

COMMUNITY BANCSHARES INC /DE/
Form 10-Q
August 13, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

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 000-16461

COMMUNITY BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

63-0868361

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(State or Other Jurisdiction of

(I.R.S. Employer Identification No.)

Incorporation or Organization)

68149 Main Street, Blountsville, Alabama
(Address of Principal Executive Offices)

35031
(Zip Code)

(205) 429-1000

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of July 31, 2004, there were 8,426,233 shares of the registrant's common stock, \$.10 par value per share, outstanding.

IMPORTANT INFORMATION ABOUT THIS REPORT

In this Quarterly Report on Form 10-Q, which we refer to as this Report, the words Company, we, us and our refer to the combined entities of Community Bancshares, Inc., Community Bank, 1st Community Credit Corporation, Community Insurance Corp., Southern Select Insurance, Inc., Community Appraisals, Inc., and Community Funding Corporation.

The words Community Bancshares, Community Bank, Community Credit, Community Insurance, Southern Select, Community Appraisals, and Community Funding refer to each of those entities individually.

SPECIAL CAUTIONARY NOTICE

REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Report are forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as may, will, anticipate, hope, project, assume, should, indicate, would, contemplate, expect, estimate, continue, plan, point to, could, intend, seek, target, and other similar words and expressions of forward-looking statements may not be realized due to a variety of factors, including, without limitation:

future economic or business conditions;

governmental monetary and fiscal policies, as well as legislative and regulatory changes, including changes in tax laws and regulations;

the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;

interest rate risks and credit risks of borrowers;

the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;

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the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, and the uncertainty and costs of litigation;

the risks of mergers, acquisitions and divestures, including, without limitation, the related time and costs of implementing such transactions, and the possible failure to achieve expected gains, revenue growth and/or expense savings expected from such transactions;

changes in accounting policies, rules and practices;

difficulties with, or changes in the cost or effectiveness of, technology and/or products;

the effects of war or other conflict, acts of terrorism or other catastrophic events that affect general economic conditions; and

other factors and other information discussed in this Report, as well as other factors and risks described in any of our other reports that we make with the SEC under the Exchange Act.

All written or oral statements that are made by or are attributable to us are expressly qualified in their entirety by this cautionary notice. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this Report, or after the respective dates on which such statements otherwise are made.

PART 1**Item 1. Financial Statements.****Community Bancshares, Inc. and Subsidiaries****Consolidated Balance Sheets**

	(Unaudited) June 30, 2004	December 31, 2003
<i>Assets</i>		
Cash and due from banks	\$ 31,888,902	\$ 30,370,220
Interest-bearing deposits in banks and federal funds sold	3,226,051	14,550,000
Cash and cash equivalents	35,114,953	44,920,220
Securities available for sale	160,209,295	156,270,593
Loans held for sale		1,821,221
Loans, net of allowance for loan losses of \$10,375,043 and \$14,357,624	297,165,347	301,849,451
Capitalized lease receivable	2,912,082	2,959,818
Accrued interest receivable	3,153,638	3,260,957
Premises and equipment, net	21,381,951	22,796,143
Goodwill and other intangible assets, net	2,405,815	2,445,524
Foreclosed assets	5,317,635	6,945,494
Other assets	16,992,036	15,285,190
Total assets	\$ 544,652,752	\$ 558,554,611
<i>Liabilities and stockholders' equity</i>		
Deposits:		
Noninterest-bearing	\$ 58,525,193	\$ 56,255,701
Interest-bearing	380,697,415	397,689,888
Total deposits	439,222,608	453,945,589
Other short-term borrowings	553,212	600,000
FHLB long-term debt	38,000,000	38,000,000
Capitalized lease obligations	3,933,264	3,976,367
Other long-term debt		3,168,502
Trust preferred securities (Note 6)		10,000,000
Junior subordinated debt (Note 6)	10,310,000	
Accrued interest payable	4,790,851	4,248,861
Other liabilities	6,210,036	9,297,672
Total liabilities	503,019,971	523,236,991
Commitments and contingencies (Note 10)		
<i>Stockholders' equity</i>		
Preferred stock (par value \$.10 per share; 200,000 shares authorized; no shares issued or outstanding)		
Common stock (par value \$.10 per share; 20,000,000 shares authorized; 8,586,163 and 6,978,671 shares issued as of June 30, 2004 and December 31, 2003, respectively; 2,191,897 shares of which are exchangeable)	858,616	697,868
Additional paid-in-capital	48,586,390	40,996,918

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Stock warrant outstanding	242,500	
Treasury common stock, at cost (89,867 and 86,888 shares, as of June 30, 2004 and December 31, 2003, respectively)	(910,413)	(894,029)
Retained earnings (deficit)	(1,791,370)	(2,075,986)
Unearned ESOP common stock (115,063 and 123,111 shares as of June 30, 2004 and December 31, 2003, respectively)	(1,660,768)	(1,741,248)
Accumulated other comprehensive loss	(3,692,174)	(1,665,903)
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Total stockholders' equity	41,632,781	35,317,620
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Total liabilities and stockholders' equity	\$ 544,652,752	\$ 558,554,611
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The accompanying notes are an integral part of these consolidated financial statements

Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

	Three months ended June 30,	
	2004	2003
Interest income:		
Loans, including fees	\$ 6,203,437	\$ 7,019,307
Interest on investment securities:		
Taxable securities	1,411,032	1,241,836
Tax-exempt securities	70,727	85,930
Federal funds sold	20,858	75,024
Other	60,261	7,144
Total interest income	7,766,315	8,429,241
Interest expense:		
Deposits	2,127,965	2,661,340
Short-term borrowings	598	563
FHLB long-term debt	569,609	569,609
Capitalized lease obligations	39,367	42,709
Junior subordinated debentures	358,337	333,802
Other long-term debt	16,919	47,499
Total interest expense	3,112,795	3,655,522
Net interest income	4,653,520	4,773,719
Provision for loan losses	78,287	2,321,041
Net interest income, after provision for loan losses	4,575,233	2,452,678
Noninterest income:		
Service charges on deposits	738,709	710,264
Insurance commissions	606,607	572,793
Bank club dues	89,971	104,804
Debt cancellation fees	(16,283)	18,452
Securities gains, net		80,955
Other	108,240	305,943
Total noninterest income	1,527,244	1,793,211
Noninterest expense:		
Salaries and employee benefits	3,046,043	3,310,160
Occupancy	519,307	582,715
Furniture and equipment	362,644	387,607
Insurance	306,226	287,808
Director and committee fees	71,272	97,417
Professional services	95,064	1,233,278
Foreclosed assets, net	430,042	280,176
Disposal or impairment of assets	79,466	36,882
Litigation, fraud or burglary	3,689	14,084
Other	920,310	1,012,390

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Total noninterest expense	<u>5,834,063</u>	<u>7,242,517</u>
Income (loss) before income taxes	268,414	(2,996,628)
Income taxes	(38,841)	455,422
Net income (loss)	<u>\$ 229,573</u>	<u>\$ (2,541,206)</u>

The accompanying notes are an integral part of these consolidated financial statements

Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income continued

(Unaudited)

	Three months ended	
	June 30,	
	2004	2003
Earnings (loss) per share:		
Basic	\$ 0.03	\$ (0.55)
Diluted	\$ 0.03	\$ (0.55)

The accompanying notes are an integral part of these consolidated financial statements

Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

	Six months ended June 30,	
	2004	2003
Interest income:		
Loans, including fees	\$ 12,548,642	\$ 14,380,212
Interest on investment securities:		
Taxable securities	2,825,508	2,616,483
Tax-exempt securities	143,877	175,255
Federal funds sold	60,130	157,282
Other	110,194	14,254
Total interest income	15,688,351	17,343,486
Interest expense:		
Deposits	4,344,355	5,546,548
Short-term borrowings	1,241	1,713
FHLB long-term debt	1,139,219	1,132,959
Capitalized lease obligations	78,946	85,161
Junior subordinated debentures	693,272	647,966
Other long-term debt	49,706	77,970
Total interest expense	6,306,739	7,492,317
Net interest income	9,381,612	9,851,169
Provision for loan losses	377,672	3,610,480
Net interest income, after provision for loan losses	9,003,940	6,240,689
Noninterest income:		
Service charges on deposits	1,402,135	1,320,822
Insurance commissions	1,280,928	1,136,586
Bank club dues	182,572	211,363
Debt cancellation fees	(31,500)	48,567
Securities gains, net		