THOMASVILLE BANCSHARES INC
Form 10QSB
November 13, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2003.

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ____________________

Commission File No. 0-25929

THOMASVILLE BANCSHARES, INC.
(Exact name of small business issuer as specified in its charter)

Georgia	58-2175800
(State of Incorporation)	(I.R.S. Employer Identification No.)

301 North Broad Street, Thomasville, Georgia 31792
(Address of Principal Executive Offices)

(229) 226-3300
(Issuer's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Common stock, $1.00 par value per share, 1,443,558 shares issued and outstanding as of November 13, 2003.

Transitional small business disclosure format (check one):
Yes ________ No X ___________

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2003 (Unaudited)	December 31, 2002 (Unaudited)
Cash and due from banks	$ 5,284,987	$ 11,827,153
Federal funds sold	5,940,616	1,714,481
Total cash and cash equivalents	$ 11,225,603	$ 13,541,634
Investment securities:		
Securities available-for-sale, at market value	$ 8,730,893	$ 7,658,460
Loans, net	171,049,947	154,899,944
Property & equipment, net	4,362,936	4,168,044
Goodwill	3,417,259	3,417,259
Other assets	2,390,674	1,703,006
Total Assets	$201,177,312	$185,388,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits		
Non-interest bearing deposits	$ 19,269,297	$ 22,324,716
Interest bearing deposits	149,438,073	131,595,672
Total deposits	$168,707,370	$153,920,388
Borrowings	14,976,942	15,150,845
Other liabilities	908,371	608,374
Total Liabilities	$184,592,683	$169,679,607
Commitments and contingencies		
Shareholders' Equity:		
Common stock, $1.00 par value, 10 million shares authorized, 1,443,558 shares issued & outstanding	$ 1,443,558	$ 1,443,558
Paid-in-capital	8,831,615	8,761,714
Retained earnings	6,315,825	5,452,079
Accumulated other comprehensive income (loss)	(6,369)	51,389
Total Shareholders' Equity	$ 16,584,629	$ 15,708,740
Total Liabilities and Shareholders' Equity	$201,177,312	$185,388,347

Refer to notes to the consolidated financial statements.

THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the three months ended September 30, 2003	2002
Interest income	$2,634,409	$2,582,733
Interest expense	893,046	1,122,276
Net interest income	$1,741,363	$1,460,457
Provision for possible loan losses	90,000	40,000
Net interest income after provision for possible loan losses	$1,651,363	$1,420,457
Other income		
Money management fees	$ 240,287	$ 264,365
Service charges	45,073	44,741
Other fees	255,408	197,496
Total other income	$ 540,768	$ 506,602
Salaries and benefits	$ 786,973	$ 624,634
Advertising and public relations	56,228	42,850
Depreciation	112,176	104,502
Regulatory fees and assessments	21,792	21,137
Other operating expenses	454,365	480,814
Total operating expenses	$1,431,534	$1,273,937
Net income before taxes	$ 760,597	$ 653,122
Income taxes	265,843	202,165
Net income	$ 494,754	$ 450,957
Basic income per share	$ .34	$ .30
Diluted income per share	$ .33	$ .30

Refer to notes to the consolidated financial statements.

THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the nine months ended September 30, 2003	2002
Interest income	$7,771,165	$7,440,354
Interest expense	2,722,780	3,186,981
Net interest income	$5,048,385	$4,253,373
Provision for possible loan losses	260,000	150,000
Net interest income after provision for possible loan losses	$4,788,385	$4,103,373
Other income		
Money management fees	$ 708,679	$ 264,365
Service charges	133,488	122,912
Other fees	728,857	487,534
Total other income	$1,571,024	$ 874,811
Salaries and benefits	$2,224,233	$1,529,604
Advertising and public relations	142,247	113,215
Depreciation	319,218	259,692
Legal and professional	145,403	191,696
Repairs and maintenance	179,574	137,318
Regulatory fees and assessments	65,722	60,942
Other operating expenses	945,187	773,355
Total operating expenses	$4,021,584	$3,065,822
Net income before taxes	$2,337,825	$1,912,362
Income taxes	824,477	630,165
Net income	$1,513,348	$1,282,197
Basic income per share	$ 1.05	$ .88
Diluted income per share	$ 1.01	$ .85

Refer to notes to the consolidated financial statements.

THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the nine-month period ended September 30,

	2003	2002
Cash flows provided by operating activities	$ 1,722,966	$ 1,310,064
Cash flows from investing activities:		
Increase in goodwill, tradename	$ - -	$ (3,494,607)
Purchase of fixed assets	(514,110)	(770,288)
Maturities, calls, paydowns, securities, AFS	5,280,000	3,750,000
Purchase of securities, AFS	(6,428,262)	(4,808,432)
(Increase) in loans	(16,410,003)	(15,390,285)
Net cash used by investing activities	$(18,072,375)	$(20,713,612)
Cash flows from financing activities:		
Issuance of stock	$ - -	$ 1,100,000
Options, restricted stock	69,901	61,800
Exercise of stock options	- -	150,000
(Decrease) in borrowings	(173,903)	7,479,031
Increase in deposits	14,786,982	15,531,252
Payment of cash dividend	(649,602)	(570,000)
Net cash provided from (used by) financing activities	$ 14,033,378	$ 23,752,083
Net (decrease) in cash and cash equivalents	$ (2,316,031)	$ 4,348,535
Cash and cash equivalents, beginning of period	13,541,634	6,579,878
Cash and cash equivalents, end of period	$ 11,225,603	$ 10,928,413

Refer to notes to the consolidated financial statements.

THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003

	Common Stock				Accumulated Other Comprehensive	
	Shares	Par Value	Paid in Capital	Retained Earnings	Income	Total
Balance, Dec 31, 2001	1,395,000	$ 1,395,000	$ 8,200,908	$4,265,111	$ 28,094	$13,889,113
Comprehensive Income:						
Net income, nine-month period ended						

Sept 30, 2002	- -	- -	- -	1,282,197	- -	1,282,197
Net unrealized gains on securities, nine-month period ended Sept 30, 2002	- -	- -	- -	- -	17,780	17,780
Total comprehensive income	- -	- -	- -	1,282,197	17,780	1,299,977
Issuance of common stock	55,000	55,000	1,045,000	- -	- -	1,100,000
Exercise of options	30,000	30,000	120,000	- -	- -	150,000
Stock options, restricted stock	- -	- -	61,800	- -	- -	61,800
Dividends paid	- -	- -	- -	(570,000)	- -	(570,000)
Balance, Sept 30, 2002	1,480,000	$ 1,480,000	$ 9,427,708	$4,977,308	$ 45,874	$15,930,890
Balance, December 31, 2002	1,443,558	$ 1,443,558	$ 8,761,714	$5,452,079	$ 51,389	$15,708,740
Comprehensive Income:						
Net income, nine-month period ended Sept 30, 2003	- -	- -	- -	1,513,348	- -	1,513,348
Net unrealized (loss) on securities, nine-month period ended Sept 30, 2003	- -	- -	- -	- -	(57,758)	(57,758)
Total comprehensive income	- -	- -	- -	1,513,348	(57,758)	1,455,590
Stock options, restricted stock	- -	- -	69,901	- -	- -	69,901
Dividends paid	- -	- -	- -	(649,602)	- -	(649,602)

Balance, Sept 30, 2003	1,443,558	$ 1,443,558	$ 8,831,615	$6,315,825	$ (6,369)	$16,584,629

Refer to notes to the consolidated financial statements.

THOMASVILLE BANCSHARES, INC.
THOMASVILLE, GEORGIA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2003

NOTE 1 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Form 10-KSB for the year ended December 31, 2002.

NOTE 2 - SUMMARY OF ORGANIZATION

Thomasville Bancshares, Inc., Thomasville, Georgia (the "Company"), was organized in January, 1995 for a then proposed de novo bank, Thomasville National Bank, Thomasville, Georgia (the "Bank"). The Bank commenced operations on October 2, 1995. The Bank is primarily engaged in the business of obtaining deposits and providing commercial, consumer and real estate loans to the general public. The Bank operates from two banking offices, both in Thomasville, Georgia. The Bank's depositors are each insured up to $100,000 by the Federal Deposit Insurance Corporation (the "FDIC"), subject to certain limitations imposed by the FDIC. Through its subsidiary, TNB financial Services, Inc. ("TNBFS"), the Bank offers trust and brokerage services, as well. In addition to the Bank, the Company has one other subsidiary, Joseph Parker & Company, Inc. ("JPC"), through which it provides investment advisory services. Currently, JPC has approximately $200 million under management.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In December 2001, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others." SOP 01-6 reconciles the specialized accounting and financial reporting guidance in the existing Banks and Savings Institutions Guide, Audits of Credit Unions Guide, and Audits of Finance Companies Guide. The SOP eliminates differences in accounting and disclosure established by the respective guides and carries forward accounting guidance for transactions determined to be unique to certain financial institutions. Adoption of this pronouncement has not had a material impact on the Company's results of operations or financial position.

In October 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 147, "Acquisitions of Certain Financial Institutions," which addresses accounting for the acquisition of certain financial institutions. The provisions of SFAS No. 147 rescind the specialized accounting guidance in paragraph 5 of SFAS No. 72 and would require unidentifiable intangible assets to be reclassified to goodwill if certain criteria are met. Financial institutions meeting the conditions outlined in SFAS No. 147 will be required to restate previously issued financial statements after September 30, 2002. The adoption of SFAS No. 147 has had no material impact on the Company's results of operations or financial position.

In December 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this statement amended the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the chosen method on reporting results. The provisions of SFAS No. 148 are effective for annual periods ending December 15, 2002, and for interim periods beginning after December 15, 2002.

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." It addresses the accounting for the stand-ready obligation under guarantees. A guarantor is required to recognize a liability with respect to its stand-ready obligation under the guarantee even if the probability of future payments under the guarantee is remote. The initial liability will be measured as the fair value of the stand-ready obligation. Additionally, the Interpretation addresses the disclosure requirements for guarantees including the nature and terms of the guarantees, maximum potential for future amounts and the carrying amount of the liabilities. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The initial recognition and measurement provisions are effective for all guarantees within the scope of Interpretation 45 issued or modified after December 31, 2002. Commercial letters of credit and other loan commitments, which are commonly thought of as guarantees of funds were not included in the scope of interpretation. The Company has made relevant disclosures in the current year financial statements. The Company does not expect the adoption of Interpretation No. 45 to have a material impact on its results of operations or financial condition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total consolidated assets increased by $15.8 million to $201.2 million during the nine-month period ended September 30, 2003. Cash and cash equivalents decreased by $2.3 million to $11.2 million, investment securities increased by $1.1 million to $8.7 million, loans increased by $16.2 million to $171.0 million, and all other assets increased by $1.0 million to $9.3 million. To fund the above growth in assets, total deposits increased by $14.9 million to $168.7 million, borrowings decreased by $.2 million to $15.0 million, and all other liabilities increased by $.2 million to $.8

million; the capital accounts increased by $.9 million to $16.6 million.

Liquidity And Sources Of Capital

Liquidity is the Company's ability to meet all deposit withdrawals immediately, while also providing for the credit needs of customers. The September 30, 2003 financial statements evidence a satisfactory liquidity position as total cash and cash equivalents amounted to $11.2 million, representing 5.6% of total assets. Investment securities, which amounted to $8.7 million, or 4.4% of total assets, provide a secondary source of liquidity because they can be converted into cash in a timely manner. In addition, the Company's ability to increase deposits and borrow funds is part of its liquidity strategy. For the nine-month period ended September 30, 2003 deposits increased by $15.8 million, or 12.8% annualized. The Company's management closely monitors and maintains appropriate levels of interest earning assets and interest bearing liabilities so that maturities of assets are such that adequate funds are provided to meet customer withdrawals and loan demand. The Company is not aware of any trends, demands, commitments, events or uncertainties that will result in or are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way.

The Bank maintains an adequate level of capitalization as measured by the following capital ratios and the respective minimum capital requirements by the Bank's primary regulator, the Office of the Comptroller of the Currency ("OCC").

	Bank's September 30, 2003	Minimum required by regulator
Leverage ratio	8.2%	4.0%
Risk weighted ratio	10.9%	8.0%

As evidenced above, the Bank's capital ratios are well above the OCC's required minimums.

Results of Operations

For the three-month periods ended September 30, 2003 and 2002, net income amounted to $494,754 and $450,957, respectively. On a per share basis, basic and diluted income for the three-month period ended September 30, 2003 amounted to $.34 and $.33, respectively. For the three-month period ended September 30, 2002, basic and diluted income per share each amounted to $.30. Below are two key facts to consider when comparing the results for the three-month period ended September 30, 2003 with the three-month period ended September 30, 2002:

a. Net interest income increased by approximately $281,000, while average earning assets increased by approximately $24.5 million, resulting in a 4.69% net yield on earning assets.

b. Other income increased from $507,000 for the three-month period ended September 30, 2002 to $541,000 for the three-month period ended September 30, 2003, an increase of 6.7%. Operating expenses for these periods have increased from $1,274,000 to $1,432,000, an increase of 12.3%. Because operating expenses are growing at a faster rate than other income, the net overhead expense is expected to grow over time.

Net income for the nine-month period ended September 30, 2003 amounted to

$1,513,348, or $1.01 per diluted share. For the nine-month period ended September 30, 2002, net income amounted to $1,282,197, or $.85 per diluted share. Below are several pertinent facts to consider when comparing the results obtained during the nine-month period ended September 30, 2003 with the nine-month period ended September 30, 2002:

a. Average total earning assets increased from $153.0 million for the nine months ended September 30, 2002 to $176.9 million for the nine months ended September 30, 2003, an increase of $23.9 million, or 15.6%.

b. The yield on earning assets declined from 6.48% for the nine-month period ended September 30, 2002 to 5.86% for the nine-month period ended September 30, 2003. This decline is mainly in response to the Federal Reserve Board's monetary policy actions reducing short-term rates. However, despite the decline in the yield on average earning assets, interest income increased from $7,440,354 for the nine-month period ended September 30, 2002 to $7,771,165 for the nine-month period ended September 30, 2003. This increase is due to the growth in average earning assets.

c. Net interest income represents the difference between interest received on interest earning assets and interest paid on interest bearing liabilities. The following table presents the main components of interest earning assets and interest bearing liabilities for the nine-month period ended September 30, 2003.

(Dollars in 000's)

Interest Earning Assets/ Bearing Liabilities	Average Balance	Interest Income/ Cost	Yield/ Cost
Federal funds sold	$ 6,338	$ 49	1.03%
Securities	7,394	228	4.11%
Loans	163,190	7,494	6.12%
Total	$ 176,922	$ 7,771	5.86%
Deposits and borrowings	$ 155,181	$ 2,723	2.34%
Net interest income		$ 5,048	
Net yield on earning assets			3.80%

Net interest income increased from $4,253,373 for the nine-month period ended September 30, 2002 to $5,048,385 for the nine-month period ended September 30, 2003, an increase of $795,012, or 18.7%. Net yield on earning assets increased from 3.71% for the nine-month period ended September 30, 2002 to 3.80% for the nine-month period ended September 30, 2003; the increase is attributable to two factors:

(i) The average cost of funds decreased by 83 basis points to 2.34%; and,

(ii) the average yield on earning assets decreased by only 62 basis points to 5.86%. The net yield on earning assets increased because the decline in the cost of funds outpaced the decline in the average yield on earning assets.

d. Other income increased from $874,811 for the nine-month period ended

September 30, 2002 to $1,571,024 for the nine-month period ended September 30, 2003. Other income as a percent of average total assets increased from .70% for the nine-month period ended September 30, 2002 to 1.08% for the nine-month period ended September 30, 2003. The significant increase in non-interest income is due to: (i) $708,679 in fees generated by JPC during the nine-month period ended September 30, 2003 while only $264,365 was generated a year earlier because JPC at that time was part of the organization for only three months, and (ii) an increase of $155,548 in the fees generated by TNBFS during the nine-month period ended September 30, 2003 as compared to the same period a year earlier.

e. Total operating expenses increased from $3,065,822 for the nine-month period ended September 30, 2002 to $4,021,584 for the nine-month period ended September 30, 2003. As a percent of average total assets, total operating expenses increased from 2.46% for the nine-month period ended September 30, 2002 to 2.77% for the nine-month period ended September 30, 2003. The increase is mainly due to the added expense associated with the operations of JPC.

Allowance for Loan Losses

At December 31, 2002, the allowance for loan losses amounted to $1,722,097, as compared to $1,847,766 at September 30, 2003. As a percent of gross loans, the allowance remained constant at 1.10% as of December 31, 2002 and September 30, 2003. Management considers the allowance for loan losses to be adequate and sufficient to absorb estimated future losses; however, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional provisions to the allowance will not be required.

The Company is not aware of any current recommendation by the regulatory authorities which, if implemented, would have a material effect on the Company's liquidity, capital resources, or results of operations.

Item 3. Controls And Procedures

The Company's Chief Executive Officer has evaluated the Company's disclosure controls and procedures as of a date within 90 days prior to the date of this filing, and concluded that these controls and procedures are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of this evaluation.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information it is required to disclose in the reports it files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information the Company is required to disclose in the reports that it files under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits: The following exhibits are filed with this report.

Exhibit Number	Description
31.1	Certification Pursuant to Rule 13a-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

(b) Reports on Form 8-K. There were no reports on Form 8-K filed during the quarter ended September 30, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THOMASVILLE BANCSHARES, INC.
(Registrant)

Date: November 13, 2003 BY: /s/ Stephen H. Cheney

Stephen H. Cheney
President and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)