GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	43-1792717
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1341 West Battlefield Springfield, Missouri	65807
(Address of principal executive offices)	(Zip Code)

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

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes o No x

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

Class	Outstanding as of August 4, 2010
Common Stock, Par Value $0.10 per share	2,646,787 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

ASSETS	6/30/10	12/31/09
Cash	$5,650,863	$4,527,813
Interest-bearing deposits in other financial institutions	23,679,378	28,488,884
Cash and cash equivalents	29,330,241	33,016,697
Interest-bearing deposits	18,177,819	16,560,802
Available-for-sale securities	120,784,190	102,659,251
Held-to-maturity securities	396,817	472,783
Stock in Federal Home Loan Bank, at cost	6,048,700	5,976,600
Mortgage loans held for sale	1,646,172	3,465,080
Loans receivable, net of allowance for loan losses of June 30, 2010 - $11,936,840 - December 31, 2009 - $14,076,123	496,394,319	525,038,053
Accrued interest receivable:		
Loans	1,886,282	2,014,418
Investments and interest-bearing deposits	768,676	657,145
Prepaid expenses and other assets	6,503,581	6,731,409
Prepaid FDIC deposit insurance premiums	3,541,844	4,135,875
Foreclosed assets held for sale	17,612,067	6,759,648
Premises and equipment	11,582,358	11,817,516
Bank owned life insurance	10,267,651	10,069,540
Income taxes receivable	4,209,641	3,718,970
Deferred income taxes	3,266,196	4,686,065
	$732,416,554	$737,779,852
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$505,933,398	$513,051,102
Federal Home Loan Bank advances	116,050,000	116,050,000
Securities sold under agreements to repurchase	39,750,000	39,750,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	362,401	135,610
Accrued expenses and other liabilities	567,940	519,385
Accrued interest payable	1,074,875	1,398,122
	679,203,614	686,369,219
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Series A preferred stock, $0.01 par value; authorized 2,000,000 shares;issued and outstanding June 30, 2010 and December 31, 2009 - 17,000 shares	16,012,569	15,874,788

Common stock, $0.10 par value; authorized 10,000,000 shares;issued June 30, 2010 and December 31, 2009 - 6,779,800 shares;	677,980	677,980
Common stock warrants; June 30, 2010 and December 31, 2009 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,512,023	58,523,646
Unearned ESOP shares	(546,930)	(660,930)
Retained earnings, substantially restricted	36,147,293	35,741,705
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	2,859,603	1,696,502
	115,040,349	113,231,502
Treasury stock, at cost; June 30, 2010 and December 31, 2009 -4,080,220 and 4,079,067 shares, respectively	(61,827,409)	(61,820,869)
	53,212,940	51,410,633
	$732,416,554	$737,779,852

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Interest Income				
Loans	$7,188,864	$7,412,658	$14,383,117	$14,857,367
Investment securities	920,866	978,779	1,857,809	1,808,175
Other	118,885	112,675	252,971	161,871
	8,228,615	8,504,112	16,493,897	16,827,413
Interest Expense				
Deposits	2,474,014	3,943,129	5,308,128	7,978,435
Federal Home Loan Bank advances	787,430	785,395	1,566,306	1,567,645
Subordinated debentures	255,946	255,946	511,892	511,892
Other	288,698	219,904	575,567	454,393
	3,806,088	5,204,374	7,961,893	10,512,365
Net Interest Income	4,422,527	3,299,738	8,532,004	6,315,048
Provision for Loan Losses	950,000	3,300,000	1,900,000	4,280,000
Net Interest Income (Expense) After Provision for Loan Losses	3,472,527	(262)	6,632,004	2,035,048
Noninterest Income				
Service charges	408,098	472,144	786,550	897,333
Other fees	7,190	15,107	13,668	26,452
Gain on sale of investment securities	13,613	315,439	173,888	315,439
Gain on sale of loans	359,222	444,373	657,539	799,783
Income (loss) on foreclosed assets	(55,546)	98,037	(10,713)	(52,675)
Other income	328,022	177,363	631,709	345,103
	1,060,599	1,522,463	2,252,641	2,331,435
Noninterest Expense				
Salaries and employee benefits	2,122,956	1,978,967	4,188,458	4,011,427
Occupancy	419,710	475,471	844,727	956,735
FDIC deposit insurance premiums	314,769	670,500	624,423	945,030
Data processing	107,123	103,856	214,422	214,458
Advertising	75,000	75,690	150,000	166,666
Other expense	719,173	730,838	1,372,639	1,485,571
	3,758,731	4,035,322	7,394,669	7,779,887
Income (Loss) Before Income Taxes	774,395	(2,513,121)	1,489,976	(3,413,404)
Provision (Credit) for Income Taxes	281,892	(881,039)	521,607	(1,189,202)
Net Income (Loss)	492,503	(1,632,082)	968,369	(2,224,202)
Preferred Stock Dividends and Discount Accretion	281,390	281,390	562,781	468,984
Net Income (Loss) Available to Common Shareholders	$211,113	$(1,913,472)	$405,588	$(2,693,186)
Basic Income (Loss) Per Common Share	$0.08	$(0.73)	$0.15	$(1.03)
Diluted Income (Loss) Per Common Share	$0.08	$(0.73)	$0.15	$(1.03)

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2010	$15,874,788	$677,980	$1,377,811	$58,523,646	$(660,930)	$(61,820,869)	$35,741,705	$1,696,50
Comprehensive income								
Net income	-	-	-	-	-	-	968,369	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	1,163,10
Total comprehensive income								
Preferred stock discount accretion	137,781	-	-	-	-	-	(137,781)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(425,000)	-
Stock award plans	-	-	-	53,972	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(6,540)	-	-
Release of ESOP shares	-	-	-	(65,595)	114,000	-	-	-
Balance, June 30, 2010	$16,012,569	$677,980	$1,377,811	$58,512,023	$(546,930)	$(61,827,409)	$36,147,293	$2,859,60

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2009 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2009	$-	$677,980	$-	$58,535,159	$(888,930)	$(61,813,354)	$39,114,189	$1,687,85
Comprehensive loss								
Net loss	-	-	-	-	-	-	(2,224,202)	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	(409,266
Total comprehensive loss								
Preferred stock issued	15,622,189	-	-	-	-	-		-
Common stock warrants issued	-	-	1,377,811	-	-	-	-	-
Preferred stock discount accretion	114,818	-	-	-	-	-	(114,818)	-
Preferred stock dividends accrued (5%)	-	-	-	-	-	-	(354,166)	-
Stock award plans	-	-	-	47,448	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(7,515)	-	-
Release of ESOP shares	-	-	-	(49,686)	114,000	-	-	-
Balance, June 30, 2009	$15,737,007	$677,980	$1,377,811	$58,532,921	$(774,930)	$(61,820,869)	$36,421,003	$1,278,59

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)

	6/30/2010	6/30/2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$968,369	$(2,224,202)
Items not requiring (providing) cash:		
Deferred income taxes	736,778	1,518,133
Depreciation	418,398	519,993
Provision for loan losses	1,900,000	4,280,000
Gain on loans and investment securities	(831,427)	(1,115,222)
Gain on sale of foreclosed assets	(42,745)	(88,296)
Accretion of gain on termination of interest rate swaps	(508,746)	(508,746)
Amortization of deferred income, premiums and discounts	229,981	126,982
Stock award plan expense	53,972	47,448
Origination of loans held for sale	(27,367,126)	(48,609,832)
Proceeds from sale of loans held for sale	29,843,573	47,750,498
Release of ESOP shares	48,405	64,314
Increase in cash surrender value of bank owned life insurance	(198,111)	-
Changes in:		
Accrued interest receivable	16,605	49,654
Prepaid expenses and other assets	821,859	139,929
Accounts payable and accrued expenses	(274,692)	649,449
Income taxes receivable	(490,671)	(3,445,835)
Net cash provided by (used in) operating activities	5,324,422	(845,733)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	13,286,301	22,975,678
Principal payments on held-to-maturity securities	75,966	31,310
Principal payments on available-for-sale securities	6,986,387	5,945,457
Proceeds from maturities of available-for-sale securities	15,956,500	-
Purchase of premises and equipment	(183,240)	(1,349,503)
Purchase of available-for-sale securities	(47,687,802)	(61,589,748)
Proceeds from sale of available-for-sale securities	8,909,648	12,683,212
Purchase of interest-bearing deposits	(12,501,000)	(21,404,000)
Proceeds from maturities of interest-bearing deposits	10,883,983	-
Purchase of Federal Home Loan Bank stock	(72,100)	-
Purchase of tax credit investments	-	(2,751,905)
Capitalized costs on foreclosed assets held for sale	(28,664)	-
Insurance proceeds on foreclosed assets held for sale	575,879	-
Proceeds from sale of foreclosed assets held for sale	2,109,717	2,322,122
Net cash used in investing activities	(1,688,425)	(43,137,377)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW and savings accounts	811,250	124,707,128
Net decrease in certificates of deposit	(7,928,954)	(46,360,695)
Repayments of FHLB advances	-	(21,000,000)
Repayments of notes payable	-	(1,435,190)
Advances from borrowers for taxes and insurance	226,791	249,781

Proceeds from preferred stock and warrants	-	17,000,000
Cash dividends paid on preferred stock	(425,000)	(247,917)
Treasury stock purchased	(6,540)	(7,515)
Net cash provided by (used in) financing activities	(7,322,453)	72,905,592
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,686,456)	28,922,482
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	33,016,697	15,097,015
CASH AND CASH EQUIVALENTS, END OF PERIOD	$29,330,241	$44,019,497

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Guaranty Federal Bancshares, Inc.'s (the "Company") Form 10-K annual report for 2009 filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated statement of financial condition of the Company as of December 31, 2009, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2010				
Equity Securities	$102,212	$11,679	$(36,471)	$77,420
Debt Securities:				
U. S. government agencies	42,979,101	394,291	-	43,373,392
Government sponsored mortgage-backed securities	73,163,824	4,169,554	-	77,333,378
	$116,245,137	$4,575,524	$(36,471)	$120,784,190

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2009				
Equity Securities	$102,212	$4,055	$(41,219)	$65,048
Debt Securities:				
U. S. government agencies	30,528,386	98,160	(86,326)	30,540,220
Government sponsored mortgage-backed securities	69,844,555	2,209,428	-	72,053,983
	$100,475,153	$2,311,643	$(127,545)	$102,659,251

Maturities of available-for-sale debt securities as of June 30, 2010:

	Amortized Cost	Approximate Fair Value
After one through five years	$ 39,329,101	$ 39,651,663
After five through ten years	3,650,000	3,721,729
Government sponsored mortgage-backed securities not due on a single maturity date	73,163,824	77,333,378
	$ 116,142,925	$ 120,706,770

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

`	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2010				
Debt Securities:				
U. S. government agencies	$108,568	$-	$(181)	$ 108,387
Government sponsored mortgage-backed securities	288,249	23,516	-	311,765
	$396,817	$23,516	$(181)	$ 420,152

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2009				
Debt Securities:				
U. S. government agencies	$114,119	$-	$(535)	$ 113,584
Government sponsored mortgage-backed securities	358,664	27,470	-	386,134
	$472,783	$27,470	$(535)	$ 499,718

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Maturities of held-to-maturity securities as of June 30, 2010:

	Amortized Cost	Approximate Fair Value
After five through ten years	$ 108,568	$ 108,387
Government sponsored mortgage-backed securities not due on a single maturity date	288,249	311,765
	$ 396,817	$ 420,152

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $73,656,298 and $65,782,604 as of June 30, 2010 and December 31, 2009, respectively. The approximate fair value of pledged securities amounted to $77,065,524 and $67,572,830 as of June 30, 2010 and December 31, 2009, respectively.

Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific identification method. Gross gains of $13,613 and $315,439 were realized from the sale of available-for-sale securities for the three months ended June 30, 2010 and 2009, respectively. Gross gains of $173,888 and $315,439 were realized from the sale of available-for-sale securities for the six months ended June 30, 2010 and 2009, respectively. The tax effect of these net gains was $64,339 and $116,712 as of June 30, 2010 and 2009, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2010 and December 31, 2009, was $180,102 and $7,052,226, respectively, which is approximately 0.12% and 6.84%, respectively, of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2010 and December 31, 2009.

	June 30, 2010					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Equity Securities	$-	$-	$71,534	$(36,471)	$71,534	$(36,471)
U. S. Government Agencies	-	-	108,568	(181)	108,568	(181)
	$-	$-	$180,102	$(36,652)	$180,102	$(36,652)

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	December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	$-	$-	$30,315	$(41,219)	$30,315	$(41,219)
U. S. Government Agencies	7,021,911	(86,861)	-	-	7,021,911	(86,861)
	$7,021,911	$(86,861)	$30,315	$(41,219)	$7,052,226	$(128,080)

Note 4: Benefit Plans

The Company has stock-based employee compensation plans, which are described fully in the Company's December 31, 2009 Annual Report on Form 10-K. The table below summarizes transactions under the Company's stock option plans for the six months ended June 30, 2010:

	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2010	148,750	136,704	$ 19.40
Granted	40,000	20,000	5.17
Exercised	-	-	-
Forfeited	-	(10,875)	10.50
Balance outstanding as of June 30, 2010	188,750	145,829	17.14
Options exercisable as of June 30, 2010	79,250	89,329	21.49

Stock-based compensation expense recognized for the three months ended June 30, 2010 and 2009 was $25,573 and $23,022, respectively. Stock-based compensation expense recognized for the six months ended June 30, 2010 and 2009 was $53,972 and $47,448, respectively. As of June 30, 2010, there was $284,690 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

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Note 5: Income (Loss) Per Common Share

	For three months ended June 30, 2010			For six months ended June 30, 2010		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	$211,113	2,641,277	$0.08	$405,588	2,638,932	$0.15
Effect of Dilutive Securities:						
Common Stock Warrants		37,972			16,751	
Diluted Income Per Common Share	$211,113	2,679,249	$0.08	$405,588	2,655,683	$0.15

	For three months ended June 30, 2009			For six months ended June 30, 2009		
	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Loss Per Common Share	$(1,913,472)	2,619,997	$(0.73)	$(2,693,186)	2,617,663	$(1.03)
Effect of Dilutive Securities		N/A			N/A	
Diluted Loss Per Common Share	$(1,913,472)	2,619,997	$(0.73)	$(2,693,186)	2,617,663	$(1.03)

Stock options to purchase 334,579 shares of common stock were outstanding during the three and six months ended June 30, 2010, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares. Due to the Company's net loss for the periods ended June 30, 2009, no potentially dilutive shares were included in the computation of diluted earnings per common share.

Note 6: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes were as follows:

	6/30/2010	6/30/2009
Unrealized gains on available-for-sale securities	$ 2,368,551	$ 174,557
Accretion of gains on interest rate swaps into income	(508,746)	(508,746)
Less: Reclassification adjustment for realized gains included in income	(13,613)	(315,439)
Other comprehensive income (loss), before tax effect	1,846,192	(649,628)
Tax expense (benefit)	683,091	(240,362)
Other comprehensive income (loss)	$ 1,163,101	$ (409,266)

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	6/30/2010	12/31/2009

Unrealized gain on available-for-sale securities	$	4,539,053	$	2,184,098
Unrealized gain on interest rate swaps		-		508,746
		4,539,053		2,692,844
Tax effect		1,679,450		996,342
Net of tax amount	$	2,859,603	$	1,696,502

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Note 7: New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued ASC 810-10, "Amendments to FASB Interpretation No. 46R". The standard amends the tests for analyzing whether a company's interest in a variable interest entity ("VIE") gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessments of whether a company is the primary beneficiary are also required by the standard. This standard was effective for the Company on January 1, 2010 and did not have a material impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements" which impacts ASC 820-10, "Fair Value Measurements and Disclosures". The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendment also requires a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. The ASU was effective for the Company on January 1, 2010 and did not have a material impact on the Company's condensed consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, "Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", to improve disclosures about the credit quality of financing receivables and the allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Required disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010, while required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. Management does not believe that this statement will have a material impact on the Company's consolidated financial statements.

Note 8: Disclosures about Fair Value of Assets and Liabilities

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

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Available-for-sale securities: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. government agencies and government sponsored mortgage-backed securities. The Company has no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and December 31, 2009 (dollar amounts in thousands):

6/30/2010

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 78	$ -	$ -	$ 78
Debt securities:				
U.S. government agencies	-	43,373	-	43,373
Government sponsored mortgage-backed securities	-	77,333	-	77,333
Available-for-sale securities	$ 78	$ 120,706	$ -	$ 120,784

12/31/2009

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 65	$ -	$ -	$ 65
Debt securities:				
U.S. government agencies	-	30,540	-	30,540
Government sponsored mortgage-backed securities	-	72,054	-	72,054
Available-for-sale securities	$ 65	$ 102,594	$ -	$ 102,659

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

Foreclosed Assets Held for Sale: Fair value is estimated using recent appraisals, comparable sales and other estimates of value obtained principally from independent sources, adjusted for selling costs. Foreclosed assets held for sale are classified within Level 3 of the valuation hierarchy.

Impaired loans (Collateral Dependent): Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

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The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and December 31, 2009 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2010	$ -	$ -	$ 5,568	$ 5,568
December 31, 2009	$ -	$ -	$ 17,186	$ 17,186

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2010	$ -	$ -	$ 3,272	$ 3,272
December 31, 2009	$ -	$ -	$ 3,897	$ 3,897

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial condition at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock
The carrying amounts reported in the statements of financial condition approximate those assets' fair value.

Held-to-maturity securities
Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans
The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits
Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances and securities sold under agreements to repurchase
For these variable rate instruments, the carrying amount is a reasonable extimate of fair value. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated debentures at an amount close to its par value.

Interest payable
The carrying amount approximates fair value.

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Commitments to originate loans, letters of credit and lines of credit
The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values of the Company's financial instruments at June 30, 2010 and December 31, 2009.

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 29,330,241	$ 29,330,241	$ 33,016,697	$ 33,016,697
Interest-bearing deposits	18,177,819	18,177,819	16,560,802	16,560,802
Held-to-maturity securities	396,817	420,152	472,783	499,718
Federal Home Loan Bank stock	6,048,700	6,048,700	5,976,600	5,976,600
Mortgage loans held for sale	1,646,172	1,646,172	3,465,080	3,465,080
Loans, net	496,394,319	503,537,721	525,038,053	529,941,646
Interest receivable	2,654,958	2,654,958	2,671,563	2,671,563
Financial liabilities:				
Deposits	505,933,398	509,145,014	513,051,102	517,380,184
Federal Home Loan Bank advances	116,050,000	116,055,743	116,050,000	112,377,239
Securities sold under agreements to repurchase	39,750,000	40,542,173	39,750,000	40,198,606
Subordinated debentures	15,465,000	15,465,000	15,465,000	15,465,000
Interest payable	1,074,875	1,074,875	1,398,122	1,398,122
Unrecognized financial instruments (net of contractual value):				
Commitments to extend credit	-	-	-	-
Unused lines of credit	-	-	-	-

Note 9: Derivative Financial Instruments

The Company recorded all derivative financial instruments at fair value in the financial statements. Derivatives were used as a risk management tool to hedge the exposure to changes in interest rates or other identified market risks.

When a derivative is intended to be a qualifying hedged instrument, the Company prepares written hedge documentation that designates the derivative as 1) a hedge of fair value of a recognized asset or liability (fair value hedge) or 2) a hedge of a forecasted transaction, such as, the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The written documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item, and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will

be highly effective.

On November 7, 2008, the Company elected to terminate its three interest rate swap agreements with a total notional value of $90 million. At termination, the swaps had a market value (gain) of $1.7 million. The gain was deferred and is being accreted into income. The Company recognized $254,373 of this gain for the three months ended June 30, 2010 and 2009, respectively, and recognized $508,746 of this gain for the six months ended June 30, 2010 and 2009, respectively. As of June 30, 2010, the original gain at termination has been fully accreted into income in accordance with the stated maturity date of the original agreements.

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Note 10: Preferred Stock and Common Stock Warrants

On January 30, 2009, as part of the U.S. Department of the Treasury's Troubled Asset Relief Program's Capital Purchase Program (“CPP”), the Company entered into a Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the "Treasury") pursuant to which the Company sold to the Treasury 17,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and issued a ten year warrant (the "Warrant") to purchase 459,459 shares of the Company's common stock (the "Common Stock") for $5.55 per share (the "Warrant Shares") for a total purchase price of $17.0 million (the "Transaction").

The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative preferred dividends at a rate of 5% per year for the first five years, payable quarterly, and 9% thereafter. The Series A Preferred Stock has a liquidation preference of $1,000 per share, plus accrued and unpaid dividends. The failure by the Company to pay a total of six quarterly dividends, whether or not consecutive, gives the holders of the Series A Preferred Stock the right to elect two directors to the Company's Board of Directors.

The Company may redeem the Series A Preferred Stock for $1,000 per share, plus accrued and unpaid dividends, in whole or in part, subject to regulatory approval.

The Warrant is exercisable immediately upon issuance and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder of the Warrant, as well as potential registration rights upon written request from the Treasury. The Treasury has agreed not to exercise voting rights with respect to the Warrant Shares that it may acquire upon exercise of the Warrant. If the Series A Preferred Stock is redeemed in whole, the Company has the right to purchase any shares of the Common Stock held by the Treasury at their fair market value at that time.

The Company is subject to certain contractual restrictions under the CPP and the Certificate of Designations for the Series A Preferred Stock that could prohibit the Company from declaring or paying dividends on its common stock or the Series A Preferred Stock.

The proceeds from the CPP were allocated between the Series A Preferred Stock and the Warrant based on a fair value assigned using a discounted cash flow model. This resulted in an initial value of $15,622,189 million for the Series A Preferred Stock and $1,377,811 for the Warrant. The discount of approximately $1.4 million on the Series A Preferred Stock is being accreted over the straight-line method (which approximates the level-yield method) over five years ending February 28, 2014.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the “ARRA”) was signed into law. The ARRA imposes certain additional executive compensation and corporate expenditure limits on all current and future CPP recipients. These limits are in addition to those previously imposed by the Treasury under the Emergency Economic Stabilization Act of 2008 (the “EESA”). The Treasury released an interim final rule (the “IFR”) on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed by EESA and ARRA. The IFR applies to the Company as of the date of publication in the Federal Register on June 15, 2009, but was subject to comment which ended on August 14, 2009. The Treasury has not yet published a final version of the IFR.

As a result of the Company’s participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to any CPP recipient, including the Company, at such time that the federal government no longer holds any of the Company’s Series A Preferred Stock.

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

General

The primary function of the Company is to monitor and oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. As a result, the results of operations of the Company are derived primarily from operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews the Company's financial condition as of June 30, 2010, and the results of operations for the three and six months ended June 30, 2010 and 2009.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates, in general or local economic conditions, in the real estate market, and in federal or state regulations and legislation governing the operations of the Company or the Bank; and other factors set forth in reports and other documents filed by the Company with the SEC from time to time, including the risk factors described under Item 1A. of the Company's Form 10-K for the fiscal year ended December 31, 2009.

Financial Condition

The Company's total assets decreased $5,363,298 (1%) from $737,779,852 as of December 31, 2009, to $732,416,554 as of June 30, 2010.

Cash and cash equivalents decreased $3,686,456 (11%) from $33,016,697 as of December 31, 2009, to $29,330,241 as of June 30, 2010. Interest-bearing deposits increased $1,617,017 from $16,560,802 as of December 31, 2009, to $18,177,819 as of June 30, 2010.

Available-for-sale securities increased $18,124,939 (18%) from $102,659,251 as of December 31, 2009, to $120,784,190 as of June 30, 2010. The increase is primarily due to purchases of $47.7 million offset by sales, maturities and principal payments received of $31.9 million.

Held-to-maturity securities decreased primarily due to principal repayments by $75,966 (16%) from $472,783 as of December 31, 2009, to $396,817 as of June 30, 2010.

Net loans receivable decreased by $28,643,734 (5%) from $525,038,053 as of December 31, 2009, to $496,394,319 as of June 30, 2010. Commercial real estate loans decreased by $8,984,376 (4%) from $236,980,868 as of December 31, 2009, to $227,996,492 as of June 30, 2010. Commercial loans decreased $16,821,341 (15%) from $114,497,545 as of December 31, 2009, to $97,676,203 as of June 30, 2010. Permanent multi-family loans increased by $5,170,962 (15%) from $34,498,240 as of December 31, 2009, to $39,669,202 as of June 30, 2010. Construction loans decreased by $5,423,291 (25%) to $16,155,876 as of June 30, 2010 compared to $21,579,167 as of December 31, 2009.

Allowance for loan losses decreased $2,139,283 (15%) from $14,076,123 as of December 31, 2009 to $11,936,840 as of June 30, 2010. The allowance decreased due to net loan charge-offs of $4,039,283 exceeding the provision for loan losses of $1,900,000 recorded during the six month period. Management charged off certain specific loans that had been identified and classified as impaired at December 31, 2009. See discussion under "Results of Operations – Comparison of Three Month Periods Ended June 30, 2010 and 2009 – Provision for Loan Losses." The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of June 30, 2010 and December 31, 2009 was 2.35% and 2.61%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of June 30, 2010 and December 31, 2009 was 60.1% and 41.1%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loans losses in the Bank's existing loan portfolio.

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Foreclosed assets held for sale increased $10,852,419 (161%) from $6,759,648 as of December 31, 2009, to $17,612,067 as of June 30, 2010. This is primarily due to the foreclosure of two commercial real estate credits that were classified as impaired at December 31, 2009.

Deposits decreased $7,117,704 (1%) from $513,051,102 as of December 31, 2009, to $505,933,398 as of June 30, 2010. For the six months ended June 30, 2010, checking and savings accounts increased by $811,250 and certificates of deposit decreased by $7.9 million. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Stockholders' equity (including unrealized appreciation on available-for-sale securities and interest rate swaps, net of tax) increased $1,802,307 from $51,410,633 as of December 31, 2009, to $53,212,940 as of June 30, 2010. The Company's net income during this period was $968,369. In conjuction with the Series A Preferred Stock, the Company accrued $425,000 of dividends (5%) and recorded $137,781 of accretion associated with the discount recognized on the preferred stock. On a per common share basis, stockholders' equity increased from $13.49 as of December 31, 2009 to $14.07 as of June 30, 2010.

Average Balances, Interest and Average Yields

The Company's profitability is primarily dependent upon net interest income, which represents the difference between interest and fees earned on loans and debt and equity securities, and the cost of deposits and borrowings. Net interest income is dependent on the difference between the average balances and rates earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Non-interest income, non-interest expense, and income taxes also impact the Company's results of operations.

The following tables sets forth certain information relating to the Company's average consolidated statements of financial condition and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields. All dollar amounts are in thousands.

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	Three months ended 6/30/2010			Three months ended 6/30/2009		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$516,181	$7,189	5.57 %	$554,783	$7,412	5.34 %
Investment securities	118,007	921	3.12 %	112,454	979	3.48 %
Other assets	46,386	119	1.03 %	61,740	113	0.73 %
Total interest-earning	680,574	8,229	4.84 %	728,977	8,504	4.67 %
Noninterest-earning	51,480			21,266		
	$732,054			$750,243		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$16,643	35	0.84 %	$12,873	29	0.90 %
Transaction accounts	257,451	997	1.55 %	210,892	1,492	2.83 %
Certificates of deposit	206,608	1,441	2.79 %	274,375	2,421	3.53 %
FHLB advances	116,050	787	2.71 %	111,436	786	2.82 %
Securities sold under agreements to repurchase	39,750	290	2.92 %	39,750	220	2.21 %
Subordinated debentures	15,465	256	6.62 %	15,465	256	6.62 %
Other borrowed funds	-	-	-	-	-	0.00 %
Total interest-bearing	651,967	3,806	2.34 %	664,791	5,204	3.13 %
Noninterest-bearing	27,528			30,934		
Total liabilities	679,495			695,725		
Stockholders' equity	52,559			54,518		
	$732,054			$750,243		
Net earning balance	$28,607			$64,186		
Earning yield less costing rate			2.50 %			1.54 %
Net interest income, and net yield spread on interest earning assets		$4,423	2.60 %		$3,300	1.81 %
Ratio of interest-earning assets to interest-bearing liabilities		104 %			110 %	

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	Six months ended 6/30/2010				Six months ended 6/30/2009			
	Average Balance	Interest	Yield / Cost		Average Balance	Interest	Yield / Cost	
ASSETS								
Interest-earning:								
Loans	$523,937	$14,383	5.49	%	$558,854	$14,857	5.32	%
Investment securities	114,117	1,858	3.26	%	93,054	1,808	3.89	%
Other assets	49,559	253	1.02	%	74,918	162	0.43	%
Total interest-earning	687,613	16,494	4.80	%	726,826	16,827	4.63	%
Noninterest-earning	46,554				21,371			
	$734,167				$748,197			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing:								
Savings accounts	$16,002	72	0.90	%	$12,423	56	0.90	%
Transaction accounts	257,543	2,289	1.78	%	192,548	2,636	2.74	%
Certificates of deposit	209,122	2,947	2.82	%	291,679	5,285	3.62	%
FHLB advances	116,050	1,566	2.70	%	112,714	1,568	2.78	%
Securities sold under agreements to repurchase	39,750	576	2.90	%	39,750	452	2.27	%
Subordinated debentures	15,465	512	6.62	%	15,465	512	6.62	%
Other borrowed funds	-	-	-		230	3	2.61	%
Total interest-bearing	653,932	7,962	2.44	%	664,809	10,512	3.16	%
Noninterest-bearing	27,829				31,426			
Total liabilities	681,761				696,235			
Stockholders' equity	52,406				51,962			
	$734,167				$748,197			
Net earning balance	$33,681				$62,017			
Earning yield less costing rate			2.36	%			1.47	%
Net interest income, and net yield spread on interest earning assets		$8,532	2.48	%		$6,315	1.74	%
Ratio of interest-earning assets to interest-bearing liabilities		105 %				109 %		

Results of Operations - Comparison of Three and Six Month Periods Ended June 30, 2010 and 2009

Net income for the three months and six months ended June 30, 2010 was $492,503 and $968,369 as compared to a net loss of ($1,632,082) and ($2,224,202) for the three months and six months ended June 30, 2009, which represents an increase in net income of $2,124,585 (130%) for the three month period, and an increase in net income of $3,192,571 (144%) for the six month period.

Interest Income

Total interest income for the three months and six months ended June 30, 2010, decreased $275,497 (3%) and $333,516 (2%), respectively, as compared to the three months and six months ended June 30, 2009. For the three month and six month periods ended June 30, 2010 compared to the same periods in 2009, the average yield on interest earning assets increased 17 basis points to 4.84% and increased 17 basis points to 4.80%, respectively, while the

average balance of interest earning assets decreased approximately $48,403,000 and $39,213,000, respectively.

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Interest Expense

Total interest expense for the three months and six months ended June 30, 2010, decreased $1,398,286 (27%) and $2,550,472 (24%), respectively, when compared to the three months and six months ended June 30, 2009. For the three month and six month periods ended June 30, 2010 compared to the same periods in 2009, the average cost of interest bearing liabilities decreased 79 basis points to 2.34% and 72 basis points to 2.44%, respectively, while the average balance of interest bearing liabilities decreased approximately $12,824,000 and $10,877,000, respectively, when compared to the same periods in 2009. The significant decrease in the average cost of interest bearing liabilities is primarily due to the reduction at the beginning of 2010 in the cost of money market deposits generated through an aggressive deposit campaign in the first quarter of 2009.

Net Interest Income

Net interest income for the three months and six months ended June 30, 2010, increased $1,122,789 (34%) and $2,216,956 (35%), respectively, when compared to the same periods in 2009. For the three and six month periods ended June 30, 2010, the earning yield minus the costing rate spread increased 96 and 89 basis points, respectively, when compared to the same periods in 2009.

Provision for Loan Losses

Based on its internal analysis and methodology, management recorded a provision for loan losses of $950,000 and $1,900,000 for the three months and six months ended June 30, 2010, respectively, compared to $3,300,000 and $4,280,000 for the same periods in 2009. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management of the Company anticipates the need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank’s loan portfolio increases or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Noninterest Income

Noninterest income decreased $461,864 (30%) and $78,794 (3%) for the three months and six months ended June 30, 2010, respectively, when compared to the three months and six months ended June 30, 2009.

Gains on sales of investment securities decreased $301,826 (96%) and $141,551 (45%) for the three months and six months ended June 30, 2010, respectively, when compared to the same periods in 2009. Service charges on transaction accounts decreased by $64,046 (14%) and $110,783 (12%) for the three months and six months ended June 30, 2010 when compared to the same periods in 2009, primarily due to declines in overdraft charges. Gain on sale of loans decreased $85,151 (19%) and $142,244 (18%) for the three months and six months ended June 30, 2010 when compared to the same period in 2009 due to decreased volume associated with the Bank’s selling fixed rate mortgage loans. Income on foreclosed assets decreased by $153,583 (157%) and increased $41,962 (80%) for the three months and six months ended June 30, 2010 when compared to the same periods in 2009. Other income for the three months and six months ended June 30, 2010 increased $150,659 (85%) and $286,606 (83%), respectively, when compared to the same periods in 2009, primarily due to the increase in cash surrender value of bank owned life insurance earned in 2010. The life insurance asset was purchased in October 2009.

Noninterest Expense

Noninterest expense decreased $276,591 (7%) and $385,218 (5%) for the three months and six months ended June 30, 2010 when compared to the same periods in 2009.

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Salaries and employee benefits increased $143,989 (7%) and $177,031 (4%) for the three months and six months ended June 30, 2010 when compared to the same periods in 2009. This increase was primarily due to a few key personnel additions in 2009, as well as in the second quarter of 2010.

FDIC deposit insurance premiums decreased $355,731 (53%) and $320,607 (34%) for the three months and six months ended June 30, 2010 when compared to the same periods in 2009 due to the special assessment of $341,000 incurred as of June 30, 2009.

Provision for Income Taxes

The increase in the provision for income taxes is a direct result of the increase in the Company's taxable income for the three months and six months ended June 30, 2010.

Nonperforming Assets

The allowance for loan losses is calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Bank's existing loan portfolio. When making such evaluation, management considers such factors as the repayment status of its loans, the estimated net realizable value of the underlying collateral, borrowers' intent (to the extent known by the Bank) and ability to repay the loan, local economic conditions and the Bank's historical loss ratios. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of June 30, 2010 and December 31, 2009 was 60.1% and 41.1%, respectively. Total loans classified as substandard, doubtful or loss as of June 30, 2010, were $42.2 million or 5.76% of total assets as compared to $50.6 million, or 6.86% of total assets at December 31, 2009. Management considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

From December 31, 2009 to June 30, 2010, the allowance for loan losses decreased $2.1 million (15%) primarily due to the charge-off of specific loans that were classified as nonperforming at December 31, 2009. In addition, the Company has experienced a significant decline in loan balances over the past several quarters that have reduced allowance for loan loss reserve requirements.

The ratio of nonperforming assets to total assets is another useful tool in evaluating exposure to credit risk. Nonperforming assets of the Bank include impaired loans and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. All dollar amounts are in thousands.

	6/30/2010	12/31/2009	12/31/2008
Nonperforming loans	$19,847	$34,285	$20,694
Real estate acquired in settlement of loans	17,612	6,760	5,655
Total nonperforming assets	$37,459	$41,045	$26,349
Total nonperforming assets as a percentage of total assets	5.11 %	5.56 %	3.90 %
Allowance for loan losses	$11,937	$14,076	$16,728
Allowance for loan losses as a percentage of gross loans	2.35 %	2.61 %	2.92 %

Liquidity and Capital Resources

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's primary sources of liquidity include cash and cash equivalents, customer deposits and Federal Home Loan

Bank of Des Moines borrowings. The Company also has established borrowing lines available from the Federal Reserve Bank which is considered a secondary source of funds.

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The Company's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank's operating, financing, and investment activities at any given time. The Company's cash and cash equivalents totaled $29,330,241 as of June 30, 2010 and $33,016,697 as of December 31, 2009, representing a decrease of $3,686,456. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors.

The Bank's capital ratios are above the levels required to be considered a well-capitalized financial institution. As of June 30, 2010, the Bank's Tier 1 leverage ratio was 8.57%, its Tier 1 risk-based capital ratio was 10.98% and the Bank's total risk-based capital ratio was 12.24% - all exceeding the minimums of 5%, 6% and 10%, respectively.

With regards to the securities sold to the Treasury under CPP, if the Company is unable to redeem the Series A Preferred Stock within five years of its issuance, the cost of capital to the Company will increase significantly from 5% per annum ($850,000 annually) to 9% per annum ($1,530,000 annually). Depending on the Company's financial condition at the time, the increase in the annual dividend rate on the Series A Preferred Stock could have a material effect on the Company's liquidity and net income available to common stockholders.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

The goal of the Bank's asset/liability policy is to manage interest rate risk so as to maximize net interest income over time in changing interest rate environments. Management monitors the Bank's net interest spreads (the difference between yields received on assets and paid on liabilities) and, although constrained by market conditions, economic conditions, and prudent underwriting standards, the Bank offers deposit rates and loan rates designed to maximize net interest income. Management also attempts to fund the Bank's assets with liabilities of a comparable duration to minimize the impact of changing interest rates on the Bank's net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank's current net interest income may not be an indication of future net interest income.

As a part of its asset and liability management strategy and throughout the past several years, the Bank has continued to emphasize the origination of adjustable-rate, one- to four-family residential loans and adjustable-rate or relatively short-term commercial real estate, commercial business and consumer loans, while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market on either a service-retained basis or service-released basis. This allows the Bank to serve the customer's needs and retain a banking relationship with respect to such fixed-rate residential loans, while limiting its exposure to the risk associated with carrying a long-term fixed-rate loan in its loan portfolio.

The Bank constantly monitors its deposits in an effort to decrease their interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements. The Bank believes, based on historical experience, that a substantial portion of such accounts represents non-interest rate sensitive core deposits. The Bank does believe that certain accounts generated from the 2009 money market deposit campaign will be interest rate sensitive, however, the Bank does not have the historical experience with this type of campaign to predict fluctuations.

Interest Rate Sensitivity Analysis

The following table sets forth as of June 30, 2010 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100 and 200 basis point ("bp") instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

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BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	$ Amount	$ Change	% Change	NPV Ratio	Change
+200	63,413	(1,256)	-2 %	8.76 %	0.03 %
+100	63,952	(717)	-1 %	8.74 %	0.00 %
NC	64,669	-	-	8.73 %	-
-100	65,754	1,085	2 %	8.77 %	0.04 %
-200	68,170	3,501	5 %	8.99 %	0.25 %

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. For further discussion of the Company's market risk, see the Interest Rate Sensitivity Analysis section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2009 Annual Report on Form 10-K.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to five years, and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability policies. The Board meets quarterly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Board with respect to the Bank's asset and liability goals and strategies.

Item 4. Controls and Procedures

(a) The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company conducted 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 Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2010.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Our business is subject to various risks. These risks are included in our 2009 Annual Report on Form 10-K under "Risk Factors".

There has been no material change in such risk factors other than the following:

The enactment of the Dodd-Frank Act could have an adverse impact on our financial results.

In July 2010, Congress enacted and the President signed broad financial regulatory reform legislation that, among other things, will impose comprehensive regulation on financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") will subject financial institutions to substantial supervision and regulation, including capital standards, margin requirements, business conduct standards, recordkeeping and reporting requirements. While some of the provisions will be effective immediately, others will be phased in over the next five years, and many are to be implemented by rules promulgated within six to 18 months of signing. While we know the substance of the Dodd-Frank Act, it is not possible at this time to predict the final form and substance of the regulations that will be adopted to carry out the Act. Any such regulations that subject us to additional capital requirements, or to additional restrictions or reporting requirements related to business practices, could have an adverse effect on our financial results. This financial impact is not currently quantifiable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's repurchase activity regarding its common stock during the Company's second quarter ended June 30, 2010.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2010 to April 30, 2010	774	$ 5.85	774	197,624
May 1, 2010 to May 31, 2010	-	-	-	197,624
June 1, 2010 to June 30, 2010	-	-	-	197,624
Total	774	$ 5.85	774	

(1) The Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time.

Item 3. Defaults Upon Senior Securities

Not applicable.

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Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

10.4	Written Description of 2010 Executive Incentive Compensation Annual Plan – Chief Operating Officer* (1)
11.	Statement re: computation of per share earnings (set forth in “Note 5: Income (Loss) Per Common Share” of the Notes to Condensed Consolidated Financial Statement (unaudited))
31(i).1	Certification of the Principal Executive Officer pursuant to Rule 13a -14(a) of the Exchange Act
31(i).2	Certification of the Principal Financial Officer pursuant to Rule 13a - 14(a) of the Exchange Act
32.1	CEO certification pursuant to 18 U.S.C. Section 1350
32.2	CFO certification pursuant to 18 U.S.C. Section 1350

*Management contract or compensatory plan or arrangement

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(1) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on April 26, 2010 and incorporated herein by reference.

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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 Federal Bancshares, Inc.

Signature and Title	Date
/s/ Shaun A. Burke Shaun A. Burke President and Chief Executive Officer (Principal Executive Officer and Duly Authorized Officer)	August 12, 2010
/s/ Carter Peters Carter Peters Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 12, 2010