GUARANTY BANCSHARES INC /TX/
Form 10-Q
May 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003.

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: 000-24235

GUARANTY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	**75-16516431**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 W. ARKANSAS
MT. PLEASANT, TEXAS 75455
(Address of principal executive offices, including zip code)

903-572-9881
(Registrant s telephone number, including area code)

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. |X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 126-2 of the Exchange Act). |_| Yes |X| No

As of May 10, 2003, there were 2,921,928 shares of the registrant s Common Stock, par value $1.00 per share, outstanding.

GUARANTY BANCSHARES, INC.
INDEX TO FORM 10-Q

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)
(EXCEPT SHARE AMOUNTS)

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 19,172	$ 18,244
Federal funds sold	125	1,530
Securities available-for-sale	118,043	106,992
Loans held for sale	2,422	5,727
Loans, net of allowance for loan losses of $3,781 and $3,692	358,737	356,196
Premises and equipment, net	13,414	13,565
Other real estate	1,716	1,111
Accrued interest receivable	2,875	3,002
Goodwill	2,338	2,338
Other assets	9,376	9,263
Total assets	$ 528,218	$ 517,968
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 68,765	$ 68,514
Interest-bearing	357,221	356,436

	March 31, 2003	December 31, 2002
Total deposits	425,986	424,950
Federal Home Loan Bank advances	52,679	42,763
Long-term debt	10,000	10,000
Accrued interest and other liabilities	4,472	5,611
Total liabilities	493,137	483,324
Shareholders equity		
Preferred stock, $5.00 par value, 15,000,000 shares authorized, no shares issued		
Common stock, $1.00 par value, 50,000,000 shares authorized, 3,252,016 issued	3,252	3,252
Additional paid-in capital	12,725	12,725
Retained earnings	22,184	21,149
Treasury stock, 330,088 and 320,088 shares at cost	(3,981)	(3,820)
Accumulated other comprehensive income	901	1,338
Total shareholders equity	35,081	34,644
Total liabilities and shareholders equity	$ 528,218	$ 517,968

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended March 31, 2003	2002
Interest income		
Loans, including fees	$ 5,955	$ 5,943
Securities	1,074	1,088
Federal funds sold and other temporary investments	13	49
Total interest income	7,042	7,080
Interest expense		
Deposits	2,115	2,620
FHLB advances and federal funds purchased	465	336
Long-term debt	249	184
Total interest expense	2,829	3,140

	Three Months Ended March 31,	
Net interest income	4,213	3,940
Provision for loan losses	375	250
Net interest income after provision for loan losses	3,838	3,690
Noninterest income		
Service charges	683	644
Other operating income	562	353
Realized gain on available-for-sale securities	141	37
Total noninterest income	1,386	1,034
Noninterest expense		
Employee compensation and benefits	2,339	2,107
Occupancy expenses	495	474
Other operating expenses	1,118	909
Total noninterest expenses	3,952	3,490
Earnings before income taxes	1,272	1,234
Provision for income taxes	237	252
Net earnings	$ 1,035	$ 982
Basic earnings per common share	$ 0.35	$ 0.33
Diluted earnings per common share	$ 0.35	$ 0.33

See accompanying notes to consolidated financial statements.

GUARANTY BANCHSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS EQUITY
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2003	**2002**
Balance at beginning of period	$ 34,644	$ 31,827
Net income	1,035	982
Purchases of treasury stock	(161)	(130)
Change in unrealized (loss) gain on securities available for sale, net of tax	(437)	(111)
Balance at end of period	$ 35,081	$ 32,568

	Three Months Ended March 31,	

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net cash provided by operating activities	$ 4,323	$ 4,929
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(52,359)	(19,155)
Sales	24,542	4,223
Maturities, calls, and principal repayments	15,844	8,086
Net increase in loans	(3,679)	(6,238)
Purchases of premises and equipment	(100)	(93)
Proceeds from sale of premises, equipment and other real estate	161	75
Net change in federal funds sold	1,405	(6,810)
Net cash used by investing activities	(14,186)	(19,912)
Cash flows from financing activities:		
Net change in deposits	1,036	11,695
Net change in short-term FHLB advances	10,000	
Repayment of long-term FHLB advances	(84)	(81)
Purchase of treasury stock	(161)	(130)
Net cash provided from financing activities	10,791	11,484
Net change in cash and cash equivalents	928	(3,500)
Cash and cash equivalents at beginning of period	18,244	15,410
Cash and cash equivalents at end of period	$ 19,172	$ 11,910
Supplemental disclosures:		
Cash paid for income taxes	$	$ 680
Cash paid for interest	2,829	3,140
Significant non-cash transactions:		
Transfers from loans to real estate owned	$ 763	$ 390

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2003	**2002**
Net earnings	$ 1,035	$ 982
Other comprehensive income:		
Unrealized loss on available for sale securities arising during the period	(521)	(132)
Reclassification adjustment for amounts realized on securities sales included in net earnings	(141)	(37)
Net unrealized loss	(662)	(169)
Tax effect	225	58
Total other comprehensive loss	(437)	(111)
Comprehensive income	$ 598	$ 871

See accompanying notes to consolidated financial statements

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Guaranty Bancshares, Inc. (the Company) and its wholly-owned subsidiaries Guaranty (TX) Capital Trust I, Guaranty (TX) Capital Trust II, and Guaranty Financial Corp., Inc., which wholly owns Guaranty Bond Bank (the Bank). Guaranty Bond Bank has three wholly owned non-bank subsidiaries, Guaranty Leasing Company, Guaranty Company and GB Com, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete presentation of financial position. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis, and all such adjustments are of a normal recurring nature. These financial statements and the notes thereto should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 14, 2003. The Company has consistently followed the accounting policies described in the Annual Report in preparing this Form 10-Q. Operating results for the three months ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

In preparation of the accompanying unaudited consolidated financial statements, management is required to make estimates and assumptions, which are based on information available at the time such estimates and assumptions are made. These estimates and assumptions affect the amounts reported in the accompanying unaudited consolidated financial statements. Accordingly, future results may differ if the actual amounts and events are not the same as the estimates and assumptions of management. The collectability of loans, fair value of financial instruments, other real estate values and status of contingencies are particularly subject to change.

NOTE 2. EARNINGS PER SHARE

Earnings per share is computed in accordance with Statement of Financial Accounting Standards No. 128, which requires dual presentation of basic and diluted earnings per share (EPS) for entities with complex capital structures. Basic EPS is based on net earnings divided by the weighted-average number of shares outstanding during the period. Diluted EPS includes the dilutive effect of stock options granted using the treasury stock method.

	Three Months Ended March 31,	
	2003	**2002**
	(Unaudited)	
Weighted-average common shares used in basic EPS	2,922,484	3,003,872
Potential dilutive common shares	28,098	14,501
Weighted-average common and potential dilutive common shares used in dilutive EPS	2,950,582	3,018,373

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NOTE 3. STOCK OPTIONS

In 2000, the Company granted nonqualified stock options to certain executive officers of the Company and the Bank under the Company s 1998 Stock Incentive Plan. The grants consisted of eight-year options to purchase 89,500 shares at an exercise price of $9.30 per share, which was the market price of the Company s stock on the date the options were granted. In February

2002, the Company granted eight-year options to purchase 20,000 shares at an exercise price of $12.50 per share, which was the market price of the Company s stock on the date the options were granted. The options fully vest and become exercisable in five equal installments commencing on the first anniversary of the date of grant and annually thereafter. At March 31, 2003, options for 2000 shares have been exercised and 893,500 options remain available for future grant under the 1998 Stock Incentive Plan.

In accordance with a new accounting standard, *SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123,* the Company transitioned to the fair value method of accounting for stock-based compensation during 2002 using the modified prospective method prescribed by the standard. Under the modified prospective method, the Company began recognizing stock-based employee compensation expense from the beginning of 2002 as if the fair value method had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. The fair value of options granted is determined using the Black-Scholes option valuation model. Stock-based employee compensation expense totaled approximately $13,000 and $6,000 for the three months ended March 31, 2003 and 2002, respectively. Under the modified prospective method, no stock-based employee compensation expense is recognized for periods prior to adoption.

The weighted-average fair value per share of options granted during 2002 was $4.09. The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 2.24%; expected volatility of 28.7%; risk-free interest rate of 5.0%, and an expected life of 8.00 years. There were no options granted or exercised in the three months ended March 31, 2003.

NOTE 4. COMMITMENT AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with accounting principles generally accepted in the United States of America, are not included in the consolidated balance sheets. These transactions are referred to as off-balance sheet commitments. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company s commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company s policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

Outstanding commitments and letters of credit are approximately as follows (dollars in thousands):

	Contract or Notional Amount	
	March 31, 2003	**December 31, 2002**
	(Unaudited)	
Commitments to extend credit	$ 24,583	$ 27,838
Letters of credit		