

GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

- 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
(State or Other Jurisdiction of Incorporation or Organization)

43-1792717
(I.R.S. Employer Identification No.)

1341 West Battlefield, Springfield, Missouri
(Address of Principal Executive Offices)

65807
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.10 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based on the average bid and asked prices of the registrant's Common Stock as quoted on the National Market of The NASDAQ Stock Market on June 30, 2006 (the last business day of the registrant's most recently completed second quarter) was \$66.7 million. As of March 30, 2007 there were 2,902,495 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders (the "2006 Annual Report") for the fiscal year ended December 31, 2006 (Parts I and II).
2. Portions of the Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") to be held on May 23, 2007 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.Form 10-K
TABLE OF CONTENTS

<u>Item</u>		<u>Page</u>
PART I		
1	<u>Business</u>	4
1A	<u>Risk Factors</u>	27
1B	<u>Unresolved Staff Comments</u>	29
2	<u>Properties</u>	29
3	<u>Legal Proceedings</u>	29
4	<u>Submission of Matters to a Vote of Security Holders</u>	29
PART II		
5	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	30
6	<u>Selected Financial Data</u>	31
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
8	<u>Financial Statements and Supplementary Data</u>	31
9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	31
9A.	<u>Controls and Procedures</u>	31
9B.	<u>Other Information</u>	31
PART III		
10	<u>Directors, Executive Officers and Corporate Governance</u>	32
11	<u>Executive Compensation</u>	32
12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	32
13	<u>Certain Relationships and Related Transactions, and Director Independence</u>	34

14	<u>Principal Accountant Fees and Services</u>	34
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PART IV

15	<u>Exhibits and Financial Statement Schedules</u>	35
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Signatures

2

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

GUARANTY FEDERAL BANCSHARES, INC. (THE "COMPANY") MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL "FORWARD-LOOKING STATEMENTS", INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS THERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, WORDS SUCH AS "ANTICIPATES," "ESTIMATES," "BELIEVES," "EXPECTS," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY'S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, TRADE, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS' PRODUCTS AND SERVICES; THE WILLINGNESS OF USERS TO SUBSTITUTE COMPETITORS' PRODUCTS AND SERVICES FOR THE COMPANY'S PRODUCTS AND SERVICES; THE SUCCESS OF THE COMPANY IN GAINING REGULATORY APPROVAL OF ITS PRODUCTS AND SERVICES, WHEN REQUIRED; THE IMPACT OF CHANGES IN FINANCIAL SERVICES' LAWS AND REGULATIONS (INCLUDING LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; ACQUISITIONS; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS RESULTING FROM THESE FACTORS; AND OTHER FACTORS SET FORTH IN REPORTS AND OTHER DOCUMENTS FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. FOR FURTHER INFORMATION ABOUT THESE AND OTHER RISKS, UNCERTAINTIES AND FACTORS, PLEASE REVIEW THE DISCLOSURE INCLUDED IN ITEM 1A. OF THIS FORM 10-K.

THE COMPANY CAUTIONS THAT THE LISTED FACTORS ARE NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

Table of Contents

PART I

Item 1. Business

Business of the Company

Guaranty Federal Bancshares, Inc. (the "Company") is a Delaware-chartered corporation that was created in September 1997 at the direction of Guaranty Federal Savings Bank, a federal savings bank (the "Bank"). The Company became a unitary savings and loan holding company for the Bank on December 30, 1997, in connection with a plan of conversion and reorganization involving the Bank and its then existing mutual holding company. The mutual holding company structure had been created in April 1995 at which time more than a majority of the shares of the Bank were issued to the mutual holding company and the remaining shares were sold in a public offering. In connection with the conversion and reorganization on December 30, 1997, the shares of the Bank held by the mutual holding company were extinguished along with the mutual holding company, and the shares of the Bank held by the public were exchanged for shares of the Company. All of the shares of the Bank which remained outstanding after the conversion are owned by the Company. Shares of the Company were issued on December 30, 1997.

On June 27, 2003, the Bank converted from a federal savings bank to a state-chartered trust company with banking powers in Missouri, and the Company became a bank holding company. On this date, the name of the Bank was changed from Guaranty Federal Savings Bank to Guaranty Bank. The primary activity of the Company is to oversee its investment in the Bank. The Company engages in few other activities. For this reason, unless otherwise specified, references to the Company include operations of the Bank. Further, information in a chart or table based on Bank only data is identical to or immaterially different from information that would be provided on a consolidated basis. In addition to the Bank, the Company owns Guaranty Statutory Trust I and Guaranty Statutory Trust II, both Delaware statutory trusts.

In 2003, the Company changed its fiscal year end from June 30 to a calendar year end of December 31. As a result, the Company reported a six month transition period ended December 31, 2003 (the "Transition Period") in order to change to this new calendar year end.

Business of the Bank

The Bank's principal business has been, and continues to be, attracting retail deposits from the general public and investing those deposits, together with funds generated from operations, in permanent one-to four-family residential mortgage loans, multi-family residential mortgage loans, construction loans, commercial real estate loans, and consumer and other loans. The Bank also invests in mortgage-backed securities, U.S. Government and federal agency securities and other marketable securities. The Bank's revenues are derived principally from interest on its loans and other investments and fees charged for services provided, and gains generated from sales of loans and investment securities, and the Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's primary sources of funds are: deposits; borrowings; amortization and prepayments of loan principal; and amortizations, prepayments and maturities of mortgage-backed securities.

The Bank is regulated by the Missouri Division of Finance and its deposits are insured by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation (the "FDIC"). See discussion under section captioned "Regulation" in this report. The Bank is a member of the Federal Home Loan Bank of Des Moines (the "FHLB"), which is one of twelve regional Federal Home Loan Banks. As a member, the Bank is required to purchase and maintain stock in the FHLB in an amount equal to 0.12% of its assets plus 4.45% of its outstanding FHLB advances. At December 31, 2006, the Bank had \$5,382,700 in FHLB stock, which was in compliance with this

requirement.

4

Table of Contents

Information regarding (i) average balances related to interest earning assets and interest bearing liabilities and an analysis of net interest earnings for the last three fiscal years and (ii) changes in interest income and interest expense resulting from changes in average balances and average rates for the last two fiscal years is provided under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operation" of the 2006 Annual Report is incorporated herein by reference.

Market Area

The Bank's primary market areas are Greene and Christian Counties, which are in the southwestern corner of Missouri and includes the cities of Springfield and Nixa, Missouri. There is a large regional health care presence with two large regional hospitals employing over 14,000. There also are four accredited colleges and one major university with total enrollment approaching 25,000. Part of the area's growth can be attributed to its proximity to Branson, Missouri, which has developed a strong tourism industry related to country music and entertainment. Branson is located 30 miles south of Springfield, and attracts between five and six million tourists each year, many of whom pass through Springfield.

Lending Activities

Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

	2006		As of December 31,				2003		As of June 30,	
	\$	%	2005	2004	2003	2003	\$	%	2003	
			\$	%	\$	%	\$	%	\$	%
(Dollars in Thousands)										
Mortgage loans (includes loans held for sale):										
One to four family	\$ 89,650	18%	103,532	23%	121,307	31%	\$ 129,477	37%	144,404	40%
Multi-family	50,366	10%	53,631	12%	52,259	13%	44,242	13%	41,022	11%
Construction	83,967	17%	70,390	16%	45,090	11%	49,814	14%	64,464	18%
Commercial real estate	155,801	32%	122,884	28%	97,550	25%	72,105	21%	71,046	19%
Total mortgage loans	379,784	78%	350,437	79%	316,206	80%	295,638	86%	320,936	88%
Commercial business loans	82,676	17%	66,370	15%	55,606	14%	24,618	7%	18,967	5%
Consumer loans	23,708	5%	24,264	6%	25,172	6%	25,441	7%	25,486	7%
Total consumer and other loans	106,384	22%	90,634	21%	80,778	20%	50,059	14%	44,453	12%
Total loans	486,168	100%	441,071	100%	396,984	100%	345,697	100%	365,389	100%
Less:										
Loans in process	-		-		-		9,425		25,539	
Deferred loan fees/costs, net	115		141		106		237		211	
Unearned discounts	-		3		7		19		26	
Allowance for loan losses	5,784		5,400		4,537		3,886		2,775	
Total Loans, Net	\$ 480,269		435,527		392,334		\$ 332,130		336,838	

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2006. The table shows loans that have adjustable rates as due in the period during which they contractually mature. The table does not include prepayments or scheduled principal amortization.

5

Table of Contents

Loan Maturities	Due in One Year or Less	Due After One	Due After Five	Total
		Through Five Years	Years	
(Dollars in thousands)				
One to four family	\$ 7,133	17,437	65,080	89,650
Multi family	9,294	24,213	16,859	50,366
Construction	57,740	26,227	-	83,967
Commercial real estate	50,676	92,903	12,222	155,801
Commercial loans	39,549	39,358	3,769	82,676
Consumer loans	1,897	5,982	15,829	23,708
Total loans (1)	\$ 166,289	206,119	113,759	486,168
Less:				
Deferred loan fees/costs				115
Unearned discounts				-
Allowance for loan losses				5,784
Loans receivable net				\$ 480,269
(1)	Includes mortgage loans held for sale of \$3,005			

The following table sets forth the dollar amount, before deductions for unearned discounts, deferred loan fees/costs and allowance for loan losses, as of December 31, 2006 of all loans due after December 2007, which have pre-determined interest rates and which have adjustable interest rates.

Fixed and Adjustable Rate Loans by Type

	Fixed Rates	Adjustable	Total	% ARM
		Rates		
(Dollars in Thousands)				
One-to four-family	\$ 22,269	60,248	82,517	73%
Multi-family	23,623	17,449	41,072	42%
Construction	550	25,677	26,227	98%
Commercial real estate	38,069	67,056	105,125	64%
Commercial loans	5,536	37,590	43,126	87%
Consumer loans	5,549	16,263	21,812	75%
Total loans (1)	\$ 95,596	224,283	319,879	70%

(1) Before deductions for unearned discounts, deferred loan fees/costs and allowances for loan losses.

One- to Four-Family Mortgage Loans. The Bank offers fixed- and adjustable-rate (“ARM”) first mortgage loans secured by one- to four-family residences in the Bank's primary lending area. Typically, such residences are single family homes that serve as the primary residence of the owner. However, there are a significant number of loans originated by the Bank which are secured by non-owner occupied properties. Loan originations are generally obtained from existing or past customers, members of the local community, attorney referrals, established builders, and realtors within the Bank's market area. Originated mortgage loans in the Bank's portfolio include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent.

Table of Contents

As of December 31, 2006, \$89.7 million or 18% of the Bank's total loan portfolio consisted of one- to four-family residential loans, of which 74% were ARM loans. The Bank currently offers ARM and balloon loans that have fixed interest rate periods of one to seven years. Generally, ARM loans provide for limits on the maximum interest rate adjustment ("caps") that can be made at the end of each applicable period and throughout the duration of the loan. ARM loans are originated for a