GUARANTY BANCSHARES INC /TX/
Form 10-Q
May 14, 2001

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, 2001.

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

As of May 14, 2001, there were 3,025,332 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. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	March 31, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 10,707	$ 10,109
Interest bearing deposits in other banks	74	103
Total cash and cash equivalents	10,781	10,212
Federal funds sold	29,035	4,995
Securities available-for-sale	62,423	81,620
Loans, net of allowance for loan losses of $2,799 and $2,578	289,946	284,757
Premises and equipment, net	13,476	13,532
Accrued interest receivable	3,127	3,742
Other assets	12,480	12,173
Total assets	$ 421,268	$ 411,031
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 54,186	$ 55,274
Interest-bearing	318,282	302,991
Total deposits	372,468	358,265

	March 31, 2001	December 31, 2000
FHLB advances	7,327	12,403
Long-term debt	7,000	7,000
Other liabilities	4,016	3,938
Total liabilities	390,811	381,606
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, 3,250,016 issued	3,250	3,250
Additional capital	12,659	12,659
Retained earnings	16,012	15,274
Treasury stock, 221,284 and 205,983 shares at cost	(2,385)	(2,220)
Accumulated other comprehensive income	921	462
Total shareholders equity	30,457	29,425
Total liabilities and shareholders equity	$ 421,268	$ 411,031

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2001	2000
Interest income:		
Loans	$6,210	$ 5,317
Securities	1,137	1,314
Federal funds sold and other temporary investments	269	44
Total interest income	7,616	6,675
Interest expense:		
Deposits	4,137	3,434
FHLB advances and other borrowed funds	363	139
Total interest expense	4,500	3,573
Net interest income	3,116	3,102
Provision for loan losses	155	130

	Three Months Ended March 31,	
Net interest income after provision for loan losses	2,961	2,972
Noninterest income:		
Service charges	618	542
Other operating income	374	369
Realized gain (loss) on available-for-sale securities	266	(34)
Total noninterest income	1,258	877
Noninterest expense:		
Employee compensation and benefits	1,920	1,770
Occupancy expenses	464	417
Other operating expenses	881	932
Total noninterest expenses	3,265	3,119
Earnings before income taxes	954	730
Provision for income taxes	216	185
Net earnings	$ 738	$ 545
Basic earnings per common share	$ 0.24	$ 0.17
Diluted earnings per common share	$ 0.24	$ 0.17

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,	
	2001	**2000**
Balance at beginning of period	$ 29,425	$ 28,496
Net income	738	545
Cash dividends declared on common stock		
Purchases of treasury stock	(165)	
Change in unrealized gain (loss) on securities available for sale, net of tax	459	(314)
Balance at end of period	$ 30,457	$ 28,727

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2001	**2000**
Net cash provided by operating activities	$ 590	$ 171
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(26)	(9,727)
Sales	11,236	5,314
Maturities, calls, and principal repayments	9,003	2,387
Net increase in loans	(5,072)	(4,283)
Purchases of premises and equipment	(185)	(1,563)
Proceeds from sale of premises, equipment and other real estate	101	56
Net increase in federal funds sold	(24,040)	(8,015)
Net cash used by investing activities	(8,983)	(15,831)
Cash flows from financing activities:		
Net change in deposits	14,203	10,128
Net change in short-term FHLB advances	(5,000)	(2,000)
Repayment of long-term FHLB advances	(76)	(72)
Proceeds from issuance of trust preferred securities		7,000
Purchase of treasury stock	(165)	
Net cash provided from financing activities	8,962	15,056
Net increase in cash and cash equivalents	569	(604)
Cash and cash equivalents at beginning of period	10,212	13,152
Cash and cash equivalents at end of period	$ 10,781	$ 12,548
Supplemental disclosures:		
Cash paid for income taxes	$	$ 170
Cash paid for interest	4,512	3,504
Significant non-cash transactions:		
Transfers from loans to real estate owned	$ 321	$ 132

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2001	**2000**
Net earnings	$ 738	$ 545
Other comprehensive income:		
Unrealized gain (loss) on available for sale securities arising during the period	962	(509)
Reclassification adjustment for amounts realized on securities sales included in net earnings	(266)	34
Net unrealized gain (loss)	696	(475)
Tax effect	(237)	161
Total other comprehensive income	459	(314)
Comprehensive income	$ 1,197	$ 231

See accompanying Notes to Consolidated Financial Statements

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(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 and Guaranty Financial Corp., Inc., which wholly owns Guaranty Bank, and one non-bank subsidiary, Guaranty Company. Guaranty Bank has two wholly owned non-bank subsidiaries, Guaranty Leasing Company and GB Com, Inc. and one 51% owned non-bank subsidiary, Guaranty Technology, L.L.C. 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 generally accepted accounting principles 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 filed with the Securities and Exchange Commission on March 9, 2001. 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, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

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 and status of contingencies are particularly subject to change.

Employee compensation expense under stock option plans is reported if options are granted below market price at grant date. Pro forma disclosures of net income and earnings per share are shown using the fair value method of Statement of Financial Accounting Standards No. 123 to measure expense for options granted, using an option pricing model to estimate fair value.

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.

The weighted-average number of common shares outstanding for basic and diluted earnings per share computations was as follows:

	Three Months Ended March 31,	
	2001	**2000**
	(Unaudited)	
Weighted average common shares used in basic EPS	3,039,211	3,232,416
Potential dilutive common shares	7,734	
Weighted average common and potential dilutive common shares used in dilutive EPS	3,046,945	3,232,416

NOTE 3. STOCK OPTIONS

In 2000, the Company granted nonqualified stock options to certain executive officers of the Company and Guaranty 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. 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, 2001, none of the options are exercisable and 910,500 options remain available for future grant under the 1998 Stock Incentive Plan.

The weighted-average fair value per share of options granted during 2000 was $2.03. 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 2.59%; expected volatility of 7.67%; risk-free interest rate of 6.42%, and an expected life of 8.00 years.

Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, requires pro forma disclosures for companies not adopting its fair value accounting method for stock-based employee compensation. No compensation expense related to stock options is actually recognized. Accordingly, the following pro forma information presents net income and earnings per share for the three months ended March 31, 2001 and 2000 had the SFAS No. 123 fair value method been used to measure compensation cost for stock option plans (dollars in thousands, except per share amounts):

	Three Months Ended March 31,	
	2001	**2000**
	(Unaudited)	
Net earnings:		
As reported	$ 738	$ 545
Pro forma	$ 732	$ 545
Earnings per share:		
As reported		
Basic	$ 0.24	$ 0.17
Diluted	$ 0.24	$ 0.17
Pro forma		
Basic	$ 0.24	$ 0.17
Diluted	$ 0.24	$ 0.17

The effects of applying Statement of Financial Accounting Standards No. 123 in this pro forma disclosure are not indicative of future amounts. The pro forma effect may increase in the future if more options are granted.

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

Certain statements in this Quarterly Report on Form 10-Q include forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe Harbor created by those sections. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the following factors: competitive pressure in the banking industry significantly increasing; changes in the interest rate environment reducing margins; general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality and an increase in the provision for possible loan losses; changes in the regulatory environment; changes in business conditions; volatility of rate sensitive deposits; operational risks including data process system failures or fraud; asset/liability, matching risks and liquidity risks; and changes in the securities markets.

The following discussion addresses information pertaining to the financial condition and results of operations of Guaranty Bancshares, Inc. and subsidiaries that may not be otherwise apparent from a review of the consolidated financial statements and related footnotes. It should be read in conjunction with those statements, as well as with the other information presented throughout the report. In additional to historical information, this discussion and other sections contained in the Quarterly Report include certain forward-looking statements regarding events and trends, which may affect the company s future results. Such statements are subject to risk and uncertainties that could cause the Company s actual results to differ materially. Such factors include, but are not limited to, those described in this discussion and analysis and the factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission.

GENERAL OVERVIEW

Guaranty Bancshares, Inc. (the Company) is a registered bank holding company that derives substantially all of its revenues and income from the operation of its subsidiary, Guaranty Bank (the Bank). The Bank is a full service bank that provides a broad line of financial products and services to small and medium-sized businesses and consumers through ten banking locations in the Texas communities of Mount Pleasant (two offices), Bogata, Commerce, Deport, Paris, Pittsburg, Sulphur Springs, Talco and Texarkana. The Company also maintains a loan production office in Fort Stockton, Texas to facilitate the process of securing loans in that market.

FINANCIAL OVERVIEW

Net earnings available to common shareholders for the three months ended March 31, 2001 were $738,000 or $0.24 per share compared with $545,000 or $0.17 per share for the three months ended March 31, 2000, an increase of $193,000 or 35.4%. The increase is due primarily to a gain on sale of mortgage-backed securities during the first quarter 2001, net of tax, of $212,000, and a loss on sale of mortgage-backed securities during the first quarter 2000, net of tax, of $41,000. Net interest income increased $14,000 or 0.4% and noninterest income, other than the sales of securities, increased $81,000 or 8.9%. This increase is due in part to additional income generated from a growth in service charges. Noninterest expense increased by $146,000 or 4.7% primarily due to increases in employee compensation and benefits due to increased staff to handle larger customer activity. There was no significant change in non-staff expenses for the two comparative periods.

Gross loans increased to $292.7 million at March 31, 2001, from $287.3 million at December 31, 2000, an increase of $5.4 million or 1.9%. Total assets increased to $421.3 million at March 31, 2001, compared with $411.0 million at December 31, 2000. The increase of $10.3 million in total assets is primarily in net loans and Federal Funds sold which increased $5.2 million, and $24.0 million, respectively. These increases result from an increase in deposits of $14.2 million, a decrease of $5.1 million in FHLB advances, and a decrease in securities available for sale of $19.2 million. Total deposits increased to $372.5 million at March 31, 2001 compared to $358.3 million at December 31, 2000, an increase of $14.2 million or 4.0%. Total FHLB advances decreased from $12.4 million to $7.3 million and the securities decreased from $81.6 million to $62.4 million or 23.5%. The securities decrease resulted primarily from the sale of securities of $11.2 million, securities that were called, and ordinary pay downs of mortgage-backed securities during the quarter ending March 31, 2001.

Total shareholders equity was $30.5 million at March 31, 2001, representing an increase of $1.0 million or 3.5% from December 31, 2000. This increase is due to the earnings for the period of $738,000 and an increase in accumulated other comprehensive income of $459,000, offset by the purchase of 15,301 shares of treasury stock at a cost of $165,000.

RESULTS OF OPERATIONS

Interest Income

Interest income for the three months ended March 31, 2001 was $7.6 million, an increase of $941,000 or 14.1% compared with the three months ended March 31, 2000. The increase in interest income is due primarily to higher interest income on loans and federal funds sold. Average loans were $289.4 million for the three months ended March 31, 2001, compared with $257.9 million for the three months ended March 31, 2000, an increase of $31.5 million or 12.2%. Average securities were $67.0 million for the three months ended March 31, 2001, compared with $80.8 million for the three months ended March 31, 2000, a decrease of $13.8 million or 17.1%. Average federal funds sold were $19.9 million for the three months ended March 31, 2001, compared with $3.2 million for the three months ended March 31, 2000, an increase of $16.8 million or 527.7%. Growth in the average volume of interest-earning assets is primarily due to the internal growth in deposits for the period. The increases in interest income are also due to an increase in the average yield earned on interest-earning assets during the three-month period ended March 31, 2001.

Interest Expense

Interest expense on deposits and other interest-bearing liabilities was $4.5 million for the three months ended March 31, 2001, compared with $3.6 million for the three months ended March 31, 2000, an increase of $927,000 or 25.9%. The increase in interest expense is due primarily to a 13.4% increase in average interest-bearing liabilities to $331.2 million for the three months ended March 31, 2001, from $292.1 million for the three months ended March 31, 2000. The increase is also due to a rise in average interest rate paid on interest-bearing liabilities from 4.92% for the three months ended March 31, 2000 to 5.51% for the three months ended March 31, 2001.

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Net Interest Income

Net interest income increased by $14,000 or 0.4%. The increase in net interest income resulted primarily from growth in average interest-earning assets to $373.7 million for the three months ended March 31, 2001, from $339.4 million for the three months ended March 31, 2000, an increase of $34.3 million or 10.1%, offset by an increase in total interest-bearing liabilities to $331.2 million for the three months ended March 31, 2001, from $292.1 million for the three months ended March 31, 2000, an increase of $39.1 million or 13.4%. The net interest margin decreased from 3.65% to 3.36% for the three months ended March 31, 2001 compared to the same three-month period ended March 31, 2000. These decreases can be attributed to the fact that the percentage growth in average interest-bearing liabilities exceeded the percentage growth in average interest-earning assets causing the ratio of average interest-earning assets to average interest-bearing liabilities to decrease. Additionally, the average rate paid on interest-bearing liabilities increased at a slower rate than the average rate earned on interest-earning assets due to Guaranty Bank s negative gap position and the falling interest rate environment.

The Company s net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a volume change. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a rate change. The following tables set forth, for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three months ended March 31, 2001 and 2000, respectively. The tables also set forth the average rate earned on total interest-earning assets, the average rate paid on total interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The net interest spread is the difference between the average rate earned on total interest-earning assets less the average rate paid on total interest-bearing liabilities. The net interest margin is net interest income as a percentage of average interest-earning assets.

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	Three Months Ended March 31,					
	2001			2000		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Loans	$ 289,398	$6,210	8.70%	$ 257,930	$5,317	8.29%
Securities	66,950	1,137	6.89%	80,765	1,314	6.54%
Federal funds sold	19,943	269	5.47%	3,177	44	5.61%
Interest-bearing deposits in						

	Three Months Ended March 31,		
other financial institutions	25		3.90%
Total interest-earning assets	376,316	7,616	