GUARANTY BANCSHARES INC /TX/
Form 10-Q
August 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 JUNE 30, 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 August 10, 2001, there were 3,004,428 shares of the registrant's Common Stock, par value $1.00 per share, outstanding.

GUARANTY BANCSHARES, INC.
INDEX TO FORM 10-Q

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PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GUARANTY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	June 30, 2001 (Unaudited)	Decemb 20
ASSETS		
Cash and due from banks	$ 9,209	$ 10
Interest bearing deposits in other banks	62	
Total cash and cash equivalents	9,271	10
Federal funds sold	19,470	4
Securities available-for-sale	72,369	81
Loans, net of allowance for loan losses of $2,794 and $2,578	297,528	284
Premises and equipment, net	13,584	13
Accrued interest receivable	3,291	3
Other assets	12,630	12
Total assets	$ 428,143	$ 411
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 58,484	$ 55
Interest-bearing	322,415	302
Total deposits	380,899	358
FHLB advances	5,249	12
Long-term debt	7,000	7
Other liabilities	4,493	3
Total liabilities	397,641	381

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
Additional capital	12,659	12
Retained earnings	16,344	15
Treasury stock, 243,684 and 205,983 shares at cost	(2,631)	(2
Accumulated other comprehensive income	880	
Total shareholders' equity	30,502	29
Total liabilities and shareholders' equity	$ 428,143	$ 411

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 June 30, 2001	2000
Interest income:		
Loans	$ 6,129	$ 5,596
Securities	1,130	1,442
Federal funds sold and other temporary investments	234	74
Total interest income	7,493	7,112
Interest expense:		
Deposits	3,983	3,633
FHLB advances and other borrowed funds	290	347
Total interest expense	4,273	3,980
Net interest income	3,220	3,132
Provision for loan losses	185	185
Net interest income after provision for loan losses	3,035	2,947
Noninterest income:		
Service charges	687	597
Other operating income	354	271
Realized gain (loss) on available-for-sale securities	51	--
Total noninterest income	1,092	868
Noninterest expense:		
Employee compensation and benefits	1,790	1,639
Occupancy expenses	460	414
Other operating expenses	957	871

Total noninterest expenses	3,207	2,924
Earnings before income taxes	920	891
Provision for income taxes	197	203
Net earnings	$ 723	$ 688
Basic earnings per common share	$ 0.24	$ 0.22
Diluted earnings per common share	$ 0.24	$ 0.22

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 June 30,		
	2001	2000	200
Balance at beginning of period	$ 30,457	$ 28,727	$ 29,
Net income	723	688	1,
Cash dividends declared on common stock	(391)	(372)	(
Purchases of treasury stock	(246)	(1,549)	(
Change in unrealized gain (loss) on securities available for sale, net of tax	(41)	94	
Balance at end of period	$ 30,502	$ 27,588	$ 30,

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2001	2000

Net cash provided by (used by) operating activities	$ 2,428	$ (1,222)
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(22,229)	(16,243)
Sales	18,368	5,314
Maturities, calls, and principal repayments	14,135	4,170
Net increase in loans	(13,685)	(8,844)
Purchases of premises and equipment	(537)	(2,241)
Proceeds from sale of other real estate	376	156
Net (decrease) increase in federal funds sold	(14,475)	1,140
Net cash used by investing activities	(18,047)	(16,548)
Cash flows from financing activities:		
Net change in deposits	22,634	10,259
Net change in short-term FHLB advances	(7,000)	1,000
Repayment of long-term FHLB advances	(154)	(146)
Proceeds from issuance of trust preferred securities	--	7,000
Increase in federal funds purchased	--	2,045
Purchase of treasury stock	(411)	(1,549)
Dividends paid	(391)	(372)
Net cash provided from financing activities	14,678	18,237
Net (decrease) increase in cash and cash equivalents	(941)	467
Cash and cash equivalents at beginning of period	10,212	13,152
Cash and cash equivalents at end of period	$ 9,271	$ 13,619
Supplemental disclosures:		
Cash paid for income taxes	$ 58	$ 420
Cash paid for interest	8,448	7,193
Significant non-cash transactions:		
Transfers from loans to real estate owned	$ 574	$ 582

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,	
	2001	2000
Net earnings	$ 723	$ 688

Other comprehensive income:		
Unrealized gain (loss) on available for sale securities arising during the period	(11)	143
Reclassification adjustment for amounts realized on securities sales included in net earnings	(51)	--
Net unrealized gain (loss)	(62)	143
Tax effect	21	(49)
Total other comprehensive income	(41)	94
Comprehensive income	$ 682	$ 782

See accompanying Notes to Consolidated Financial Statements

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(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 six months ended June 30, 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 June 30,		
	2001	2000	20
	(Unaudited)		
Weighted average common shares used in basic EPS	3,017,755	3,145,457	3,028
Potential dilutive common shares	8,832	--	8
Weighted average common and potential dilutive common shares used in dilutive EPS	3,026,587	3,145,457	3,036

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 June 30, 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 June 30, 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 June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(Unaudited)		(Unaudited)	
Net earnings:				
As reported	$ 723	$ 688	$ 1,461	$ 1,233
Pro forma	$ 717	$ 682	$ 1,449	$ 1,226
Earnings per share:				
As reported				
Basic	$ 0.24	$ 0.22	$ 0.48	$ 0.39
Diluted	$ 0.24	$ 0.22	$ 0.48	$ 0.39
Pro forma				
Basic	$ 0.24	$ 0.22	$ 0.48	$ 0.39
Diluted	$ 0.24	$ 0.22	$ 0.48	$ 0.39

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

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. 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 processing system failures or fraud; asset/liability, matching risks and liquidity risks; and changes in the securities markets 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 six months ended June 30, 2001 were $1.5 million or $0.48 per share compared with $1.2 million or $0.39 per share for the six months ended June 30, 2000, an increase of $228,000 or 18.5%. The increase is due primarily to an increase in net interest income of $102,000 or 1.6% and an increase in noninterest income of $605,000 or 34.7% offset by an increase in noninterest expense of $429,000 or 7.1%. These increases are due in part to the growth in loans, in deposits and in other liabilities. Net earnings for the three months ended June 30, 2001 were $723,000 or $0.24 per share compared with $688,000 or $0.22 per share for the three months ended June 30, 2000, an increase of $35,000 or 5.1%. The increase is primarily due to an increase in net interest income and noninterest income partly offset by an increase in noninterest expense.

The first six months of year 2001 showed steady growth. Gross loans increased to $300.3 million at June 30, 2001, from $287.3 million at December 31, 2000, an increase of $13.0 million or 4.5%. Total assets increased to $428.1 million at June 30, 2001, compared with $411.0 million at December 31, 2000. The increase of $17.1 million in total assets resulted primarily from the investment of increased deposits of $22.6 million, offset by a reduction in FHLB advances of $7.2 million. Total deposits increased to $380.9 million at June 30, 2001 compared to $358.3 million at December 31, 2000, an increase of $22.6 million or 6.3%.

Total shareholders' equity was $30.5 million at June 30, 2001, compared with $29.4 million at December 31, 2000, an increase of $1.1 million or 3.7%. This increase was due to earnings for the period of $1.5 million and an increase in accumulated other comprehensive income of $418,000 offset by the purchase of 37,701 shares of treasury stock at cost of $411,000, and the payment of dividends of $391,000.

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RESULTS OF OPERATIONS

Interest Income

Interest income for the six months ended June 30, 2001 was $15.1 million, an increase of $1.3 million or 9.6% compared with the six months ended June 30, 2000. The increase in interest income was due primarily to higher interest income on loans offset by decreased income on securities. Average loans were

$290.6 million for the six months ended June 30, 2001, compared with $259.0 million for the six months ended June 30, 2000, an increase of $31.6 million or 12.2%. Average securities were $68.5 million for the six months ended June 30, 2001, compared with $84.2 million for the six months ended June 30, 2000, a decrease of $15.7 million or 18.6%. Interest income for the three months ended June 30, 2001 was $7.5 million, an increase of $381,000 or 5.4% compared with the three months ended June 30, 2000. Growth in the average volume of interest-earning assets was a result in part, due to the growth in loans during the three and six months periods ended June 30, 2001. The increase in interest income is also due to an increase in the average yield earned on interest-earnings assets during the six months period ended June 30, 2001.

Interest Expense

Interest expense on deposits and other interest-bearing liabilities was $8.8 million for the six months ended June 30, 2001, compared with $7.6 million for the six months ended June 30, 2000, an increase of $1.2 million or 16.2%. The increase in interest expense was due primarily to an increase of $35.4 million or 11.9% in average interest-bearing liabilities to $333.2 million for the six months ended June 30, 2001, from $297.8 million for the six months ended June 30, 2000. The increase is also due to a rise in average interest rate paid on interest-bearing liabilities from 5.10% for the six months ended June 30, 2000 to 5.31% for the six months ended June 30, 2001. Interest expense was $4.3 million for the three months ended June 30, 2001, compared with $4.0 million for the three months ended June 30, 2000, an increase of $293,000 or 7.4%. The increase for the comparable three -month periods was also due to increases in average balances offset by a decrease in average interest rates of interest-bearing liabilities.

Net Interest Income

Net interest income was $6.3 million for the six months ended June 30, 2001 compared with $6.2 million for the six months ended June 30, 2000, an increase of $102,000 or 1.6%. The increase in net interest income resulted primarily from growth in average interest-earning assets to $379.7 million for the six months ended June 30, 2001, from $347.3 million for the six months ended June 30, 2000, an increase of $32.4 million or 9.3% offset by growth in average interest-bearing liabilities to $333.2 million for the six months ended June 30, 2001, from $297.8 million for the six months ended June 30, 2000, an increase of $35.4 million or 11.9%. Net interest income was $3.2 million for the three months ended June 30, 2001, compared with $3.1 million for the three months ended June 30, 2000, an increase of $88,000 or 2.8%. The net interest margin decreased from 3.57% to 3.37% for the three months ended June 30, 2001 and from 3.61% to 3.36% for the six months ended June 30, 2001 compared to the same three and six-month periods ended June 30, 2000. This decrease 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 faster rate than the average rate earned on interest-earning assets due to the Bank's negative gap position.

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 and six months ended June 30, 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 (dollars in thousand):

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Three Months Ende

	2001			
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	A Out B
			(Dollars in th (Unaudit	
Assets				
Interest-earning assets:				
Loans	$ 291,814	$ 6,129	8.42%	$
Securities	70,112	1,130	6.46%	
Federal funds sold	21,135	234	4.44%	
Interest-bearing deposits in other financial institutions	106	--	3.90%	
Total interest-earning assets	383,167	7,493	7.84%	
Less allowance for loan losses	(2,778)			
Total interest-earning assets, net of allowance	380,389			
Non-earning assets:				
Cash and due from banks	11,803			
Premises and equipment	13,561			
Interest receivable and other assets	18,023			
Other real estate owned	511			
Total assets	$ 424,287			$
Liabilities and shareholders'				
Interest-bearing liabilities:				
NOW, savings, and money market accounts	$ 105,759	$ 719	2.73%	$
Time deposits	216,020	3,264	6.06%	
Total interest-bearing deposits	321,779	3,983	4.96%	
FHLB advances and federal funds purchased	6,418	97	6.06%	
Long-term debt	7,000	193	11.06%	

Total interest-bearing liabilities	335,197	$ 4,273	5.11%	
Noninterest-bearing liabilities:				
Demand deposits	54,295			
Accrued interest, taxes and other liabilities	4,283			
Total liabilities	393,775			
Shareholders' equity	30,512			
Total liabilities and shareholders' equity	$ 424,287			$
Net interest income		$ 3,220		
Net interest spread			2.73%	
Net interest margin			3.37%	

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	Six Months Ended Jun			
	2001			
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Av Outs Ba
			(Dollars in thou (Unaudited	
Assets				
Interest-earning assets:				
Loans	$ 290,607	$ 12,339	8.56%	$ 2
Securities	68,531	2,267	6.67%	
Federal funds sold	20,539	503	4.94%	
Interest-bearing deposits in other financial institutions	66	--	3.90%	
Total interest-earning assets	379,743	15,109	8.02%	3
Less allowance for loan losses	(2,716)			
Total interest-earning assets, net of allowance	377,027			3
Non-earning assets:				
Cash and due from banks	11,840			

Premises and equipment	13,560			
Interest receivable and other assets	17,875			
Other real estate owned	424			
Total assets	$ 420,726			$ 3
Liabilities and shareholders'				
Interest-bearing liabilities:				
NOW, savings, and money market accounts	$ 104,654	$ 1,615	3.11%	$
Time deposits	212,853	6,505	6.16%	1
Total interest-bearing deposits	317,507	8,120	5.16%	2
FHLB advances and federal funds purchased	8,697	270	6.26%	
Long-term debt	7,000	383	11.03%	
Total interest-bearing liabilities	333,204	$ 8,773	5.31%	2
Noninterest-bearing liabilities:				
Demand deposits	53,141			
Accrued interest, taxes and other liabilities	4,009			
Total liabilities	390,354			3
Shareholders' equity	30,372			
Total liabilities and shareholders' equity	$ 420,726			$ 3
Net interest income		$ 6,336		
Net interest spread			2.71%	
Net interest margin			3.36%	

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The following tables present the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the increase (decrease) related to outstanding balances and the volatility of interest rates. For purposes of these tables, changes attributable to both rate and volume that can be segregated have been allocated (dollars in thousands):

Three Months Ended June 30,

	2001 vs. 2000	
	Increase (Decrease) Due to	
	Volume	Rate
	(Unaudited)	
Interest-earning assets:		
Loans	$ 700	$ (167)
Securities	(285)	(27)
Federal funds sold	231	(70)
Interest-bearing deposits in other financial institutions	--	(1)
Total increase in interest income	646	(265)
Interest-bearing liabilities:		
NOW, savings, and money market accounts	95	(360)
Time deposits	396	219
FHLB advances	(66)	8
Long-term debt	1	--
Total increase in interest expense	426	(133)
Increase (decrease) in net interest income	$ 220	$ (132)

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	Six Months Ended June 30,	
	2001 vs. 2000	
	Increase (Decrease) Due to	
	Volume	Rate
	(Unaudited)	
Interest-earning assets:		
Loans	$ 1,297	$ 129
Securities	(519)	30
Federal funds sold	463	(77)
Interest-bearing deposits in other financial institutions	--	(1)
Total increase in interest income	1,241	81
Interest-bearing liabilities:		
NOW, savings, and money market		

accounts	187	(485)	
Time deposits	656	695	
FHLB advances	(49)	44	
Long-term debt	172	--	
Total increase in interest expense	966	254	
Increase (decrease) in net interest income	$ 275	$ (173)	$

Provision for Loan Losses

Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as the industry diversification of the Company's commercial loan portfolio, the effect of changes in the local real estate market on collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, the amount of charge-offs for the period, the amount of nonperforming loans and related collateral security, the evaluation of the Company's loan portfolio by Independent Bank Services, L.C. and the annual examination of the Company's financial statements by its independent auditors. The provision for loan losses for the six months ended June 30, 2001, was $340,000 compared with $315,000 for the six months ended June 30, 2000, an increase of $25,000 or 7.9%. The provision for loan losses for both the three months ended June 30, 2001 and 2000, were $185,000. The increase for the six-month period was due to the increase in average loans of 12.2% over the period. Management believes increasing the allowance for loan losses is prudent as total loans, particularly higher-risk commercial, construction, and consumer loans, increased.

Noninterest Income

The following table presents, for the periods indicated, the major categories of noninterest income (dollars in thousands):

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	Three months ended June 30,		Six months end June 30,	
	2001	2000	2001	
	(Unaudited)		(Unaudited	
Service charges on deposit accounts	$ 687	$ 597	$ 1,305	$
Fee income	157	134	336	
Fiduciary income	30	18	63	
Other noninterest income	167	119	329	
Realized gain (loss) on securities	51	--	317	
Total noninterest income	$ 1,092	$ 868	$ 2,350	$

The Company's primary sources of recurring noninterest income are service charges on deposit accounts and fee income. Noninterest income for the three and six-months period ended June 30, 2001 increased $224,000, or 25.8% and $605,000 or 34.7%, respectively, over the same periods ended June 30, 2000. The increase in noninterest income for the three and six-months ended June 30, 2001 was primarily due to an increase in service charges on deposit accounts created by an increase in the number of deposit accounts. Additionally, fee income increased $23,000 or 17.2%, and $10,000 or 3.1% for the three and six-months ended June 30, 2001, over the three and six-months ended June 30, 2000. The increase was primarily due to increases in credit life commission income and debit card fee income. Other noninterest income increased $48,000 or 40.3% and $58,000 or 21.4% during the same periods due primarily to the gain on sale of loans sold into the secondary market and additional income generated by the bank's subsidiary, Guaranty Leasing. The Company had net gains on sales of securities for the three and six-months period ended June 30, 2001 of $51,000 and $317,000 respectively.

Noninterest Expenses

The following table presents, for the periods indicated, the major categories of noninterest expenses (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2
	(Unaudited)		(Unaudited)	
Employee compensation and benefits	$ 1,790	$ 1,639	$ 3,710	$
Non-staff expenses:				
Net bank premises expense	460	414	924	
Office and computer supplies	63	72	145	
Legal and professional fees	121	176	191	
Advertising	69	93	141	
Postage	53	35	96	
FDIC insurance	21	17	38	
Other	630	478	1,227	
Total non-staff expenses	1,417	1,285	2,762	
Total noninterest expenses	$ 3,207	$ 2,924	$ 6,472	$

Employee compensation and benefits expense increased $151,000, or 9.2%, and $301,000, or 8.8%, for the three and six-months ended June 30, 2001 compared to the same periods in 2000. The increase for both the three and six-month periods ended June 30, 2001 was due primarily to normal salary increases and additional staff placement in the Texarkana, Sulphur Springs, Commerce, and Paris locations to handle customer growth. The number of full-time equivalent employees was 195 at June 30, 2001, compared with 185 at June 30, 2000, an increase of 5.4%.

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Non-staff expenses increased $132,000 or 10.3%, and $128,000 or 4.9%, for the three and six-months ended June 30, 2001, compared with the same periods in 2000. Net bank premises expense increased $46,000, or 11.1% and $93,000, or 11.2%, over the comparable periods due to the additions to fixed assets from the construction and remodeling projects completed in 2000.

Other non-staff expenses increased $152,000, or 31.8% and $114,000, or 10.2%, over the comparable three and six-month periods due to the addition of new locations which, among other expenses, resulted in increases in director fees, supplies expense, ATM and debit card expenses, and amortization of goodwill.

Income Taxes

Income tax expense increased $25,000 to $413,000 for the six months ended June 30, 2001 from $388,000 for the same period in 2000. Income tax expense was $197,000 for the three months ended June 30, 2001 compared with $203,000 for the three months ended June 30, 2000, a decrease of $6,000. The change in income tax expense is primarily attributable to the change in income before income taxes. The increase for the six-month period is also a result of fewer tax deductions available from the Company's leveraged leasing activities. The income stated on the consolidated statement of earnings differs from the taxable income due to tax-exempt income, the amount of non-deductible interest expense and the amount of other non-deductible expense.

FINANCIAL CONDITION

Loan Portfolio

Gross loans were $300.3 million at June 30, 2001, an increase of $13.0 million or 4.5% from $287.3 million at December 31, 2000. Loan growth occurred primarily in 1- 4 family residential loans and multi-family residential loans due to the Company's emphasis to have a higher concentration of real estate based loans. Loans comprised 76.6% of total interest-earning assets at June 30, 2001 compared with 76.8% at December 31, 2000.

The following table summarizes the loan portfolio of the Company by type of loan as of June 30, 2001 and December 31, 2000 (dollars in thousands):

	June 30, 2001		December 31
	Amount	Percent	Amount
	(Unaudited)		
Commercial and industrial	$ 62,300	20.74%	$ 66,616
Agriculture	9,415	3.13	8,318
Real estate:			
Construction and land development	6,916	2.30	7,316
1-4 family residential	110,884	36.92	102,614
Farmland	9,671	3.22	7,716
Non-residential and non-farmland	63,806	21.25	61,224
Multi-family residential	7,431	2.47	4,946
Consumer	29,899	9.97	28,585
Total loans	$ 300,322	100.00%	$ 287,335

Allowance for Loan Losses

In originating loans, the Company recognizes that it will experience credit losses and the risk of loss will vary with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral for such loan. The Company maintains an allowance for loan losses in an amount that it believes is adequate for estimated losses in its loan portfolio.

Management determines the adequacy of the allowance through its evaluation of the loan portfolio. In addition to unallocated allowances, specific allowances are provided for individual loans when ultimate collection is considered questionable by management after reviewing the current status of loans which are contractually past due and considering the net realizable value of the collateral for the loan. Loans are charged-off against the allowance for loan losses when appropriate. Although management believes it uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the initial determinations. Loans charged-off during the six-month period ended June 30, 2001 decreased $103,000 or 25.4% over the same period ended June 30, 2000. At June 30, 2001, and June 30, 2000, the allowance for loan losses totaled $2.8 million or 0.93% of gross loans and $2.5 million or 0.95% of gross loans respectively. The allowance for loan losses as a percentage of nonperforming loans was 57.89% at June 30, 2001.

Set forth below is an analysis of the allowance for loan losses for the periods indicated (dollars in thousands):

	Six months ended June 30, 2001	Six months ended June 30, 2000
	(Unaudited)	
Average loans outstanding	$ 290,607	$ 259,010
Gross loans outstanding at end of period	$ 300,322	$ 263,375
Allowance for loan losses at beginning of period	$ 2,578	$ 2,491
Provision for loan losses	340	315
Charge-offs:		
Commercial and industrial	(117)	(238)
Real estate	(44)	(65)
Consumer	(141)	(102)
Recoveries:		
Commercial and industrial	24	29
Real estate	118	7
Consumer	36	54
Net loan recoveries (charge-offs)	(124)	(315)
Allowance for loan losses at end of period	$ 2,794	$ 2,491
Ratio of allowance to end of period loans	0.93%	0.95%
Ratio of net charge-offs to average loans	0.04%	0.12%
Ratio of allowance to end of period nonperforming loans	57.89%	154.24%

NONPERFORMING ASSETS

Nonperforming assets were $5.3 million at June 30, 2001 compared with $5.0 million at December 31, 2000. Nonaccrual loans increased $1.6 million from $1.2 million at December 31, 2000 to $2.8 million at June 30, 2001. This increase is due primarily to two large commercial lines added to non-accrual status totaling $1.7 million. These lines are currently in a liquidation mode. They have collateral values, which exceed the total debt, and no loss is anticipated. Accruing loans 90 or more days past due decreased $1.5 million, from $3.5 million at December 31, 2000 to $2.0 million at June 30, 2001. This decrease is due primarily to collection efforts of previously past due credits. Other real estate increased $212,000 during the same period. This increase is primarily the result of loans that were foreclosed on during the period totaling $585,000, net of sales of properties with a carrying value of $373,000. Management anticipates minimal losses on the total of these new nonperforming assets. The ratio of nonperforming assets to total loans and other real estate was 1.83% and 1.73% at June 30, 2001, and December 31, 2000, respectively.

The following table presents information regarding nonperforming assets as of the dates indicated (dollars in thousands):

	June 30, 2001 (Unaudited)	December 31, 2000
Nonaccrual loans	$ 2,810	$ 1,214
Accruing loans 90 or more days past due	2,016	3,488
Total nonperforming loans	4,826	4,702
Other real estate	486	274
Total nonperforming assets	$ 5,312	$ 4,976

SECURITIES

Securities totaled $72.4 million at June 30, 2001, a decrease of $9.3 million from $81.6 million at December 31, 2000. At June 30, 2001, securities represented 16.9% of total assets compared with 19.9% of total assets at December 31, 2000. The yield on average securities for the six-months ended June 30, 2001, was 6.67% compared with 6.58% for the same period in 2000. At June 30, 2001, securities included $7.5 million in U.S. Government securities, $18.4 million in mortgage-backed securities, $35.0 million in collateralized mortgage obligations, $1.8 million in equity securities, and $9.7 million in municipal securities. The average life of the securities portfolio at June 30, 2001, is approximately 3.9 years, however, all of the Company's securities are classified as available-for-sale.

DEPOSITS

At June 30, 2001, demand, money market and savings deposits account for approximately 43.8% of total deposits, while certificates of deposit made up 56.2% of total deposits. Total deposits increased $22.6 million or 6.3% from December 31, 2000 to June 30, 2001. This increase comes primarily from an increase in certificate of deposits of $12.4 million or 6.2%, due to the offering of competitive yields on these deposits, and an increase in money market accounts of $6.0 million or 10.2% due to an attractive yield on the

Company's Premier Money Market account. Noninterest-bearing demand deposits totaled $58.5 million or 15.4% of total deposits at June 30, 2001, compared with $55.3 million or 15.4% of total deposits at December 31, 2000. The average cost of deposits, including noninterest-bearing demand deposits, is 5.36% for the three months ended June 30, 2001 compared with 4.91% for the same period in 2000.

LIQUIDITY

The Company's asset/liability management policy is intended to maintain adequate liquidity for the Company. Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate the Company on a continuing basis. The Company's liquidity needs are primarily met by growth in core deposits. Although access to purchased funds from correspondent banks is available and has been utilized on occasion to take advantage of investment opportunities, the Company does not continually rely on these external-funding sources. The cash and federal funds sold position, supplemented by amortizing investments along with payments and maturities within the loan portfolio, has historically created an adequate liquidity position.

The Company's cash flows are composed of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. As summarized in the unaudited condensed consolidated statements of cash flows, the most significant transactions which affected the Company's level of cash and cash equivalents, cash flows, and liquidity during the first six months of 2001 were the net increase in loans of $13.7 million, securities purchases of $22.2 million, securities sales of $18.4 million, securities calls, maturities, and principal repayments of $14.1 million, the net increase in deposits of $22.6 million, and the net increase in federal funds sold of $14.5 million.

CAPITAL RESOURCES

Both the Board of Governors of the Federal Reserve System ("Federal Reserve"), with respect to the Company, and the Federal Deposit Insurance Corporation ("FDIC"), with respect to Guaranty Bank, have established certain minimum risk-based capital standards that apply to bank holding companies and federally insured banks, respectively. As of June 30, 2001, the Company's Tier 1 risk-based capital, total risk-based capital and leverage capital ratios were 11.71%, 12.64%, and 8.34%, respectively. As of June 30, 2001, the Bank's risk-based capital ratios remain above the levels required for the Bank to be designated as "well capitalized" by the FDIC with Tier 1 risk-based capital, total risk-based capital and leverage capital ratios of 11.30%, 12.24%, and 7.98%, respectively.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in the market risk information disclosed in the Company's Form 10-K for the year ended December 31, 2000. See Form 10-K, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company faces ordinary routine litigation arising in the normal course of business. In the opinion of management, liabilities (if any) arising from such claims will not have a material adverse effect upon the business, results of operations or financial condition of the Company.

In March 2000, the Company filed an action in the District Court of Titus County, Texas against Guaranty Federal Bank, F.S.B., a thrift institution, after the Company discovered that Guaranty Federal Bank, F.S.B. was using the name, "Guaranty Bank", in its business dealings. The case seeks a declaratory judgement that the Company has the sole right to the name "Guaranty Bank". As this action involves a determination of intellectual property rights, management does not believe the case will have any material effect on the financial condition of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of shareholders was held on April 17, 2001. The following matters were submitted for approval to the shareholders:

1. The election of three Class I directors, John Conroy, Clifton A. Payne, and D.R. Zachry, Jr. 2,339,637 votes for and no votes against.

2. To ratify the appointment of Fisk & Robinson, P.C. as independent auditors, 2,339,637 votes for and no votes against.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Quarterly Report on Form 10Q:

(1) Exhibits - The following exhibits are filed as a part of this Quarterly Report on Form 10Q:

11 Statement regarding computation of earnings per share

(b) Reports on Form 8-K

No report on Form 8-K was filed by Guaranty Bancshares, Inc., during the three months ended June 30, 2001.

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.

GUARANTY BANCSHARES, INC.
(Registrant)

Date: August 14, 2001

By: /s/ ARTHUR B. SCHARLACH, JR.

Arthur B. Scharlach, Jr.
President
(Principal Executive Officer)

Date: August 14, 2001

By: /s/ CLIFTON A. PAYNE

Clifton A. Payne
Senior Vice President and Chief
Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description	Page Number
11	Statement regarding computation of earnings per share	Reference is hereby made to Note 2 of Notes to Consolidated Financial Statements on page 8 hereof.