VISION BANCSHARES INC
Form 10QSB
November 13, 2003
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2003

OR

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

Commission File No. 333-88073

VISION BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Alabama	63-1230752
(State of Incorporation)	(IRS Employer Identification No.)

2201 West 1st Street

Gulf Shores, Alabama 36542

(Address of principal executive offices)

(251) 967-4212

(Registrant s telephone number)

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 x No ¨

As of September 30, 2003, Vision Bancshares had 1,888,171 shares of common stock outstanding.

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VISION BANCSHARES, INC.

FORM 10-QSB

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VISION BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Cash	$ 1,631,801	$ 896,243
Due from banks and federal funds sold	7,866,274	15,845,949
Investment securities available for sale	14,595,829	12,178,867
Loans	162,367,875	108,876,814
Less: Allowance for loan losses	(1,949,371)	(1,389,637)
Loans, net	160,418,504	107,487,177
Premises and equipment, net	2,039,023	1,558,650
Accrued interest receivable	729,661	604,061
Deferred tax benefit	623,753	435,748
Goodwill	125,002	125,002
Other assets	220,353	851,441
Total Assets	$ 188,250,200	$ 139,983,138
Liabilities and Stockholders Equity		
Deposits:		
Noninterest-bearing	$ 22,271,374	$ 13,137,526
Interest bearing	142,716,012	104,410,501
Total Deposits	164,987,386	117,548,027
Accrued interest payable	257,354	229,776
Other liabilities	422,210	419,868
Total Liabilities	165,666,950	118,197,671
Stockholders Equity		
Common stock, $1.00 par value; 10,000,000 authorized; 1,888,171 and 1,819,333 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	1,888,171	1,819,333
Preferred stock $1.00 par value; 1,000,000 authorized; -0- shares issued and outstanding		
Additional paid-in capital	21,667,493	20,761,907
Retained earnings/(deficit)	(944,478)	(910,816)
Accumulated other comprehensive income	(27,936)	115,043
Total Stockholders Equity	22,583,250	21,785,467

Total Liabilities and Stockholders Equity	$ 188,250,200	$ 139,983,138

See Notes to Consolidated Financial Statements

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VISION BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATION

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Interest Income:				
Interest and fees on loans	$ 2,725,990	$ 1,949,928	$ 7,180,901	$ 5,450,879
Interest and dividends on investment securities-AFS	58,919	178,006	238,380	578,029
Interest income on federal funds sold	24,516	15,978	85,731	41,650
Other interest income				
Total interest income	2,809,425	2,143,912	7,505,012	6,070,558
Interest Expense:				
Interest on deposits	851,271	853,395	2,372,255	2,449,397
Interest on federal funds purchased		69		165
Total interest expense	851,271	853,464	2,372,255	2,449,562
Net interest income, before provision for loan losses	1,958,154	1,290,448	5,132,757	3,620,996
Provision for loan losses	249,098	78,000	634,323	379,907
Net interest income, after provision for loan losses	1,709,056	1,212,448	4,498,434	3,241,089
Noninterest Income:				
Service charges on deposits accounts	162,730	117,840	454,453	314,367
Gain on sale of securities			151,523	
Other noninterest income	238,334	154,461	545,734	448,452
Total noninterest income	401,064	272,301	1,151,710	762,819
Noninterest Expense:				
Salaries and benefits	1,164,556	772,355	3,202,634	2,171,084
Net occupancy	231,204	129,688	660,488	362,342
Equipment expense	100,081	52,210	251,356	139,857
Data processing expense	92,932	46,570	246,123	130,816
Organization expense		126,658	64,468	332,874
Professional fees	74,331	42,259	206,430	158,556
Printing and office supplies	44,767	25,208	133,525	87,994
Advertising expense	31,240	12,521	102,135	53,311
Other noninterest expense	272,951	165,324	826,026	451,563
Total noninterest expense	2,012,062	1,372,793	5,693,185	3,888,397
Income (loss) before income taxes	98,058	111,956	(43,041)	115,511
Income tax expense/(benefit)	43,127	35,296	(9,378)	40,826
Net Income (loss)	$ 54,931	$ 76,660	$ (33,663)	$ 74,685

Earnings (loss) per share - basic & diluted	$ 0.03	$ 0.07	$ (0.02)	$ 0.07
Average number of shares outstanding	1,887,619	1,043,975	1,874,715	1,044,544

See Notes to Consolidated Financial Statements.

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VISION BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income/(loss)	$ 54,931	$ 76,660	$ (33,663)	$ 74,685
Unrealized holding gains/(losses) arising during period	(155,765)	70,295	(74,984)	378,464
Reclassification adjustments for (gains)/losses on securities during the period, before income taxes			(151,523)	
Other comprehensive income/(loss), before income taxes:	(155,765)	70,295	(226,507)	378,464
Income tax expense /(benefit) related to other Comprehensive Income	(58,173)	25,938	(83,528)	139,652
Unrealized gains/(losses) on investment securities available for sale arising during the period, net of income taxes	(97,592)	44,355	(142,979)	238,810
Other comprehensive income/(loss)	$ (42,661)	$ 121,015	$ (176,642)	$ 313,495

See Notes to Consolidated Financial Statements

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VISION BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2003	**2002**
Cash Flows From Operating Activities:		
Net income (loss)	$ (33,663)	$ 74,685
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	428,821	113,813
Provision for loan losses	634,323	379,907
Net loss (gains) on sales and other dispositions of foreclosed assets	6,280	
Net (gains) loss on sales of premises and equipment	12,552	
Net (gains) loss on sales of investment securities	(151,523)	
Deferred income tax expense (benefit)	(188,005)	(52,266)
(Increase)/decrease in accrued interest receivable	(125,600)	(9,763)
Increase/(decrease) in accrued interest payable	27,578	4,305
(Increase)/decrease in other assets	102,280	798,123
Increase/(decrease) in other liabilities	2,342	82,889
Net cash provided by (used in) operating activities	715,385	1,391,693
Cash Flows From Investing Activities:		
Proceeds from maturities/calls/paydown of investment securities available for sale	4,215,803	3,447,009
Proceeds from sales of investment securities	5,343,043	
Purchases of investment securities available for sale	(12,219,603)	(5,862,164)
Net (increase)/decrease in loans outstanding	(53,565,650)	(26,621,584)
Proceeds from sales of foreclosed assets	606,057	
Proceeds from sales of premises and equipment	19,027	
Purchase of premises and equipment	(771,962)	(291,238)
Net cash provided by (used in) investing activities	(56,373,285)	(29,327,977)
Cash Flows From Financing Activities:		
Net increase/(decrease) in demand, savings and time deposits	47,439,359	31,938,868
Proceeds from the issuance of common stock	974,424	17,786
Net cash provided by (used in) financing activities	48,413,783	31,956,654
Net increase/(decrease) in cash and cash equivalents	(7,244,117)	4,020,370
Cash and cash equivalents at beginning of period	16,742,192	4,745,537
Cash and cash equivalents at end of period	$ 9,498,075	$ 8,765,907
Supplemental Cash Flow Information:		
Cash paid during period for interest	$ 2,344,677	$ 2,445,257

Cash paid during period for income taxes	$	12,000	$	

See Notes to Consolidated Financial Statements.

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VISION BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the consolidated financial statements have been included. All such adjustments are of a normal recurring nature. Certain amounts in the prior year s financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on net income.

The consolidated financial statements include the accounts of Vision Bancshares, Inc. (the Company) and its bank subsidiaries, Vision Bank and Vision Bank, FSB. All significant intercompany balances and transactions have been eliminated.

The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-KSB and the related amendments for the year ended December 31, 2002.

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Accounting Changes

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* . FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The disclosures required by FIN 45 improve the transparency of the financial statement information about the guarantor s obligations and liquidity risks related to guarantees issued. This interpretation also incorporates, without change, the guidance in Financial Accounting Standards Board Interpretation No. 34 (FIN 34), *Disclosure of Indirect Guarantees of Indebtedness of Others* , which is being superceded. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company s consolidated financial statements.

During the quarter ended September 30, 2003 there were no changes in the Company s critical accounting policies as reflected in the last report.

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Stock Plans

At September 30, 2003, the Company had an Incentive Stock Compensation Plan and a Director Stock Plan, which are described more fully in Note 15 of the Company s Annual Report on Form 10-KSB for the year ended December 31, 2002. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net income/(loss), as reported	$ 54,931	$ 76,660	$ (33,663)	$ 74,685
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(28,246)	(19,730)	(84,230)	(57,075)
Pro forma net income	$ 26,685	$ 56,930	$ (117,893)	$ 17,610
Earnings per share:				
As reported	$ 0.03	$ 0.07	$ (0.02)	$ 0.07
Proforma	$ 0.01	$ 0.05	$ (0.06)	$ 0.01

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Vision Bancshares, Inc. (the Company) and its subsidiaries and on their results of operations during the first nine months 2003 and 2002. Virtually all of the Company s operations are contained in its banking subsidiaries, Vision Bank and Vision Bank, FSB. Vision Bank is an Alabama state chartered bank that offers general retail and commercial banking services through five branch offices in Baldwin County, Alabama. Vision Bank, FSB is a federal savings bank chartered by the Office of Thrift Supervision (OTS) that serves as a depository of funds and as a lender of credit for homes and other goods and services through two branches in Bay County, Florida.

This discussion and analysis highlights and supplements information contained elsewhere in this quarterly report on Form 10-QSB, particularly the preceding consolidated financial statements, notes and selected financial data. This discussion and analysis should be read in conjunction with the Company s 2002 Annual Report on Form 10-KSB.

The following discussion includes forward-looking statements 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. These forward-looking statements are not based on historical facts and may be identified by their reference to a future period or by the use of forward-looking terminology, such as anticipate, estimate, expect, may and should. We caution you not to place undue reliance on these forward-looking statements. Actual results could differ materially from those indicated in such forward-looking statements due to a variety of factors. These factors include, but are not limited to, changes in economic conditions and government fiscal and monetary policies, changes in prevailing interest rates and effectiveness of the Company s interest rate strategies, laws, regulations and regulatory authorities affecting financial institutions, changes in and effectiveness of the Company s operating or expansion strategies, geographic concentration of the Company s assets and operations, competition from other financial services companies, unexpected financial results or outcomes of legal proceedings, and other risks detailed from time to time in the Company s press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances occurring after the date of this Report.

FINANCIAL CONDITION

September 30, 2003 compared to December 31, 2002

Loans and allowance for loan losses

Loans comprised the largest single category of the Company s earning assets at September 30, 2003. Loans, net of unearned income and allowance for loan losses, were 85.2%

of total assets at September 30, 2003 and 76.8% of total assets at December 31, 2002. Total loans were $162,368 thousand at September 30, 2003, representing a $53,491 thousand, or 49.1%, increase from the December 31, 2002 total loans of $108,877 thousand. Real estate loans increased $20,129 thousand, or 43.0%, to $66,892 thousand at September 30, 2003 from $46,763 thousand at December 31, 2002, while commercial loans increased $30,063 thousand, or 56.3%, to $83,451 thousand at September 30, 2003 from $53,388 thousand at December 31, 2002. Consumer and other loans increased $3,299 thousand, or 37.8%, to $12,025 thousand at September 30, 2003 from $8,726 thousand at December 31, 2002. This growth in total loans outstanding during the first nine months of 2003 resulted from continued loan demand in Vision Bank and the opening of Vision Bank, FSB in Panama City, Florida.

Investment Securities and Other Earning Assets

Investment securities increased approximately $2,417 thousand, or 19.8%, to $14,596 thousand at September 30, 2003 from $12,179 thousand at December 31, 2002. The investment securities portfolio is used to make various term investments, to provide a source of liquidity and to serve as collateral to secure certain government deposits. At September 30, 2003, $13,598 thousand, or 93.2%, of the Company s investment portfolio available for sale was pledged as collateral against government deposits. At September 30, 2003, the Company had other short-term investments in the form of federal funds sold of $5,707 thousand.

Asset Quality

At September 30, 2003, the Company had non-performing assets (defined as non-accrual loans, loans past due 90 days or greater, restructured loans, non-accruing investment securities and other real estate) totaling $309 thousand, compared to $912 thousand in non-performing assets at December 31, 2002. This reduction reflects the liquidation of all other real estate owned. The Company had no other real estate owned at September 30, 2003. Non-accrual loans increased $3 thousand, or 1.0%, to $309 thousand at September 30, 2003 compared to $306 thousand at December 31, 2002. At September 30, 2003, the Company s non-accrual loans consisted of $135 thousand in loans secured by real estate, $107 thousand in commercial loans and $67 thousand in loans to consumers. The ratio of the allowance for loan losses to total non-performing assets increased to 630.7% at September 30, 2003 from 152.3% at December 31, 2002. The ratio of non-performing loans to total loans, net of unearned income, was 0.2% and the ratio of non-performing assets to total assets was 0.2%. The Company had no restructured loans or non-accruing investment securities at September 30, 2003.

The Company maintains an allowance for loan losses to absorb inherent losses in the loan portfolio. The allowance is based upon management s estimated range of those losses. Actual losses for these loans may vary significantly from this estimate. The Company s allowance for loan losses was $1,949 thousand and $1,390 thousand at September 30, 2003 and December 31, 2002, respectively. The ratio of the allowance for loan losses to total loans, net of unearned income, was 1.20% at September 30, 2003 and 1.28% at December 31, 2002. The Company s net charged-off loans (defined as charged-off loans less loan recoveries) were $75 thousand during the nine months ended September 30, 2003 compared to $80 thousand for the same period of 2002. Management believes that the allowance for loan losses at September 30, 2003 is adequate to absorb known risk in the Company s loan portfolio. No assurance can be given, however, that increased loan volume, adverse economic conditions or other circumstances will not result in increased losses in the Company s loan portfolio or additional provisions to the allowance for loan losses.

Deposits

Deposits are the Company s primary source of funds with which to support its earning assets. Total deposits were $164,987 thousand at September 30, 2003, an increase of approximately $47,439 thousand, or 40.4%, over total deposits of $117,548 thousand at year-end 2002. Non-interest bearing deposits increased $9,134 thousand, or 69.5%, from year-end 2002 to September 30, 2003, while interest-bearing deposits at September 30, 2003 increased $38,306 thousand, or 36.7%, from year-end 2002. Of the total growth in interest-bearing deposits, $20,133 thousand occurred in certificates of deposits. This represents 52.6% of the total growth in interest bearing deposits. Certificates of deposit of $100,000 or more increased $9,425 thousand, or 37.1%, to $34,799 thousand at September 30, 2003 from approximately $25,374 thousand at year-end 2002.

Borrowed Funds

The Company had no borrowed funds outstanding at September 30, 2003 or December 31, 2002.

Stockholders Equity

The Company s stockholders equity increased $797 thousand, or 3.7%, from $21,785 thousand at December 31, 2002 to $22,583 thousand at September 30, 2003. The increase resulted primarily from proceeds from the issuance of additional common stock of $974 thousand. This increase was partially offset by a net loss of $34 thousand and a reduction of $143 thousand in accumulated other comprehensive income.

Liquidity

Proceeds from the sale of stock and dividends paid by Vision Bank and Vision Bank, FSB are the primary sources of funds available to the Company for payment of operating expenses and dividends to its shareholders. The Board of Directors has not declared or paid a dividend during 2003. As new corporations, it is not likely that Vision Bancshares or its bank subsidiaries will achieve in their early years of operations a level of profitability that would justify or allow the payment of dividends. Vision Bancshares has not and will not likely generate any significant earnings on its own, and it will depend upon the payment of dividends by its subsidiaries, if it is to pay dividends on its common stock. It is expected that for at least the next year of operation for Vision Bank and Vision Bank, FSB, all earnings will be retained by the subsidiaries for their future needs. State and federal banking laws restrict the payment of dividends by banks, and in no event may dividends be paid by Vision Bank, FSB during the first three years of operation without the approval of the Federal Deposit Insurance Corporation and the OTS.

The liability portion of the balance sheet provides liquidity through various customers interest-bearing and non-interest-bearing deposit accounts. Funds are also available through the purchase of federal funds from other commercial banks. As a member of FHLB of Atlanta Vision Bank also has access to various credit programs to assist with liquidity needs. Liquidity management involves the daily monitoring of the sources and uses of funds to maintain an acceptable Company cash position.

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Capital Resources

Bank regulatory authorities have placed increased emphasis on the maintenance of adequate capital, and subsequently developed risk-based capital guidelines. The guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers, which are used in conjunction with risk-adjusted assets to determine the risk-based capital ratios. Tier I capital consists of common equity, less goodwill and disallowed deferred tax assets. Tier II capital includes supplemental capital components such as qualifying allowance for loan losses. Tier I and Tier II capital components are referred to as Total Risk-Based capital.

Vision Bancshares, Inc., Vision Bank and Vision Bank, FSB are all considered well capitalized at the Tier 1 Capital and Tier 1 Leverage Capital level. Vision Bancshares, Inc., and Vision Bank, FSB are considered well capitalized at the Total Risk-Based Capital level and Vision Bank is considered adequately capitalized at the Total Risk-Based Capital level at September 30, 2003 under the financial institutions regulatory framework. Tier I Leverage capital ratio is defined as the ratio of Tier I capital to total quarterly average assets. Vision Bank, FSB agreed with the banking regulators to maintain a minimum Tier I Leverage capital ratio of 8.00% during its de novo period. As a condition of the recent Fairhope, Alabama branch approval, Vision Bank has agreed with the State Banking Department to maintain a minimum Tier I leverage capital ratio of 7.00%. The following presents Vision Bancshares, Inc., Vision Bank and Vision Bank, FSB s capital position at September 30, 2003:

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under the Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2003						
Total Risk-Based Capital (to Risk-Weighted Assets)						
Consolidated	$ 24,435,555	13.19%	$ 14,824,922	8.00%	$ 18,531,152	10.00%
Vision Bank	14,250,936	9.07	12,569,087	8.00	15,711,358	10.00
Vision Bank, FSB	6,774,578	23.01	2,355,505	8.00	2,944,382	10.00
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	22,486,184	12.13	$ 7,412,461	4.00	$ 11,118,691	6.00
Vision Bank	12,590,388	8.01	6,284,543	4.00	9,426,815	6.00
Vision Bank, FSB	6,485,755	22.03	1,177,753	4.00	1,766,629	6.00
Tier 1 Leverage Capital (to Average Assets)						
Consolidated	22,486,184	12.41	7,252,248	4.00	9,065,310	5.00
Vision Bank	12,590,388	8.25	6,103,160	4.00	7,628,950	5.00
Vision Bank, FSB	6,485,755	20.55	1,262,280	4.00	1,577,849	5.00

Comparison of Results of Operations for the Three Months Ended

September 30, 2003 and September 30, 2002

Summary

The Company recorded consolidated net income after tax for the quarter ended September 30, 2003 of $55 thousand, a $22 thousand or 28.6% decrease compared to last year s third quarter net income of $77 thousand. This consolidated net income for the third quarter of 2003 consisted of net income of $279 thousand for Vision Bank, a net loss of $178 thousand for Vision Bank, FSB and a net loss of $46 thousand for Vision Bancshares, Inc. Consolidated basic and diluted net earnings per share was $0.03 and $0.07 for the three months ended September 30, 2003 and 2002, respectively.

Net Interest Income

Net interest income, the difference between the interest revenues on interest-bearing assets and the cost of interest-bearing liabilities, is the largest component of the Company s revenues. Interest income increased by $665 thousand or 31.0% to $2,809 thousand for the three months ended September 30, 2003 from $2,144 thousand for the three months ended September 30, 2002. Interest and fee income on loans increased $776 thousand or 39.8% partially due to an increase of 52.7% in the average loan portfolio balance to $151,504 thousand for the three months ended September 30, 2003 from $99,205 thousand for the comparable period in 2002. Interest income on investment securities and federal funds sold decreased $111 thousand or 57.0%. This was due to a decline in the yield due to restructuring of the investment portfolio.

Interest expense on deposit accounts decreased $2 thousand or 0.2% to $851 thousand for the three months ended September 30, 2003 from $853 thousand for the three months ended September 30, 2002. This decline was due to the decrease in the rate paid on the average interest-bearing deposits. This was somewhat offset by the growth of $21,843 thousand, or 22.4%, in the average balance outstanding of interest bearing deposit liabilities. Interest expense on federal funds purchased was $0 for the three months ended September 30, 2003 and 2002.

As a result of these changes, net interest income, before provision for loan losses, increased $668 thousand, or 51.7%, in the three months ended September 30, 2003, compared to the same period of 2002.

Provision for Loan Losses

The provision for loan losses is a charge to current earnings to bring the allowance for loan losses to a level deemed appropriate by management. The amount of the provision for loan losses is based on the growth of the loan portfolio, the amount of net loan losses incurred and management s estimation of potential future losses based on an evaluation of the inherent risk in the loan portfolio. The provisions for loan losses were approximately $249 thousand and $78 thousand during the three months ended September 30, 2003 and 2002, respectively. This

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represented an increase of $171 thousand or 219.2%. Net charge-offs (charged-off loans less recoveries) were $44 thousand during the three months ended September 30, 2003 compared to $30 thousand for the same period of 2002.

Non-interest Income

Non-interest income for the three months ended September 30, 2003 was $401 thousand, compared to $272 thousand for the same period of 2002. This increase was primarily due to an increase of $45 thousand in service charges on deposit accounts and an increase of $62 thousand in non-interest fee income from mortgages sold in the secondary market.

Non-interest Expenses

Non-interest expenses for the three months ended September 30, 2003 were $2,012 thousand, reflecting a $639 thousand, or 46.5%, increase over $1,373 thousand for the same period of 2002. The increases were spread throughout all expense categories and were mainly a result of the increase in overhead cost associated with the opening of Vision Bank, FSB in Panama City, Florida and the growth and expansion activities of Vision Bank during this period.

Income Taxes

The income tax expense for the three months ended September 30, 2003 was $43 thousand (an effective rate of 44.0%) compared to a tax expense of $35 thousand for the comparable 2002 period (an effective rate of 31.6%). The income tax expense was due to the net operating income before taxes. The Company attempts to maximize any tax benefits and minimize any tax liabilities through active tax planning.

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Comparison of Results of Operations for the Nine months Ended

September 30, 2003 and September 30, 2002

Summary

The Company recorded a consolidated net loss after tax for the nine months ended September 30, 2003 of $34 thousand, a $109 thousand decrease compared to last year s first nine months income of $75 thousand. This consolidated net loss for the first nine moths of 2003 consisted of net income of $815 thousand for Vision Bank, a net loss of $1,035 thousand for Vision Bank, FSB and net income of $186 thousand for Vision Bancshares, Inc. Consolidated basic and diluted net loss per share was $0.02 for the nine months ended September 30, 2003. Consolidated basic and diluted net income per share was $0.07 for the nine months ended September 30, 2002. The Company s net loss for the first nine months of 2003 was primarily due to the opening of Vision Bank, FSB on January 22, 2003.

Net Interest Income

Net interest income, the difference between the interest revenues on interest-bearing assets and the cost of interest-bearing liabilities, is the largest component of the Company s revenues. Interest income increased by $1,434 thousand or 23.6% to $7,505 thousand for the nine months ended September 30, 2003 from $6,071 thousand for the nine months ended September 30, 2002. Interest and fee income on loans increased $1,730 thousand or 31.7% partially due to an increase of 47.0% in the average loan portfolio balance to $133,435 thousand for the nine months ended September 30, 2003 from $90,791 thousand for the comparable period in 2002. Interest income on investment securities decreased $340 thousand or 58.8%. This was due to additional interest income of $31 thousand on a callable bond that was called during June of the prior year combined with a decrease in the average securities portfolio balance of $1,212 thousand and a decline in the yield due to the restructuring of the portfolio.

Interest expense on deposit accounts decreased $78 thousand or 3.2% to $2,372 thousand for the nine months ended September 30, 2003 from $2,450 thousand for the nine months ended September 30, 2002. Interest expense on deposits decreased due to the decrease in the rate paid on the average interest-bearing deposits. This was somewhat offset by the growth of $32,334 thousand, or 35.1%, in the average balance outstanding of interest bearing deposit liabilities. Interest expense on federal funds purchased was approximately $0 for the nine months ended September 30, 2003 and 2002.

As a result of these changes, net interest income, before provision for loan losses, increased $1,512 thousand, or 41.7%, in the nine months ended September 30, 2003, compared to the same period of 2002.

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Provision for Loan Losses

The provision for loan losses is a charge to current earnings to bring the allowance for loan losses to a level deemed appropriate by management. The amount of the provision for loan losses is based on the growth of the loan portfolio, the amount of net loan losses incurred and management s estimation of potential future losses based on an evaluation of the inherent risk in the loan portfolio. The provisions for loan losses were approximately $634 thousand and $380 thousand during the nine months ended September 30, 2003 and 2002, respectively. This represented an increase of $254 thousand or 66.8%. Net charge-offs (charged-off loans less recoveries) were $75 thousand during the nine months ended September 30, 2003 compared to $110 thousand for the same period of 2002.

Non-interest Income

Non-interest income for the nine months ended September 30, 2003 was $1,152 thousand, compared to $763 thousand for the same period of 2002. This increase of $389 thousand was primarily due to a $152 thousand gain realized on the sale of investment securities in January and an increase of $140 thousand in service charges on deposit accounts.

Non-interest Expenses

Non-interest expenses for the nine months ended September 30, 2003 were $5,693 thousand, reflecting a $1,805 thousand, or 46.4%, increase over $3,888 thousand for the same period of 2002. The increases were spread over all categories and were mainly a result of the increase in overhead expenses associated with the opening of Vision Bank, FSB in Panama City, Florida and the growth and expansion activities of Vision Bank during this period.

Income Taxes

The income tax benefit for the nine months ended September 30, 2003 was $9 thousand (an effective rate of 21.8%) compared to a tax expense of $41 thousand for the comparable 2002 period (an effective rate of 35.3%). The income tax benefit was due to the net operating loss before taxes, partially offset by the effects of nondeductible permanent differences. The Company attempts to maximize any tax benefits and minimize any tax liabilities through active tax planning.

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Item 3. Controls and Procedures

As of the end of the period covered by this Form 10-QSB, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer and with the Company s Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Company s President and Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls procedures are functioning effectively to provide reasonable assurance that the Company is meeting its disclosure obligations.

Pursuant to an evaluation by the Company s President and Chief Executive Officer along with the Company s Chief Financial Officer, the Company has concluded that there was no change in the Company s internal control over financial reporting during the quarter ended September 30, 2003, that has materially affected or is reasonably likely to affect the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

During the first nine months of 2003, Vision Bancshares Employee Stock Purchase Plan issued 2,355 shares of common stock at 85% of the price of the shares on the date such shares were subscribed. Under the Employee Stock Purchase Plan, 100 shares were issued at a price of $8.50 per share (85% of $10.00), 1,765 shares were issued at a price of $12.75 per share (85% of $15.00), and 490 shares were issued at a price of $13.00 per share (85% of 15.29). Sales pursuant to the Employee Stock Purchase Plan have been made in reliance upon exemptions from registration under Section 4(2) of the Securities Act of 1933.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports

(a) The exhibits listed in the Exhibit Index at page 20 of this Form 10-QSB are filed herewith.

(b) Reports on Form 8-K

A report on Form 8-K was filed by Vision Bancshares, Inc. (the Company) on August 8, 2003. The report was filed as a result of the Company s press release announcing its results of operations for the three month period ended June 30, 2003.

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SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vision Bancshares, Inc.

By:	/s/ J. Daniel Sizemore
	J. Daniel Sizemore, Chairman, Chief Executive Officer and President
Date:	November 10, 2003
By:	/s/ William E. Blackmon
	William E. Blackmon, Chief Financial Officer and Chief Accounting Officer
Date:	November 10, 2003

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INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Lease Agreement, dated June 3, 2003 by and between Vision Bancshares, Inc. and Shoppes at Edgewater.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification by the Chief Executive Officer
32.2	Section 1350 Certification by the Chief Financial Officer