GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 15, 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 September 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.
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 November 3, 2010
Common Stock, Par Value $0.10 per share	2,652,487 Shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

ASSETS	9/30/10	12/31/09
Cash	$ 5,144,273	$ 4,527,813
Interest-bearing deposits in other financial institutions	20,100,765	28,488,884
Cash and cash equivalents	25,245,038	33,016,697
Interest-bearing deposits	17,785,000	16,560,802
Available-for-sale securities	101,034,764	102,659,251
Held-to-maturity securities	273,256	472,783
Stock in Federal Home Loan Bank, at cost	5,381,200	5,976,600
Mortgage loans held for sale	3,637,312	3,465,080
Loans receivable, net of allowance for loan losses of September 30, 2010 - $12,540,590 - December 31, 2009 - $14,076,123	492,954,944	525,038,053
Accrued interest receivable:		
Loans	1,906,645	2,014,418
Investments and interest-bearing deposits	573,520	657,145
Prepaid expenses and other assets	6,438,151	6,731,409
Prepaid FDIC deposit insurance premiums	3,252,833	4,135,875
Foreclosed assets held for sale	18,008,451	6,759,648
Premises and equipment	11,453,945	11,817,516
Bank owned life insurance	10,365,381	10,069,540
Income taxes receivable	4,185,640	3,718,970
Deferred income taxes	3,176,820	4,686,065
	$ 705,672,900	$ 737,779,852
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 493,687,036	$ 513,051,102
Federal Home Loan Bank advances	101,050,000	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	475,344	135,610
Accrued expenses and other liabilities	726,500	519,385
Accrued interest payable	1,005,382	1,398,122
	652,159,262	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 September 30, 2010 and December 31, 2009 - 17,000 shares	16,081,459	15,874,788
Common stock, $0.10 par value; authorized 10,000,000 shares;issued September 30, 2010 and December 31, 2009 - 6,779,800 shares;	677,980	677,980

Common stock warrants; September 30, 2010 and December 31, 2009 - 459,459 shares		1,377,811		1,377,811
Additional paid-in capital		58,506,029		58,523,646
Unearned ESOP shares		(489,930)		(660,930)
Retained earnings, substantially restricted		36,388,105		35,741,705
Accumulated other comprehensive income				
Unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes		2,799,593		1,696,502
		115,341,047		113,231,502
Treasury stock, at cost; September 30, 2010 and December 31, 2009 -4,080,220 and 4,079,067 shares, respectively		(61,827,409)		(61,820,869)
		53,513,638		51,410,633
	$	705,672,900	$	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 NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2010	9/30/2009	9/30/2010	9/30/2009
Interest Income				
Loans	$6,861,717	$7,402,215	$21,244,834	$22,259,582
Investment securities	866,386	979,708	2,724,195	2,787,883
Other	117,806	152,412	370,777	314,283
	7,845,909	8,534,335	24,339,806	25,361,748
Interest Expense				
Deposits	2,346,081	3,816,803	7,654,209	11,795,238
Federal Home Loan Bank advances	768,569	791,470	2,334,875	2,359,115
Subordinated debentures	255,945	255,945	767,837	767,837
Other	289,240	221,864	864,807	676,257
	3,659,835	5,086,082	11,621,728	15,598,447
Net Interest Income	4,186,074	3,448,253	12,718,078	9,763,301
Provision for Loan Losses	850,000	670,000	2,750,000	4,950,000
Net Interest Income After Provision for Loan Losses	3,336,074	2,778,253	9,968,078	4,813,301
Noninterest Income				
Service charges	386,967	455,638	1,173,517	1,352,971
Other fees	8,805	14,913	22,473	41,365
Gain on sale of investment securities	41,471	341,596	215,359	657,035
Gain on sale of loans	472,082	314,440	1,129,621	1,114,223
Loss on foreclosed assets	(33,152)	(14,045)	(43,865)	(66,720)
Other income	302,948	217,826	934,657	562,929
	1,179,121	1,330,368	3,431,762	3,661,803
Noninterest Expense				
Salaries and employee benefits	2,110,001	1,963,962	6,298,459	5,975,389
Occupancy	431,556	435,022	1,276,283	1,391,757
FDIC deposit insurance premiums	304,069	330,000	928,492	1,275,030
Data processing	122,133	107,063	336,555	321,521
Advertising	75,000	75,000	225,000	241,666
Other expense	663,862	480,909	2,036,501	1,966,480
	3,706,621	3,391,956	11,101,290	11,171,843
Income (Loss) Before Income Taxes	808,574	716,665	2,298,550	(2,696,739)
Provision (Credit) for Income Taxes	286,370	142,202	807,977	(1,047,000)
Net Income (Loss)	522,204	574,463	1,490,573	(1,649,739)
Preferred Stock Dividends and Discount Accretion	281,391	281,391	844,173	750,376
Net Income (Loss) Available to Common Shareholders	$240,813	$293,072	$646,400	$(2,400,115)
Basic Income (Loss) Per Common Share	$0.09	$0.11	$0.24	$(0.92)
Diluted Income (Loss) Per Common Share	$0.09	$0.11	$0.24	$(0.92)

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 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	-	-	-	-	-	-	1,490,573	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	1,103,09
Total comprehensive income								
Preferred stock discount accretion	206,671	-	-	-	-	-	(206,671)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(637,502)	-
Stock award plans	-	-	-	80,896	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(6,540)	-	-
Release of ESOP shares	-	-	-	(98,513)	171,000	-	-	-
Balance, September 30, 2010	$16,081,459	$677,980	$1,377,811	$58,506,029	$(489,930)	$(61,827,409)	$36,388,105	$2,799,59

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 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	-	-	-	-	-	-	(1,649,739)	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	165,641
Total comprehensive loss								
Preferred stock issued	15,622,189	-	-	-	-	-		-
Common stock warrants issued	-	-	1,377,811	-	-	-	-	-
Preferred stock discount accretion	183,708	-	-	-	-	-	(183,708)	-
Preferred stock dividends accrued (5%)	-	-	-	-	-	-	(566,667)	-
Stock award plans	-	-	-	70,699	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(7,515)	-	-
Release of ESOP shares	-	-	-	(74,010)	171,000	-	-	-
Balance, September 30, 2009	$15,805,897	$677,980	$1,377,811	$58,531,848	$(717,930)	$(61,820,869)	$36,714,075	$1,853,49

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

	9/30/2010	9/30/2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,490,573	$ (1,649,739)
Items not requiring (providing) cash:		
Deferred income taxes	861,398	1,689,690
Depreciation	620,873	742,368
Provision for loan losses	2,750,000	4,950,000
Gain on loans and investment securities	(1,344,980)	(1,771,258)
Gain on sale of foreclosed assets	(15,710)	(118,806)
Accretion of gain on termination of interest rate swaps	(508,746)	(763,119)
Amortization of deferred income, premiums and discounts	416,987	223,122
Stock award plan expense	80,896	70,699
Origination of loans held for sale	(52,563,214)	(61,381,907)
Proceeds from sale of loans held for sale	53,520,603	62,777,067
Release of ESOP shares	72,487	96,990
Increase in cash surrender value of bank owned life insurance	(295,841)	-
Changes in:		
Accrued interest receivable	191,398	(14,509)
Prepaid expenses and other assets	1,176,300	417,841
Accounts payable and accrued expenses	(185,625)	324,505
Income taxes receivable	(466,670)	(3,770,993)
Net cash provided by operating activities	5,800,729	1,821,951
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	15,073,178	22,159,013
Principal payments on held-to-maturity securities	199,642	46,240
Principal payments on available-for-sale securities	10,496,971	9,796,901
Proceeds from maturities of available-for-sale securities	28,956,500	6,500,000
Purchase of premises and equipment	(257,302)	(1,448,628)
Purchase of available-for-sale securities	(50,688,976)	(80,722,131)
Proceeds from sale of available-for-sale securities	14,956,798	20,432,170
Purchase of interest-bearing deposits	(12,501,000)	(29,605,802)
Proceeds from maturities of interest-bearing deposits	11,276,802	2,500,000
Redemption of Federal Home Loan Bank stock	595,400	-
Purchase of tax credit investments	-	(3,310,669)
Capitalized costs on foreclosed assets held for sale	(273,743)	(51,115)
Insurance proceeds on foreclosed assets held for sale	575,879	-
Proceeds from sale of foreclosed assets held for sale	2,685,837	3,143,180
Net cash provided by (used in) investing activities	21,095,986	(50,560,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW and savings accounts	637,362	139,679,422
Net decrease in certificates of deposit	(20,001,428)	(81,021,606)
Repayments of FHLB advances	(15,000,000)	(21,386,000)
Repayments of notes payable	-	(1,435,190)
Advances from borrowers for taxes and insurance	339,734	348,407
Proceeds from preferred stock and warrants	-	17,000,000

Cash dividends paid on preferred stock	(637,502)	(460,417)
Treasury stock purchased	(6,540)	(7,515)
Net cash provided by (used in) financing activities	(34,668,374)	52,717,101
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,771,659)	3,978,211
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	33,016,697	15,097,015
CASH AND CASH EQUIVALENTS, END OF PERIOD	$25,245,038	$19,075,226

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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 September 30, 2010				
Equity Securities	$102,212	$10,608	$(36,838)	$75,982
Debt Securities:				
U. S. government agencies	26,441,257	427,093	-	26,868,350
Government sponsored mortgage-backed securities	70,047,496	4,042,936	-	74,090,432
	$96,590,965	$4,480,637	$(36,838)	$101,034,764

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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 September 30, 2010:

	Amortized Cost	Approximate Fair Value
After one through five years	$ 25,291,257	$ 25,699,681
After five through ten years	1,150,000	1,168,670
Government sponsored mortgage-backed securities not due on a single maturity date	70,047,496	74,090,432
	$ 96,488,753	$ 100,958,783

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 September 30, 2010				
Debt Securities:				
U. S. government agencies	$2,238	$-	$-	$ 2,238
Government sponsored mortgage-backed securities	271,018	22,661	-	293,679
	$273,256	$22,661	$-	$ 295,917

	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 September 30, 2010:

	Amortized Cost	Approximate Fair Value
Within one year	$ 2,238	$ 2,238
Government sponsored mortgage-backed securities not due on a single maturity date	271,018	293,679
	$ 273,256	$ 295,917

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $63,812,707 and $65,782,604 as of September 30, 2010 and December 31, 2009, respectively. The approximate fair value of pledged securities amounted to $67,098,338 and $67,572,830 as of September 30, 2010 and December 31, 2009, respectively.

Realized gains and losses are recorded as net securities gains (losses). Gains and losses on sales of securities are determined on the specific identification method. Gross gains of $41,471 and $341,596 were realized from the sale of available-for-sale securities for the three months ended September 30, 2010 and 2009, respectively. Gross gains of $215,359 and $657,035 were realized from the sale of available-for-sale securities for the nine months ended September 30, 2010 and 2009, respectively. The tax effect of these net gains was $79,683 and $243,103 as of September 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 September 30, 2010 and December 31, 2009, was $34,696 and $7,052,226, respectively, which is approximately 0.03% 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 September 30, 2010 and December 31, 2009.

	September 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	$ -	$ -	$ 34,696	$ (36,838)	$ 34,696	$ (36,838)

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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 nine months ended September 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	45,000	45,000	5.25
Exercised	-	-	-
Forfeited	-	(10,875)	10.50
Balance outstanding as of September 30, 2010	193,750	170,829	16.17
Options exercisable as of September 30, 2010	79,250	89,329	21.49

Stock-based compensation expense recognized for the three months ended September 30, 2010 and 2009 was $26,924 and $23,251, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2010 and 2009 was $80,896 and $70,699, respectively. As of September 30, 2010, there was $302,699 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

The Company maintains the Guaranty Federal Bancshares, Inc. 2010 Equity Plan (the "Plan"). The Plan provides for the grant of up to 200,000 shares of Common Stock under equity awards including stock options, stock awards, restricted stock, stock appreciation rights, performance units, or other equity-based awards payable in cash or stock to key employees and directors of the Company and the Bank. As of September 30, 2010, non-incentive stock options for 25,000 shares of Common Stock have been granted under the Plan. On October 29, 2010, the Company filed a registration statement with the Securities and Exchange Commission to register the transaction under which the shares of Common Stock may be issued pursuant to the terms of equity awards that may be made under the Plan.

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Note 5: Income (Loss) Per Common Share

	For three months ended September 30, 2010			For nine months ended September 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	$240,813	2,646,828	$0.09	$646,400	2,641,593	$0.24
Effect of Dilutive Securities:						
Common Stock Warrants		18,283			16,751	
Diluted Income Per Common Share	$240,813	2,665,111	$0.09	$646,400	2,658,344	$0.24

	For three months ended September 30, 2009			For nine months ended September 30, 2009		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income (Loss) Per Common Share	$293,072	2,625,181	$0.11	$(2,400,115)	2,620,197	$(0.92)
Effect of Dilutive Securities:						
Common Stock Warrants		43,472			N/A	
Diluted Income (Loss) Per Common Share	$293,072	2,668,653	$0.11	$(2,400,115)	2,620,197	$(0.92)

Stock options to purchase 364,579 shares of common stock were outstanding during the three and nine months ended September 30, 2010 and 285,454 shares were outstanding during the three months ended September 30, 2009, 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 nine month period ended September 30, 2009, no potentially dilutive shares were included in the computation of diluted earnings per common share.

Note 6: Other Comprehensive Income

Other comprehensive income components and related taxes were as follows:

	9/30/2010	9/30/2009
Unrealized gains on available-for-sale securities	$ 2,475,043	$ 1,683,076
Accretion of gains on interest rate swaps into income	(508,746)	(763,119)
Less: Reclassification adjustment for realized gains included in income	(215,359)	(657,035)
Other comprehensive income, before tax effect	1,750,938	262,922
Tax expense	647,847	97,281
Other comprehensive income	$ 1,103,091	$ 165,641

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

	9/30/2010	12/31/2009
Unrealized gain on available-for-sale securities	$ 4,443,798	$ 2,184,098
Unrealized gain on interest rate swaps	-	508,746
	4,443,798	2,692,844
Tax effect	1,644,205	996,342
Net of tax amount	$ 2,799,593	$ 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

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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.

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 September 30, 2010 and December 31, 2009 (dollar amounts in thousands):

9/30/2010

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 76	$ -	$ -	$ 76
Debt securities:				
U.S. government agencies	-	26,868	-	26,868
Government sponsored mortgage-backed securities	-	74,091	-	74,091
Available-for-sale securities	$ 76	$ 100,959	$ -	$ 101,035

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.

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 September 30, 2010 and December 31, 2009 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
September 30, 2010	$ -	$ -	$ 10,276	$ 10,276
December 31, 2009	$ -	$ -	$ 17,186	$ 17,186

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
September 30, 2010	$ -	$ -	$ 3,302	$ 3,302
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
The fair value of advances and securities sold under agreements to repurchase is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures
For these variable rate instruments, the carrying amount is a reasonable estimate 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.

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.

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$25,245,038	$25,245,038	$33,016,697	$33,016,697
Interest-bearing deposits	17,785,000	17,785,000	16,560,802	16,560,802
Held-to-maturity securities	273,256	295,917	472,783	499,718
Federal Home Loan Bank stock	5,381,200	5,381,200	5,976,600	5,976,600
Mortgage loans held for sale	3,637,312	3,637,312	3,465,080	3,465,080
Loans, net	492,954,944	501,291,177	525,038,053	529,941,646
Interest receivable	2,480,165	2,480,165	2,671,563	2,671,563
Financial liabilities:				
Deposits	493,687,036	496,679,401	513,051,102	517,380,184
Federal Home Loan Bank advances	101,050,000	102,999,565	116,050,000	112,377,239
Securities sold under agreements to repurchase	39,750,000	41,635,872	39,750,000	40,198,606
Subordinated debentures	15,465,000	15,465,000	15,465,000	15,465,000
Interest payable	1,005,382	1,005,382	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 was being accreted into income. The Company recognized $0 and $254,373 of this gain for the three months ended September 30, 2010 and 2009, respectively, and recognized $508,746 and $763,119 of this gain for the nine months ended September 30, 2010 and 2009, respectively. As of June 30, 2010, the original gain at termination was 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 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 September 30, 2010, and the results of operations for the three and nine months ended September 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 $32,106,952 (4%) from $737,779,852 as of December 31, 2009, to $705,672,900 as of September 30, 2010.

Cash and cash equivalents decreased $7,771,659 (24%) from $33,016,697 as of December 31, 2009, to $25,245,038 as of September 30, 2010. Interest-bearing deposits increased $1,224,198 from $16,560,802 as of December 31, 2009, to $17,785,000 as of September 30, 2010.

Available-for-sale securities decreased $1,624,487 (2%) from $102,659,251 as of December 31, 2009, to $101,034,764 as of September 30, 2010. The decrease is primarily due to maturities and principal payments exceeding purchases for the nine month period.

Held-to-maturity securities decreased primarily due to principal repayments by $199,527 (42%) from $472,783 as of December 31, 2009, to $273,256 as of September 30, 2010.

Net loans receivable decreased by $32,083,109 (6%) from $525,038,053 as of December 31, 2009, to $492,954,944 as of September 30, 2010. Commercial real estate loans decreased by $11,673,293 (5%) from $236,980,868 as of December 31, 2009, to $225,307,575 as of September 30, 2010. Commercial loans decreased $18,884,536 (16%) from $114,497,545 as of December 31, 2009, to $95,613,009 as of September 30, 2010. Permanent multi-family loans increased by $7,268,009 (21%) from $34,498,240 as of December 31, 2009, to $41,766,249 as of September 30, 2010. Construction loans decreased by $4,167,233 (19%) to $17,411,934 as of September 30, 2010 compared to

$21,579,167 as of December 31, 2009.

Allowance for loan losses decreased $1,535,533 (11%) from $14,076,123 as of December 31, 2009 to $12,540,590 as of September 30, 2010. The allowance decreased due to net loan charge-offs of $4,285,533 exceeding the provision for loan losses of $2,750,000 recorded during the nine 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 and Nine Month Periods Ended September 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 September 30, 2010 and December 31, 2009 was 2.48% and 2.61%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of September 30, 2010 and December 31, 2009 was 61.7% 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.

Foreclosed assets held for sale increased $11,248,803 (166%) from $6,759,648 as of December 31, 2009, to $18,008,451 as of September 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 $19,364,066 (4%) from $513,051,102 as of December 31, 2009, to $493,687,036 as of September 30, 2010. For the nine months ended September 30, 2010, checking and savings accounts increased by $637,362 and certificates of deposit decreased by $20.0 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 $2,103,005 from $51,410,633 as of December 31, 2009, to $53,513,638 as of September 30, 2010. The Company's net income during this period was $1,490,573. In conjuction with the Series A Preferred Stock, the Company recorded $844,173 of dividends (5%) and discount accretion. On a per common share basis, stockholders' equity increased from $13.49 as of December 31, 2009 to $14.12 as of September 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 9/30/2010				Three months ended 9/30/2009			
	Average Balance	Interest	Yield / Cost		Average Balance	Interest	Yield / Cost	
ASSETS								
Interest-earning:								
Loans	$508,037	$6,862	5.40	%	$538,229	$7,402	5.50	%
Investment securities	112,139	866	3.09	%	114,818	980	3.41	%
Other assets	57,111	118	0.83	%	60,674	152	1.00	%
Total interest-earning	677,287	7,846	4.63	%	713,721	8,534	4.78	%
Noninterest-earning	49,173				24,933			
	$726,460				$738,654			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing:								
Savings accounts	$18,269	36	0.79	%	$13,275	31	0.93	%
Transaction accounts	257,722	917	1.42	%	230,104	1,693	2.94	%
Certificates of deposit	200,445	1,394	2.78	%	247,712	2,093	3.38	%
FHLB advances	113,115	769	2.72	%	111,393	792	2.84	%
Securities sold under agreements to repurchase	39,750	288	2.90	%	39,750	221	2.22	%
Subordinated debentures	15,465	256	6.62	%	15,465	256	6.62	%
Other borrowed funds	-	-	-		-	-	0.00	%
Total interest-bearing	644,766	3,660	2.27	%	657,699	5,086	3.09	%
Noninterest-bearing	27,591				28,807			
Total liabilities	672,357				686,506			
Stockholders' equity	54,103				52,148			
	$726,460				$738,654			
Net earning balance	$32,521				$56,022			
Earning yield less costing rate			2.36	%			1.69	%
Net interest income, and net yield spread on interest earning assets		$4,186	2.47	%		$3,448	1.93	%
Ratio of interest-earning assets to interest-bearing liabilities		105	%			109	%	

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	Nine months ended 9/30/2010			Nine months ended 9/30/2009		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$518,579	$21,245	5.46 %	$551,904	$22,260	5.38 %
Investment securities	113,450	2,724	3.20 %	99,338	2,788	3.74 %
Other assets	47,041	371	1.05 %	70,118	314	0.60 %
Total interest-earning	679,070	24,340	4.78 %	721,360	25,362	4.69 %
Noninterest-earning	52,500			23,621		
	$731,570			$744,981		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$16,766	108	0.86 %	$12,710	87	0.91 %
Transaction accounts	257,603	3,206	1.66 %	205,204	4,329	2.81 %
Certificates of deposit	206,198	4,341	2.81 %	276,862	7,379	3.55 %
FHLB advances	115,061	2,335	2.71 %	112,272	2,360	2.80 %
Securities sold under agreements to repurchase	39,750	864	2.90 %	39,750	673	2.26 %
Subordinated debentures	15,465	768	6.62 %	15,465	768	6.62 %
Other borrowed funds	-	-	-	152	3	2.63 %
Total interest-bearing	650,843	11,622	2.38 %	662,415	15,599	3.14 %
Noninterest-bearing	27,749			30,541		
Total liabilities	678,592			692,956		
Stockholders' equity	52,978			52,025		
	$731,570			$744,981		
Net earning balance	$28,227			$58,945		
Earning yield less costing rate			2.40 %			1.55 %
Net interest income, and net yield spread on interest earning assets		$12,718	2.50 %		$9,763	1.80 %
Ratio of interest-earning assets to interest-bearing liabilities		104 %			109 %	

Results of Operations - Comparison of Three and Nine Month Periods Ended September 30, 2010 and 2009

Net income for the three months and nine months ended September 30, 2010 was $522,204 and $1,490,573 as compared to net income of $574,463 and a net loss of ($1,649,739) for the three months and nine months ended September 30, 2009, which represents a decrease in net income of $52,259 (9%) for the three month period, and an increase in net income of $3,140,312 (190%) for the nine month period.

Interest Income

Total interest income for the three months and nine months ended September 30, 2010, decreased $688,426 (8%) and $1,021,942 (4%), respectively, as compared to the three months and nine months ended September 30, 2009. For the three month and nine month periods ended September 30, 2010 compared to the same periods in 2009, the average yield on interest earning assets decreased 15 basis points to 4.63% and increased 9 basis points to 4.78%, respectively, while the average balance of interest earning assets decreased approximately $36,434,000 and $42,290,000, respectively. The Company's yield on loans was negatively impacted during the three and nine months ended September 30, 2010 due to the expiration of interest income being recognized on a matured interest rate swap as of June 30, 2010. The effect on the third quarter's interest income was approximately $255,000.

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Interest Expense

Total interest expense for the three months and nine months ended September 30, 2010, decreased $1,426,247 (28%) and $3,976,719 (25%), respectively, when compared to the three months and nine months ended September 30, 2009. For the three month and nine month periods ended September 30, 2010 compared to the same periods in 2009, the average cost of interest bearing liabilities decreased 82 basis points to 2.27% and 76 basis points to 2.38%, respectively, while the average balance of interest bearing liabilities decreased approximately $12,933,000 and $11,572,000, respectively, when compared to the same periods in 2009. The primary reason for the significant decrease in the average cost of interest bearing liabilities is 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 nine months ended September 30, 2010, increased $737,821 (21%) and $2,954,777 (30%), respectively, when compared to the same periods in 2009. For the three and nine month periods ended September 30, 2010, the earning yield minus the costing rate spread increased 67 and 85 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 $850,000 and $2,750,000 for the three months and nine months ended September 30, 2010, respectively, compared to $670,000 and $4,950,000 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 $151,247 (11%) and $230,041 (6%) for the three months and nine months ended September 30, 2010, respectively, when compared to the three months and nine months ended September 30, 2009.

Gains on sales of investment securities decreased $300,125 (88%) and $441,676 (67%) for the three months and nine months ended September 30, 2010, respectively, when compared to the same periods in 2009.

Service charges on transaction accounts decreased by $68,671 (15%) and $179,454 (13%) for the three months and nine months ended September 30, 2010 when compared to the same periods in 2009, primarily due to declines in overdraft charges, which is partially due to the adoption of Regulation E. Regulation E has negatively impacted overdraft income due to new requirements on debit card and ATM transactions. The long-term impact cannot be fully determined.

Gain on sale of loans increased $157,642 (50%) and $15,398 (1%) for the three months and nine months ended September 30, 2010 when compared to the same period in 2009 due to favorable mortgage rates resulting in increased volume on fixed rate mortgage loan sales.

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Noninterest Expense

Noninterest expense increased $314,665 (9%) for the three months ended September 30, 2010 and decreased $70,553 (1%) for the nine months ended September 30, 2010 when compared to the same periods in 2009.

Salaries and employee benefits increased $146,039 (7%) and $323,070 (5%) for the three months and nine months ended September 30, 2010 when compared to the same periods in 2009. This increase was primarily due to a few key personnel additions in the latter half of the third quarter of 2009 and the second quarter of 2010.

FDIC deposit insurance premiums decreased $25,931 (8%) and $346,538 (27%) for the three months and nine months ended September 30, 2010 when compared to the same periods in 2009. The decrease for the nine month period was due to the special assessment of $341,000 incurred as of June 30, 2009.

Other expense increased $182,953 (38%) and $70,021 (4%) for the three months and nine months ended September 30, 2010 when compared to the same periods in 2009. The significant increase for the three month period relates to various other noninterest expense changes and items related to federal income tax credits purchased in 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 nine months ended September 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 September 30, 2010 and December 31, 2009 was 61.7% and 41.1%, respectively. Total loans classified as substandard, doubtful or loss as of September 30, 2010, were $51.1 million or 7.24% 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 September 30, 2010, the allowance for loan losses decreased $1.5 million (11%) 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.

	9/30/2010	12/31/2009	12/31/2008
Nonperforming loans	$20,319	$34,285	$20,694
Real estate acquired in settlement of loans	18,008	6,760	5,655
Total nonperforming assets	$38,327	$41,045	$26,349
Total nonperforming assets as a percentage of total assets	5.43 %	5.56 %	3.90 %

Allowance for loan losses	$12,541	$14,076	$16,728
Allowance for loan losses as a percentage of gross loans	2.48 %	2.61 %	2.92 %

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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.

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 $25,245,038 as of September 30, 2010 and $33,016,697 as of December 31, 2009, representing a decrease of $7,771,659. 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 September 30, 2010, the Bank's Tier 1 leverage ratio was 8.74%, its Tier 1 risk-based capital ratio was 11.64% and the Bank's total risk-based capital ratio was 12.90% - 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 adverse 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. To the extent this strategy is successful, the Bank is able 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 believes 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.

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Interest Rate Sensitivity Analysis

The following table sets forth as of September 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.

BP Change In Rates	Estimated Net Portfolio Value $ Amount	$ Change	% Change	NPV as % of PV Assets NPV Ratio	Change
+200	63,607	(1,773)	-2.70 %	9.08 %	-0.04 %
+100	64,385	(996)	-1.50 %	9.09 %	-0.03 %
NC	65,381	-	0.00 %	9.12 %	0.00 %
-100	67,063	1,682	2.60 %	9.24 %	0.12 %
-200	69,884	4,503	6.90 %	9.51 %	0.39 %

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 management 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.

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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 September 30, 2010.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended September 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 a material adverse effect on our financial results. This financial impact is not currently quantifiable.

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

Issuer Purchases of Equity Securities

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. The Company had no repurchase activity of the Company's common stock during the third quarter ended September 30, 2010.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. (Removed and Reserved)

Item 5. Other Information
None.

Item 6. Exhibits

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

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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)	November 15, 2010
/s/ Carter Peters Carter Peters Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 15, 2010