COMMUNITY CAPITAL BANCSHARES INC
Form 10QSB
November 15, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 AND 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended SEPTEMBER 30, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT 1934

For the transition period from _______ to _______

Commission File Number: 000-25345

COMMUNITY CAPITAL BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Georgia	58-2413468
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)

P.O. Drawer 71269, Albany, Georgia 31708
(Address of principal executive offices)

(229) 446-2265
(Registrant's telephone number, including area code)

Not Applicable
(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 __X__ No ______

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 5, 2004:

2,868,795 SHARES

Transitional Small Business Disclosure Format (check one): Yes _____ No __X__

COMMUNITY CAPITAL BANCSHARES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2004 (unaudited)
ASSETS	
Cash and due from banks	$ 6,094
Federal funds sold	10,483
Securities available for sale	34,026
Restricted equity securities	1,872
Loans	116,531
Less allowance for loan losses	1,663
Loans, net	114,868
Premises and equipment	5,933

Goodwill	2,149
Core deposit premium	345
Other assets	9,305
TOTAL ASSETS	$ 185,075
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	
Non-interest bearing	$ 15,230
Interest bearing	118,493
Total deposits	133,723
Other borrowings	20,244
Guaranteed preferred beneficial interests in junior subordinated debentures	4,124
Other liabilities	1,216
TOTAL LIABILITIES	159,307
Shareholders' equity	
Preferred stock, par value not stated; 2,000,000 shares authorized; no shares issued	-
Common stock, $1.00 par value, 10,000,000 shares authorized; 2,929,263 and 1,741,191 shares issued	2,929
Capital surplus	21,911
Retained earnings	1,408
Accumulated other comprehensive income	(63)
Less cost of treasury stock, 68,539 and 64,149 shares as of Sept. 30, 2004 and December 31, 2003, respectively	(417)
TOTAL SHAREHOLDERS' EQUITY	25,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 185,075

COMMUNITY CAPITAL BANCSHARES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(DOLLARS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	THREE MONTHS ENDED SEPTEMBER 30	
	2004	2003
INTEREST INCOME		
Loans	1,974	1,519
Taxable securities	333	255
Tax exempt securities	8	13
Deposits in banks	2	6

Federal funds sold	27	4
TOTAL INTEREST INCOME	2,344	1,797
INTEREST EXPENSE		
Deposits	562	476
Other borrowed money	221	180
TOTAL INTEREST EXPENSE	783	656
NET INTEREST INCOME	1,561	1,141
Provision for loan losses	20	163
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,541	978
OTHER INCOME		
Service charges on deposit accounts	257	138
Financial service fees	16	135
Mortgage origination fees	42	37
Gain on sale of investment securities	- -	- -
Gain (loss) on sale of foreclosed properties	12	(13)
Other income	83	16
TOTAL OTHER INCOME	410	313
OTHER EXPENSES		
Salaries and employee benefits	809	470
Equipment and occupancy expense	245	156
Marketing expense	42	22
Data processing expense	122	92
Stationary and supply expense	31	16
Administrative expenses	187	129
Other operating expenses	212	121
TOTAL OTHER EXPENSES	1,648	1,006
INCOME BEFORE INCOME TAXES	303	285
Income tax expense	90	93
NET INCOME	213	192
NET INCOME PER COMMON SHARE	$0.10	$ 0.13
DILUTED NET INCOME PER COMMON SHARE	$ 0.09	$ 0.12
WEIGHTED AVERAGE SHARES OUTSTANDING	2,172,941	1,433,116
DILUTED AVERAGE SHARES OUTSTANDING	2,327,300	1,665,413

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COMMUNITY CAPITAL BANCSHARES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
Three and nine months ended September 30, 2003 and 2004
(Dollars in thousands)

	THREE MONTHS ENDED Sept 30, 2004	Sept 30, 2003	NINE MONTHS EN Sept 30, 2004	S
NET INCOME (LOSS)	$ 213	$ 192	$ 618	
Other comprehensive Income				
Net unrealized holding gains (losses) arising during period		(542)		
Tax (expense) benefit on unrealized holding gains	375	184	(36)	
Reclassification adjustment for gains included in net income, net of income taxes of $5 respectively	-	-	(10)	
COMPREHENSIVE INCOME	$ 588	$ (166)	$ 572	

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COMMUNITY CAPITAL BANCSHARES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
Nine Months ended September 30, 2004 and 2003
(Dollars in thousands)

	2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation	
Amortization of Core Deposit Premium	
Provision for loan losses	
Provision for deferred taxes	
(Increase) decrease in interest receivable	
Net gain on sale of investments available for sale	
Other operating activities	(5
Net cash provided by (used in) operating activities	(5
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(1
Net decrease (increase) in federal funds sold	(7
Net increase in loans	(7
Proceeds from maturities of securities available for sale	3
Proceeds from sale of securities	6
Purchase of securities available for sale	(12
Other Investing activities	

Net cash used in Investing activities	(19
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in deposits	10
Proceeds from Trust Preferred Issuance	
Dividends paid to shareholders by parent	
Increase (decrease) in Fed Funds purchased	
Proceeds from exercise of stock warrants	12
Net Increase (decrease) in other borrowings	4
Treasury stock transactions, net	
Net cash provided by financing activities	26
Net increase (decrease) in cash	1
Cash and due from banks at beginning of period	4
Cash and due from banks at end of period	$ 6
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	$ 2
Cash paid for income taxes	$
NON-CASH TRANSACTION	
Unrealized gains (losses) on securities available for sale	$

COMMUNITY CAPITAL BANCSHARES, INC.
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Community Capital Bancshares, Inc. (the "Company") is a multi-bank holding company whose principal activity is the ownership and management of its wholly-owned bank subsidiaries, Albany Bank and Trust, N.A ("Albany Bank") and A B & T National Bank, N. A. ("Dothan Bank"), collectively referred to as "the Banks." Albany Bank's main office is located in Albany, Dougherty County, Georgia, with two full service branches and one loan production office in Albany and one full service branch in Lee County, Georgia. Dothan Bank is located in Dothan, Houston County, Alabama. The Banks provide a full range of banking services to individual and corporate customers in their primary market areas of Dougherty and Lee Counties, Georgia and Houston County, Alabama.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany transactions and accounts are eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and deferred taxes.

The interim financial statements included herein are unaudited but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim period presented. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results of a full year's operations, and should be read in conjunction with the Company's annual report as filed on Form 10-KSB.

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (GAAP) and with general practices within the banking industry.

INCOME TAXES

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in the tax rates and laws.

The Company and its subsidiaries file a consolidated income tax return. Each entity provides for income taxes based on its contribution to the income taxes (benefits) of the consolidated group.

STOCK COMPENSATION PLANS

At September 30, 2004, the Company had two stock-based employee compensation plans, which are described in more detail in the 2003 annual report. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (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 stock on the date of grant. In addition, the FASB issued SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE in December 2002. SFAS No. 148 amends SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company has not elected to adopt the recognition provisions of this Statement for stock-based employee compensation and has elected to continue with accounting methodology in Opinion No. 25 as permitted by SFAS No. 123.

	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS SEPTEMBER 2004	
Net income, as reported	$ 213,000	$ 192,000	$ 618,000	$
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(42,000)	(23,000)	(128,000)	
Pro forma net income	$ 171,000	$ 169,000	$ 490,000	$
Earnings per share:				
Basic - as reported	$ .10	$ .13	$ .33	$
Basic - pro forma	$ .08	$ .12	$ .26	$
Diluted - as reported	$ .09	$ .12	$ .31	$
Diluted - pro forma	$ .07	$ .10	$ .24	$

ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" and, on December 24, 2003, the FASB issued FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities" which replaced FIN 46. The interpretation addresses consolidation by business enterprises of variable interest entities. A variable interest entity is defined as an entity subject to consolidation according to the provisions of the interpretation. The revised interpretation provided for special effective dates for entities that had fully or partially applied the original interpretation as of December 24, 2003. Otherwise, application of the interpretation is required in financial statements of public entities that have interests in special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of variable interest entities (i.e., non-SPEs) is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to variable interest entities other than SPEs and by nonpublic entities to all types of variable interest entities is required at various dates in 2004 and 2005. The Company adopted the provisions of FIN 46 as of January 1, 2004. As required by the provisions of the Interpretation, the Company deconsolidated

its investment in its subsidiary trust which issued subordinated trust preferred securities. The adoption of FIN 46 and related provisions had the effect of increasing assets by $124,000 and liabilities by the same amount. The adoption of the provisions had no effect on net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is intended to assist in an understanding of the Company's financial condition and results of operations. This analysis should be read in conjunction with the financial statements and related notes appearing in Item 1 of the September 30, 2004 Form 10-QSB and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Company's Form 10-KSB for the year ended December 31, 2003.

FINANCIAL CONDITION

As of September 30, 2004 the Company's total assets were $185,075,000 representing an increase of $26,346,000 or 16.60% from December 31, 2003. Earning assets consist of Federal funds sold, investment securities and loans. These assets provide the majority of the Company's earnings. The mix of earning assets (87% of total assets) is a reflection of management's philosophy regarding earnings versus risk.

Federal funds sold represent an overnight investment of funds and can be converted immediately to cash. At September 30, 2004, federal funds sold were $10,483,000. At December 31, 2003, the Company had $2,684,000 in federal funds sold.

Investment securities consist of U.S. Government and Agency securities and municipal bonds. These investments are used to provide fixed maturities and as collateral for advances and large public fund deposits. From December 31, 2003 to September 30, 2004, investment securities increased by $2,992,000. All securities are classified as available for sale, and are carried at current market values.

The loan portfolio is the largest earning asset and is the primary source of earnings for the Company. At September 30, 2004 net loans were $114,869,000. The loan portfolio increased $7,397,000 or 6.88% over the year-end amount. At September 30, 2004, the allowance for loan losses was $1,663,000 or 1.43% of total loans. Management believes this is an adequate but not excessive amount based upon the composition of the current loan portfolio and current economic conditions. The relationship of the allowance to total loans will vary over time based upon management's evaluation of the loan portfolio. Management evaluates the adequacy of the allowance on a monthly basis and adjusts it accordingly by a monthly charge to earnings using the provision for loan losses. During the first three quarters of 2004, the provision for potential loan losses was $35,000 as compared to $378,500 for the same period in 2003. The expense for the current year is substantially lower than the previous year due to lower net charge-off and the overall quality of the loan portfolio which does not require as much provision for loan losses.

Non-earning assets consist of premises and equipment, and other assets. Premises and equipment increased during the year as a result of expenditures for the branch in downtown Albany and the anticipation of a branch opening in Lee County, Alabama in early fourth quarter 2004. Other assets consist primarily of Bank-Owned Life Insurance, which increased $6,162,000 during the year as a result of the purchase of Bank-Owned Life Insurance.

The Company funds its assets primarily through deposits from customers. The Company must pay interest on the majority of these funds and attempts to price these funds competitively in the market place but at a level at which it can safely re-invest the funds profitably. At September 30, 2004, total deposits were $133,723,000 as compared to the year-end amount of $123,223,000. This is an increase of $10,500,000 or 8.52%. Additionally, it borrows funds from other sources to provide longer term fixed rate funding for its assets.

Interest bearing deposits are comprised of the following categories:

	Sept 30, 2004
Interest bearing demand and savings	$ 42,279,000
Certificates of deposit in denominations of $100,000 or greater	26,836,000
Other Certificates of deposit	49,378,000
Total	$118,493,000

Other borrowings consist primarily of Federal Home Loan Bank advances and are secured by investment securities and loans of the Company. A $5,000,000 Federal Home Loan Bank advance was obtained during the current quarter. The Company also $4.1 million of long-term subordinated debt incurred through the issuance of trust preferred securities.

CAPITAL ADEQUACY

The following table presents the Company's regulatory capital position as of September 30, 2004.

Tier 1 Capital Ratio, actual	21.37%
Tier 1 Capital minimum requirement	4.00%
Tier 2 Capital Ratio, actual	22.38%
Tier 2 Capital minimum requirement	8.00%
Leverage Ratio	15.50%
Leverage Ratio minimum requirement	4.00%

The Company's ratios are well above the required regulatory minimums and provide a sufficient basis to support future growth of the Company.

During the third quarter of 2004, the Company completed a follow-on public offering of common stock that raised an additional $11,779,000 in capital. The Company used $5,000,000 of the additional capital for a capital contribution to the Dothan bank to provide funds for the opening of a branch in Auburn, Alabama. Additionally, $1,750,000 was used to retire debt incurred by the Company in conjunction with the acquisition of the Dothan bank.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2004 was $618,000 as compared to $392,000 for the same period in 2003. Although net interest income increased by $1,432,000 or 44% in 2004 as compared to the first nine months of 2003, non-interest expense increased $1,692,000 or 55% in 2004 as compared to the first nine months of 2003.

Total interest income increased $1,673,000 for the nine months ended September 30, 2004 or 32.14% from the same period in the previous year. This was the result of increased interest income on loans, which increased $1,300,000, and investment income, which increased $359,000 over the same period in the previous year. The increase in interest income was the direct result of the larger loan portfolio in the current year combined with having the Dothan Bank's loans added to the portfolio in November 2003. In addition, a larger investment portfolio over the same period last year contributed to the increase in interest income.

Interest expense for the nine months ended September 30, 2004 was $2,214,000, compared to $1,973,000 for the same period in 2003, representing an increase of $241,000 or 12.21%. This increase resulted primarily from the addition of the Dothan Bank.

Net interest income after the provision for loan losses was $4,629,000 for the nine months ended September 30, 2004 as compared to the 2003 amount of $2,854,000, representing an increase of $1,775,000 or 62.19%. This increase is the combined result of the increased level of earning assets, and the lower cost of funds during the current year. Also, the addition of the Dothan Bank contributed to the growth rate.

Other income increased $230,000 to $1,023,000 for the nine months ended September 30, 2004 as compared to the same period in 2003. Service charges on deposit accounts increased $296,000 or 78% due to the larger number of deposit accounts and increases in fees charged to customers. Mortgage origination fees decreased $55,000 as compared to the same period in the previous year. These fees are generated by facilitating mortgage loans for customers, which are sold in the secondary market. The decrease in volumes and higher interest rate levels led to decreases in this area of activity.

Non-interest expense increased $1,692,000 to $4,752,000 for the nine months ended September 30, 2004 as compared to the same period in 2003. This is an increase of 55.29%. The largest area of increase was in the salary and employee benefits category. This expense item was $2,337,000 for the nine months ended September 30, 2004 as compared to $1,445,000 for the same period in the previous year. This is an increase of $892,000 or 61.80%. The growth in this expense item is due to the increased staffing required to properly serve the Company's customers. Also the addition of Dothan Bank, coupled with slightly higher levels of pay during the current year caused this increase.

Equipment and occupancy expenses increased $246,000 or 54.42% for the nine months ended September 30, 2004 from the same period in 2003. The increase is due to the expansion of the Albany Bank and the addition of Dothan Bank and Auburn Bank. Other expenses increased $188,000 to $549,000 in the current year. The majority of this increase is the result of the addition of the Dothan Bank.

Diluted earnings per share for the nine months ended September 30, 2004 were $0.31 and increased $0.07 or 29% as compared to the first nine months of the previous year.

OFF-BALANCE SHEET ARRANGEMENTS

To meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business. In the event of nonperformance by the other party to the off-balance sheet financial instrument, the Company's exposure to credit loss is the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the contractual amounts of the Company's financial instruments with off-balance sheet risk at September 30, 2004 follows:

Commitments to extend credit	$ 3,617,000
Unused lines of credit	13,726,000
Standby letters of credit	1,211,000
	$ 18,554,000

FORWARD-LOOKING STATEMENTS

This document contains statements that constitute "forward-looking statements" within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Sections 21E of the Securities Exchange Act of 1934, as amended. The words "believe", "estimate", "expect", "intend", "anticipate" and similar expressions and variations thereof identify certain of such forward-looking statements, which speak only as of the dates that they were made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Users are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties that the actual results may differ materially from those indicated in the forward-looking statements as a result of various factors, including governmental monetary and fiscal policies, deposit levels, loan demand, loan collateral values, the failure of assumptions underlying the establishment of reserves for loan losses, securities portfolio values, interest rate risk management, the effects of industry competition, difficulties in integrating acquisitions, and changes in governmental regulation of the banking industry, including regulations relating to branching and acquisitions. Users are therefore cautioned not to place undue reliance on these forward-looking statements.

ITEM 3. CONTROLS AND PROCEDURES

As of September 30, 2004 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) that is required to be included in the Company's periodic filings with the Securities and Exchange Commission. There have been no changes in the Company's internal control over financial reporting or, to management's knowledge, in other factors that could significantly affect those internal controls subsequent to the date of such evaluation, and there have been no corrective actions with respect to significant deficiencies or material weaknesses.

PART II

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company does not have a publicly announced stock repurchase plan and did not repurchase any of its shares of common stock during the period covered by this report, either under such a plan or otherwise. No stock purchase plan expired or was terminated during the period covered by this report.

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

(A) ITEM 6. EXHIBITS

10.3 Employment agreement dated September 13, 2004 among the Company, Albany Bank & Trust and Robert E. Lee

10.4 Employment agreement dated September 13, 2004 among the Company, Albany Bank & Trust and David C. Guillebeau

10.17 Employment agreement dated September 13, 2004 among the Company, Albany Bank & Trust and David J. Baranko

31.1 Certification of the Chief Executive officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY CAPITAL BANCSHARES, INC.

November 12, 2004	/s/ Robert E. Lee
Date	Robert E. Lee, President
November 12, 2004	/s/ David J. Baranko
Date	David J. Baranko Chief Financial Officer (Duly authorized officer and principal financial / accounting officer)