Other income	345,586	331,825
	1,001,709	817,693
Noninterest Expense		
Salaries and employee benefits	2,453,092	2,304,768
Occupancy	473,227	427,061
FDIC deposit insurance premiums	106,760	136,934
Data processing	192,481	160,786
Advertising	131,250	106,251
Other expense	772,865	987,434
	4,129,675	4,123,234
Income Before Income Taxes	1,917,981	1,753,626
Provision for Income Taxes	588,437	452,200
Net Income	1,329,544	1,301,426
Preferred Stock Dividends and Discount Accretion	-	246,210
Net Income Available to Common Shareholders	\$1,329,544	\$1,055,216
Basic Income Per Common Share	\$0.31	\$0.33
Diluted Income Per Common Share	\$0.30	\$0.33

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)

	3/31/2015	3/31/2014
NET INCOME	\$1,329,544	\$1,301,426
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Change in unrealized gain on investment securities available-for-sale, before income taxes	787,310	1,284,938
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(6,797)	(3,088)
Total other items of comprehensive income	780,513	1,281,850
Income tax expense related to other items of comprehensive income	288,790	474,285
Other comprehensive income	491,723	807,565
TOTAL COMPREHENSIVE INCOME	\$1,821,267	\$2,108,991

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****THREE MONTHS ENDED MARCH 31, 2015 (UNAUDITED)**

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	\$682,320	\$50,366,546	\$(37,673,289)	\$48,549,691	\$ (448,421)	\$61,476,847
Net income	-	-	-	1,329,544	-	1,329,544
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	491,723	491,723
Dividends on common stock (\$0.05 per share)	-	-	-	(218,798)	-	(218,798)
Stock award plans	-	(211,694)	362,912	-	-	151,218
Stock options exercised	2,130	109,174	-	-	-	111,304
Balance, March 31, 2015	\$684,450	\$50,264,026	\$(37,310,377)	\$49,660,437	\$ 43,302	\$63,341,838

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2014	\$11,983,790	\$678,360	\$57,655,031	\$(61,225,185)	\$43,769,485	\$(2,506,248)	\$50,355,233
Net income	-	-	-	-	1,301,426	-	1,301,426
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	-	807,565	807,565
Preferred stock discount accretion	16,210	-	-	-	(16,210)	-	-
Preferred stock dividends	-	-	-	-	(230,000)	-	(230,000)
Stock award plans	-	280	(226,061)	377,312	-	-	151,531
Proceeds from issuance of common stock	-	-	(6,782,011)	22,664,985	-	-	15,882,974
Balance, March 31, 2014	\$12,000,000	\$678,640	\$50,646,959	\$(38,182,888)	\$44,824,701	\$(1,698,683)	\$68,268,729

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

	3/31/2015	3/31/2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,329,544	\$ 1,301,426
Items not requiring (providing) cash:		
Deferred income taxes	(76,071)	(55,386)
Depreciation	218,488	187,835
Provision for loan losses	150,000	200,000
Gain on loans and investment securities	(385,863)	(188,666)
Gain on sale of foreclosed assets	-	(6,981)
Amortization of deferred income, premiums and discounts	192,568	101,495
Stock award plan expense	151,218	136,955
Origination of loans held for sale	(13,122,754)	(6,075,681)
Proceeds from sale of loans held for sale	13,298,747	6,334,261
Increase in cash surrender value of bank owned life insurance	(90,436)	(91,548)
Changes in:		
Accrued interest receivable	201,224	189,310
Prepaid expenses and other assets	143,463	331,265
Accounts payable and accrued expenses	6,141	55,202
Income taxes receivable	(2,927)	131,812
Net cash provided by operating activities	2,013,341	2,551,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	(8,317,272)	17,734,431
Principal payments on available-for-sale securities	2,318,059	1,776,923
Principal payments on held-to-maturity securities	4,470	4,679
Proceeds from maturities of available-for-sale securities	-	1,000,000
Purchase of premises and equipment	(284,325)	(94,441)
Purchase of available-for-sale securities	(12,283,794)	(11,337,265)
Proceeds from sale of available-for-sale securities	9,797,762	8,191,860
Redemption of FHLB stock	309,400	48,200
Proceeds from sale of foreclosed assets held for sale	5,131	172,593
Net cash provided by investing activities	(8,450,569)	17,496,980
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(216,533)	-
Net increase in demand deposits, NOW accounts and savings accounts	43,344,354	5,541,510
Net decrease in certificates of deposit	2,658,777	(1,459,731)
Proceeds from issuance of common stock	-	15,882,974
Repayments of FHLB and Federal Reserve advances	(8,000,000)	(3,000,000)
Advances from borrowers for taxes and insurance	102,323	90,905
Stock options exercised	111,304	14,576
Preferred cash dividends paid	-	(179,000)

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Net cash provided by (used in) financing activities	38,000,225	16,891,234
INCREASE IN CASH AND CASH EQUIVALENTS	31,562,997	36,939,513
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,493,890	12,303,200
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$44,056,887	\$49,242,713

See Notes to Condensed Consolidated Financial Statements

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 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") Annual Report on Form 10-K for the year ended December 31, 2014 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, 2014, 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
As of March 31, 2015				
Equity Securities	\$102,212	\$ 16,247	\$(13,114)	\$105,345
Debt Securities:				
U. S. government agencies	8,532,280	-	(80,050)	8,452,230
Municipals	16,147,060	222,372	(45,703)	16,323,729
Corporates	3,940,947	-	(60,947)	3,880,000
Government sponsored mortgage-backed securities and SBA loan pools	58,464,508	416,508	(386,580)	58,494,436
	\$87,187,007	\$ 655,127	\$(586,394)	\$87,255,740

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2014				
Equity Securities	\$102,212	\$ 16,121	\$(13,310)	\$105,023
Debt Securities:				
U. S. government agencies	10,528,055	-	(271,282)	10,256,773
Municipals	15,474,316	185,747	(70,173)	15,589,890
Government sponsored mortgage-backed securities and SBA loan pools	61,075,181	235,977	(794,859)	60,516,299
	\$87,179,764	\$ 437,845	\$(1,149,624)	\$86,467,985

Maturities of available-for-sale debt securities as of March 31, 2015:

	Amortized Cost	Approximate Fair Value
< 1 year	285,000	285,379
1-5 years	4,728,525	4,710,730
6-10 years	10,897,302	10,869,772
After 10 years	12,709,460	12,790,078
Government sponsored mortgage-backed securities not due on a single maturity date	58,464,508	58,494,436
	\$87,084,795	\$87,150,395

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, 2015				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 56,523	\$ 1,485	\$ -	\$ 58,008

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2014				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 60,993	\$ 1,626	\$ -	\$ 62,619

Maturities of held-to-maturity securities as of March 31, 2015:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 56,523	\$ 58,008

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$70,600,904 and \$53,355,716 as of March 31, 2015 and December 31, 2014, respectively. The approximate fair value of pledged securities amounted to \$70,644,189 and \$52,907,065 as of March 31, 2015 and December 31, 2014, 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 \$6,797 and \$3,088 as of March 31, 2015 and March 31, 2014, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$2,515 and \$1,142 as of March 31, 2015 and March 31, 2014, 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, 2015 and December 31, 2014, was \$45,713,465 and \$60,733,191, respectively, which is approximately 52% 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 March 31, 2015 and December 31, 2014.

March 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	\$-	\$-	\$34,813	\$(13,114)	\$34,813	\$(13,114)
U. S. government agencies	2,955,390	(26,890)	5,496,840	(53,160)	8,452,230	(80,050)
Municipals	4,670,544	(20,668)	712,000	(25,035)	5,382,544	(45,703)
Corporates	3,880,000	(60,947)	-	-	3,880,000	(60,947)
Government sponsored mortgage-backed securities and SBA loan pools	7,441,808	(52,211)	20,522,070	(334,369)	27,963,878	(386,580)
	\$18,947,742	\$(160,716)	\$26,765,723	\$(425,678)	\$45,713,465	\$(586,394)

December 31, 2014

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	\$-	\$-	\$34,618	\$(13,310)	\$34,618	\$(13,310)
U. S. government agencies	-	-	10,256,773	(271,282)	10,256,773	(271,282)
Municipals	2,677,626	(7,692)	5,859,560	(62,481)	8,537,186	(70,173)
Government sponsored mortgage-backed securities and SBA loan pools	12,703,301	(70,049)	29,201,313	(724,810)	41,904,614	(794,859)
	\$15,380,927	\$(77,741)	\$45,352,264	\$(1,071,883)	\$60,733,191	\$(1,149,624)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at March 31, 2015 and December 31, 2014 include:

	March 31, 2015	December 31, 2014
Real estate - residential mortgage:		
One to four family units	\$97,129,080	\$97,900,814
Multi-family	34,997,580	33,785,959
Real estate - construction	35,954,290	36,784,584
Real estate - commercial	229,644,645	215,605,054
Commercial loans	87,647,903	92,114,216
Consumer and other loans	16,397,912	17,246,437
Total loans	501,771,410	493,437,064
Less:		
Allowance for loan losses	(6,755,671)	(6,588,597)
Deferred loan fees/costs, net	(286,871)	(261,831)
Net loans	\$494,728,868	\$486,586,636

Classes of loans by aging at March 31, 2015 and December 31, 2014 were as follows:

As of March 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	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	\$ 305	\$ 266	\$ 550	\$ 1,121	\$96,008	\$ 97,129	\$ -
Multi-family	-	-	-	-	34,997	34,997	-
Real estate - construction	-	-	-	-	35,954	35,954	-
Real estate - commercial	-	-	-	-	229,645	229,645	-
Commercial loans	-	-	223	223	87,425	87,648	-
Consumer and other loans	82	-	16	98	16,300	16,398	-
Total	\$ 387	\$ 266	\$ 789	\$ 1,442	\$ 500,329	\$ 501,771	\$ -

As of December 31, 2014

	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
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 113	\$ 428	\$ 279	\$ 820	\$ 97,081	\$ 97,901	\$ -
Multi-family	-	-	-	-	33,786	33,786	-
Real estate - construction	-	-	-	-	36,785	36,785	-
Real estate - commercial	-	-	-	-	215,605	215,605	-
Commercial loans	-	-	227	227	91,887	92,114	-
Consumer and other loans	23	35	-	58	17,188	17,246	-
Total	\$ 136	\$ 463	\$ 506	\$ 1,105	\$ 492,332	\$ 493,437	\$ -

Nonaccruing loans are summarized as follows:

	March 31, 2015	December 31, 2014
Real estate - residential mortgage:		
One to four family units	\$1,417,106	\$911,240
Multi-family	-	-
Real estate - construction	2,685,863	2,892,772
Real estate - commercial	-	459,823
Commercial loans	956,094	1,026,772
Consumer and other loans	16,034	-
Total	\$5,075,097	\$5,290,607

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months ended March 31, 2015 and 2014:

March 31, 2015

	Construction Real Estate	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	<i>(In Thousands)</i>							
Balance, beginning of period	\$1,330	\$ 1,992	\$ 900	\$ 127	\$ 1,954	\$ 185	\$ 101	\$6,589
Provision charged to expense	24	(6)	(24)	6	(151)	35	266	\$150
Losses charged off	-	-	-	-	-	(18)	-	\$(18)
Recoveries	7	-	8	-	1	19	-	\$35
Balance, end of period	\$1,361	\$ 1,986	\$ 884	\$ 133	\$ 1,804	\$ 221	\$ 367	\$6,756

March 31, 2014

	Construction Real Estate	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							

Allowance for loan losses:

Balance, beginning of period	\$2,387	\$ 2,059	\$ 997	\$ 209	\$ 1,519	\$ 272	\$ 359	\$7,802
Provision charged to expense	(380)	285	49	(62)	437	(43)	(86)	\$200
Losses charged off	-	-	(86)	-	(164			