GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 12, 2011

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, 2011

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 x 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 August 1, 2011
Common Stock, Par Value $0.10 per share	2,677,651 Shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010

ASSETS	6/30/11	12/31/10
Cash	$3,066,911	$2,968,669
Interest-bearing deposits in other financial institutions	27,104,842	11,176,660
Cash and cash equivalents	30,171,753	14,145,329
Interest-bearing deposits	5,587,654	12,785,000
Available-for-sale securities	100,264,808	96,844,653
Held-to-maturity securities	236,194	260,956
Stock in Federal Home Loan Bank, at cost	4,959,400	5,025,200
Mortgage loans held for sale	2,174,641	2,685,163
Loans receivable, net of allowance for loan losses of June 30, 2011 - $13,947,899 - December 31, 2010 - $13,082,703	497,545,089	501,980,385
Accrued interest receivable:		
Loans	1,721,183	2,058,576
Investments and interest-bearing deposits	450,841	611,698
Prepaid expenses and other assets	7,569,243	6,161,861
Prepaid FDIC deposit insurance premiums	2,489,985	2,977,356
Foreclosed assets held for sale	9,305,881	10,539,867
Premises and equipment	11,287,097	11,324,685
Bank owned life insurance	10,608,045	10,449,630
Deferred income taxes	4,934,672	4,817,761
	$689,306,486	$682,668,120
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$485,066,934	$480,694,273
Federal Home Loan Bank advances	93,050,000	93,050,000
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	357,153	134,002
Accrued expenses and other liabilities	1,361,925	655,404
Accrued interest payable	648,496	878,675
	635,699,508	630,627,354
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, 2011 and December 31, 2010 - 17,000 shares	16,288,131	16,150,350
Common stock, $0.10 par value; authorized 10,000,000 shares; issued June 30, 2011 and December 31, 2010 - 6,779,800 shares	677,980	677,980

Common stock warrants; June 30, 2011 and December 31, 2010 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,352,397	58,505,046
Unearned ESOP shares	(318,930)	(432,930)
Retained earnings, substantially restricted	36,496,637	35,746,914
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes	2,356,767	1,843,004
	115,230,793	113,868,175
Treasury stock, at cost; June 30, 2011 and December 31, 2010 - 4,072,156 and 4,080,220 shares, respectively	(61,623,815)	(61,827,409)
	53,606,978	52,040,766
	$689,306,486	$682,668,120

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Interest Income				
Loans	$6,822,937	$7,188,864	$13,540,009	$14,383,117
Investment securities	737,290	920,866	1,462,501	1,857,809
Other	81,267	118,885	169,102	252,971
	7,641,494	8,228,615	15,171,612	16,493,897
Interest Expense				
Deposits	1,510,473	2,474,014	3,110,414	5,308,128
Federal Home Loan Bank advances	607,060	787,430	1,207,439	1,566,306
Subordinated debentures	133,990	255,946	340,802	511,892
Other	288,697	288,698	567,876	575,567
	2,540,220	3,806,088	5,226,531	7,961,893
Net Interest Income	5,101,274	4,422,527	9,945,081	8,532,004
Provision for Loan Losses	1,000,000	950,000	1,900,000	1,900,000
Net Interest Income After Provision for Loan Losses	4,101,274	3,472,527	8,045,081	6,632,004
Noninterest Income				
Service charges	358,732	408,098	697,963	786,550
Other fees	6,140	7,190	13,337	13,668
Gain on sale of investment securities	112,094	13,613	115,798	173,888
Gain on sale of loans	252,135	359,222	530,335	657,539
Loss on foreclosed assets	(289,230)	(55,546)	(423,217)	(10,713)
Other income	275,328	310,352	538,882	596,369
	715,199	1,042,929	1,473,098	2,217,301
Noninterest Expense				
Salaries and employee benefits	2,190,507	2,122,956	4,455,658	4,188,458
Occupancy	421,661	419,710	848,526	844,727
FDIC deposit insurance premiums	234,776	314,769	520,520	624,423
Data processing	135,909	107,123	275,569	214,422
Advertising	75,000	75,000	150,000	150,000
Other expense	860,954	839,254	1,820,758	1,612,801
	3,918,807	3,878,812	8,071,031	7,634,831
Income Before Income Taxes	897,666	636,644	1,447,148	1,214,474
Provision for Income Taxes	108,124	144,141	134,644	246,105
Net Income	789,542	492,503	1,312,504	968,369
Preferred Stock Dividends and Discount Accretion	281,390	281,390	562,781	562,781
Net Income Available to Common Shareholders	$508,152	$211,113	$749,723	$405,588
Basic Income Per Common Share	$0.19	$0.08	$0.28	$0.15
Diluted Income Per Common Share	$0.19	$0.08	$0.28	$0.15

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, 2011 (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, 2011	$16,150,350	$677,980	$1,377,811	$58,505,046	$(432,930)	$(61,827,409)	$35,746,914	$1,843,00
Comprehensive income								
Net income	-	-	-	-	-	-	1,312,504	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	513,763
Total comprehensive income								
Preferred stock discount accretion	137,781	-	-	-	-	-	(137,781)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(425,000)	-
Stock award plans	-	-	-	51,411	-	-	-	-
Treasury stock re-issued	-	-	-	(156,806)	-	256,823	-	-
Treasury stock purchased	-	-	-	-	-	(53,229)	-	-
Release of ESOP shares	-	-	-	(47,254)	114,000	-	-	-
Balance, June 30, 2011	$16,288,131	$677,980	$1,377,811	$58,352,397	$(318,930)	$(61,623,815)	$36,496,637	$2,356,76

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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

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GUARANTY FEDERAL BANCSHARES, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

	6/30/2011	6/30/2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$1,312,504	$968,369
Items not requiring (providing) cash:		
Deferred income taxes	(418,644)	736,778
Depreciation	338,285	418,398
Provision for loan losses	1,900,000	1,900,000
Gain on loans and investment securities	(646,133)	(831,427)
Loss (gain) on sale of foreclosed assets	230,803	(42,745)
Accretion of gain on termination of interest rate swaps	-	(508,746)
Amortization of deferred income, premiums and discounts	298,965	229,981
Stock award plan expense	51,411	53,972
Treasury stock re-issued	100,017	-
Origination of loans held for sale	(21,501,910)	(27,367,126)
Proceeds from sale of loans held for sale	22,542,767	29,843,573
Release of ESOP shares	66,746	48,405
Increase in cash surrender value of bank owned life insurance	(158,415)	(198,111)
Changes in:		
Accrued interest receivable	498,250	16,605
Prepaid expenses and other assets	(77,925)	821,859
Accounts payable and accrued expenses	476,342	(765,363)
Net cash provided by operating activities	5,013,063	5,324,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	1,320,664	13,286,301
Principal payments on held-to-maturity securities	24,762	75,966
Principal payments on available-for-sale securities	6,299,171	6,986,387
Proceeds from maturities of available-for-sale securities	13,150,000	15,956,500
Purchase of premises and equipment	(300,697)	(183,240)
Purchase of available-for-sale securities	(27,576,346)	(47,687,802)
Proceeds from sale of available-for-sale securities	5,402,980	8,909,648
Purchase of interest-bearing deposits	-	(12,501,000)
Proceeds from maturities of interest-bearing deposits	7,197,346	10,883,983
Redemption (purchase) of Federal Home Loan Bank stock	65,800	(72,100)
Purchase of tax credit investments	(842,086)	-
Capitalized costs on foreclosed assets held for sale	(102,804)	(28,664)
Insurance proceeds on foreclosed assets held for sale	-	575,879
Proceeds from sale of foreclosed assets held for sale	2,256,988	2,109,717
Net cash provided by (used in) investing activities	6,895,778	(1,688,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW and savings accounts	13,404,970	811,250
Net decrease in certificates of deposit	(9,032,309)	(7,928,954)
Advances from borrowers for taxes and insurance	223,151	226,791
Cash dividends paid on preferred stock	(425,000)	(425,000)
Treasury stock purchased	(53,229)	(6,540)
Net cash provided by (used in) financing activities	4,117,583	(7,322,453)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,026,424	(3,686,456)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,145,329	33,016,697
CASH AND CASH EQUIVALENTS, END OF PERIOD	$30,171,753	$29,330,241

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed 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 Guaranty Federal Bancshares, Inc.'s (the "Company") Form 10-K annual report for 2010 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, 2010, has been derived from the audited consolidated balance sheet 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.

Certain reclassifications have been made to the 2010 condensed consolidated financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on net income.

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, 2011				
Equity Securities	$102,212	$4,514	$(33,709)	$73,017
Debt Securities:				
U. S. government agencies	30,942,605	126,337	(29,449)	31,039,493
U. S. treasuries	4,485,832	39,500	-	4,525,332
Municipals	1,775,859	15,044	(10,556)	1,780,347
Government sponsored mortgage-backed securities	59,217,398	3,629,221	-	62,846,619
	$96,523,906	$3,814,616	$(73,714)	$100,264,808

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2010				
Equity Securities	$102,212	$7,089	$(31,381)	$77,920
Debt Securities:				
U. S. government agencies	27,409,482	222,014	(128,414)	27,503,082
Government sponsored mortgage-backed securities	66,407,555	2,865,745	(9,649)	69,263,651
	$93,919,249	$3,094,848	$(169,444)	$96,844,653

Maturities of available-for-sale debt securities as of June 30, 2011:

Maturities of Available for Sale	Amortized Cost	Approximate Fair Value
1-5 years	$ 34,428,437	$ 34,586,829
6-10 years	1,000,000	977,996
Over 10 years	1,775,859	1,780,347
Government sponsored mortgage-backed securities not due on a single maturity date	59,217,398	62,846,619
	$ 96,421,694	$ 100,191,791

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, 2011				
Debt Securities:				
Government sponsored mortgage-backed securities	$236,194	$18,419	$-	$ 254,613
	$236,194	$18,419	$-	$ 254,613

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2010				
Debt Securities:				
Government sponsored mortgage-backed securities	$260,956	$20,828	$-	$ 281,784
	$260,956	$20,828	$-	$ 281,784

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Maturities of held-to-maturity securities as of June 30, 2011:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$ 236,194	$ 254,613
	$ 236,194	$ 254,613

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $66,654,778 and $60,631,261 as of June 30, 2011 and December 31, 2010, respectively. The approximate fair value of pledged securities amounted to $70,059,204 and $62,981,616 as of June 30, 2011 and December 31, 2010, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of $115,798 and $173,888 for the six months ended June 30, 2011 and 2010, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was $42,845 and $64,339 for the six months ended June 30, 2011 and 2010, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. 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, 2011 and December 31, 2010, was $5,727,307 and $5,386,231, respectively, which is approximately 6% and 6% 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.

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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, 2011 and December 31, 2010.

	June 30, 2011					
	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	$-	$-	$37,825	$(33,709)	$37,825	$(33,709)
U. S. government agencies	4,470,550	(29,449)	-	-	4,470,550	(29,449)
Municipals	1,218,932	(10,556)	-	-	1,218,932	(10,556)
	$5,689,482	$(40,005)	$37,825	$(33,709)	$5,727,307	$(73,714)

	December 31, 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	$-	$-	$40,153	$(31,381)	$40,153	$(31,381)
U. S. government agencies	4,374,049	(128,414)	-	-	4,374,049	(128,414)
Government sponsored mortgage-backed securities	972,029	(9,649)	-	-	972,029	(9,649)
	$5,346,078	$(138,063)	$40,153	$(31,381)	$5,386,231	$(169,444)

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Note 4: Loans and Allowance for Loan Losses

Categories of loans at June 30, 2011 and December 31, 2010 include:

	June 30, 2011	December 31, 2010
Real estate - residential mortgage:		
One to four family units	$ 102,150,104	$ 103,052,035
Multi-family	48,884,126	44,138,034
Real estate - construction	53,960,942	63,308,397
Real estate - commercial	193,703,722	195,889,801
Commercial loans	89,213,299	85,427,589
Consumer and other loans	23,823,038	23,425,843
Total loans	511,735,231	515,241,699
Less:		
Allowance for loan losses	(13,947,899)	(13,082,703)
Deferred loan fees/costs, net	(242,243)	(178,611)
Net loans	$ 497,545,089	$ 501,980,385

Classes of loans by aging at June 30, 2011 and December 31, 2010 were as follows:

As of June 30, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
				(In Thousands)			
Real estate - residential mortgage:							
One to four family units	$ 96	$ 221	$ 2,527	$ 2,844	$ 99,306	$ 102,150	$ -
Multi-family	-	-	-	-	48,884	48,884	-
Real estate - construction	191	762	-	953	53,008	53,961	-
Real estate - commercial	378	-	2,812	3,190	190,514	193,704	-
Commercial loans	-	413	166	579	88,634	89,213	-
Consumer and other loans	70	458	51	579	23,244	23,823	-
Total	$ 735	$ 1,854	$ 5,556	$ 8,145	$ 503,590	$ 511,735	$ -

As of December 31, 2010

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans >

							90 Days and Accruing
				(In Thousands)			
Real estate - residential mortgage:							
One to four family units	$ 1,158	$ 562	$ 1,591	$ 3,311	$ 99,741	$ 103,052	$ -
Multi-family	-	-	-	-	44,138	44,138	-
Real estate - construction	1,969	89	311	2,369	60,939	63,308	-
Real estate - commercial	-	234	-	234	195,656	195,890	-
Commercial loans	2,571	-	2,021	4,592	80,836	85,428	-
Consumer and other loans	100	25	29	154	23,272	23,426	-
Total	$ 5,798	$ 910	$ 3,952	$ 10,660	$ 504,582	$ 515,242	$ -

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Nonaccruing loans are summarized as follows:

	June 30, 2011	December 31, 2010
Real estate - residential mortgage:		
One to four family units	$ 4,908,201	$ 3,119,760
Multi-family	-	-
Real estate - construction	11,360,907	8,934,666
Real estate - commercial	7,517,708	2,980,117
Commercial loans	3,121,510	7,743,116
Consumer and other loans	825,981	234,475
Total	$ 27,734,307	$ 23,012,134

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of and for the three months and six months ended June 30, 2011 and the year ended December 31, 2010:

Three months ended June 30, 2011	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:					(In Thousands)			
Balance, beginning of period	$5,291	$ 1,926	$1,966	$ 521	$ 2,011	$409	$ 785	$12,909
Provision charged to expense	(250)	1,113	188	1	224	68	(344)	$1,000
Losses charged off	(6)	-	-	-	(8)	(24)	-	$(38)
Recoveries	1	14	2	-	43	17	-	$77
Balance, end of period	$5,036	$ 3,053	$2,156	$ 522	$ 2,270	$470	$ 441	$13,948

Six months ended June 30, 2011	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:					(In Thousands)			
Balance, beginning of period	$4,547	$ 3,125	$1,713	$ 528	$ 2,483	$687	$ -	$13,083
Provision charged to expense	554	1,386	706	(6)	236	(1,417)	441	$1,900
Losses charged off	(76)	(1,475)	(265)	-	(526)	(64)	-	$(2,406)
Recoveries	11	17	2	-	77	1,264	-	$1,371
Balance, end of period	$5,036	$ 3,053	$2,156	$ 522	$ 2,270	$470	$ 441	$13,948

As of June 30, 2011

	$3,469	$1,297	$713	$-	$787	$138	$-	$6,404

Ending balance: individually evaluated for impairment								
Ending balance: collectively evaluated for impairment	$1,567	$1,756	$1,443	$522	$1,483	$332	$441	$7,544
Loans:								
Ending balance: individually evaluated for impairment	$11,758	$9,145	$5,407	$-	$3,296	$1,189	$-	$30,795
Ending balance: collectively evaluated for impairment	$42,203	$184,559	$96,743	$48,884	$85,917	$22,634	$-	$480,940

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December 31, 2010	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:				(In Thousands)				
Balance, beginning of year	$2,810	$ 2,923	$1,646	$ 393	$ 3,554	$2,750	$ -	$14,076
Provision charged to expense	5,620	563	948	135	716	(2,782)	-	$5,200
Losses charged off	(3,893)	(373)	(906)	-	(1,847)	(366)	-	$(7,385)
Recoveries	10	12	25	-	60	1,085	-	$1,192
Balance, end of year	$4,547	$ 3,125	$1,713	$ 528	$ 2,483	$687	$ -	$13,083
Ending balance: individually evaluated for impairment	$3,134	$ 1,384	$149	$ -	$ 1,052	$307	$ -	$6,026
Ending balance: collectively evaluated for impairment	$1,413	$ 1,741	$1,564	$ 528	$ 1,431	$380	$ -	$7,057
Loans:								
Ending balance: individually evaluated for impairment	$9,281	$ 5,150	$3,363	$ -	$ 8,409	$1,008	$ -	$27,211
Ending balance: collectively evaluated for impairment	$54,027	$ 190,740	$99,689	$ 44,138	$ 77,019	$22,418	$ -	$488,031

Activity in the allowance for loan losses was as follows for six months ended June 30, 2010:

	June 30, 2010
Balance, beginning of period	$ 14,076,123
Provision charged to expense	1,900,000
Losses charged off, net of recoveries	(4,039,283)
Balance, end of period	$ 11,936,840

The following tables present impaired loans as of and for the three months and six months ended June 30, 2011 and the year ended December 31, 2010:

June 30, 2011				Quarter To Date		Year To Date	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
				(In Thousands)			

Real estate - residential mortgage:							
One to four family units	$5,407	$5,831	$713	$5,128	$25	$4,463	$59
Multi-family	-	-	-	-	-	-	-
Real estate - construction	11,758	11,991	3,469	11,951	1	11,577	2
Real estate - commercial	9,145	10,484	1,297	7,699	28	6,302	39
Commercial loans	3,296	3,744	787	3,794	34	5,601	69
Consumer and other loans	1,189	1,190	138	1,178	18	1,134	36
Total	$30,795	$33,240	$6,404	$29,750	$106	$29,077	$205

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December 31, 2010	Recorded Balance	Unpaid Principal Balance	Specific Allowance (In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Real estate - residential mortgage:					
One to four family units	$3,363	$3,380	$149	$4,521	$185
Multi-family	-	-	-	1,007	-
Real estate - construction	9,281	10,683	3,134	7,221	9
Real estate - commercial	5,150	5,150	1,384	3,671	30
Commercial loans	8,409	10,364	1,052	8,383	41
Consumer and other loans	1,008	1,011	307	4,193	93
Total	$27,211	$30,588	$6,026	$28,996	$358

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of June 30, 2011 and December 31, 2010:

June 30, 2011	Construction	Commercial Real Estate	One to four family	Multi-family (In Thousands)	Commercial	Consumer and Other	Total
Rating:							
Pass	$34,581	$ 165,493	$92,469	$ 48,380	$ 81,303	$21,794	$444,020
Special Mention	5,167	6,203	2,994	504	1,840	203	16,911
Substandard	14,213	22,008	6,687	-	6,070	1,826	50,804
Total	$53,961	$ 193,704	$102,150	$ 48,884	$ 89,213	$23,823	$511,735

December 31, 2010	Construction	Commercial Real Estate	One to four family	Multi-family (In Thousands)	Commercial	Consumer and Other	Total
Rating:							
Pass	$45,307	$ 173,210	$93,816	$ 44,138	$ 73,291	$21,580	$451,342
Special Mention	4,621	7,604	2,962	-	1,028	4	16,219
Substandard	13,380	15,076	6,274	-	11,109	1,842	47,681
Total	$63,308	$ 195,890	$103,052	$ 44,138	$ 85,428	$23,426	$515,242

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described fully in the Company's December 31, 2010 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, 2011:

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	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2011	194,750	170,829	$16.14
Granted	-	-	-
Exercised	-	-	-
Forfeited	(3,750)	-	10.63
Balance outstanding as of June 30, 2011	191,000	170,829	16.20
Options exercisable as of June 30, 2011	109,600	105,829	20.51

Stock-based compensation expense recognized for the three months ended June 30, 2011 and 2010 was $25,662 and $25,573, respectively. Stock-based compensation expense recognized for the six months ended June 30, 2011 and 2010 was $51,411 and $53,972, respectively. As of June 30, 2011, there was $222,981 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

In January 2011, the Company granted restricted stock to directors that was fully vested and thus, expensed in full during the six months ended June 30, 2011. The amount expensed was $100,017 for the first quarter which represents 16,952 shares of common stock at a market price of $5.90 at the date of grant.

Note 6: Income Per Common Share

	For three months ended June 30, 2011			For six months ended June 30, 2011		
	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	$508,152	2,672,325	$0.19	$749,723	2,670,675	$0.28
Effect of Dilutive Securities		29,712			23,562	
Diluted Income Per Common Share	$508,152	2,702,037	$0.19	$749,723	2,694,237	$0.28

	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		37,972			16,751	
Diluted Income Per Common Share	$211,113	2,679,249	$0.08	$405,588	2,655,683	$0.15

Stock options to purchase 304,329 and 334,579 shares of common stock were outstanding during the three months ended June 30, 2011and 2010, respectively, and stock options to purchase 361,829 and 334,579 shares of common stock were outstanding during the six months ended June 30, 2011and 2010, respectively, but were not included in the computation of diluted income per common share because their exercise prices were greater than the average market price of the common shares. Stock warrants to purchase 459,459 shares of common stock were outstanding during the three and six months ended June 30, 2011 and 2010, and were included in the computation of diluted income per common share because their exercise price was less than the average market price of the common shares during those periods.

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Note 7: Other Comprehensive Income

Other comprehensive income components and related taxes for the six months ended June 30, 2011 and 2010, were as follows:

	6/30/2011	6/30/2010
Unrealized gains on available-for-sale securities	$ 931,294	$ 2,528,826
Accretion of gains on interest rate swaps into income	-	(508,746)
Less: Reclassification adjustment for realized gains included in income	(115,798)	(173,888)
Other comprehensive income, before tax effect	815,496	1,846,192
Tax expense	301,733	683,091
Other comprehensive income	$ 513,763	$ 1,163,101

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

	6/30/2011	12/31/2010
Unrealized gain on available-for-sale securities	$ 3,740,902	$ 2,925,404
Tax effect	1,384,135	1,082,400
Net of tax amount	$ 2,356,767	$ 1,843,004

Note 8: New Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The provisions of ASU No. 2010-20 required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses effective for the Company's reporting period ended March 31, 2011. The amendments in ASU No. 2011-01 deferred the effective date related to these disclosures, until after the FASB completes its project clarifying the guidance for determining what constitutes a troubled debt restructuring.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 will be effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2011, FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The adoption of ASU No.2011-04 is not expected to have a material effect on the Company's consolidated financial statements.

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Note 9: 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.

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, 2011 and December 31, 2010 (dollar amounts in thousands):

6/30/2011				
Financial assets:				
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 73	$ -	$ -	$ 73
Debt securities:				
U.S. government agencies	-	31,040	-	31,040
U.S. treasuries	4,525	-	-	4,525
Municipals	-	1,780	-	1,780
Government sponsored mortgage-backed securities	-	62,847	-	62,847
Available-for-sale securities	$ 4,598	$ 95,667	$ -	$ 100,265

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12/31/2010

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 78	$ -	$ -	$ 78
Debt securities:				
U.S. government agencies	-	27,503	-	27,503
Government sponsored mortgage-backed securities	-	69,264	-	69,264
Available-for-sale securities	$ 78	$ 96,767	$ -	$ 96,845

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 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, 2011 and December 31, 2010 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2011	$-	$-	$8,259	$8,259
December 31, 2010	$-	$-	$16,163	$16,163

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2011	$-	$-	$1,182	$1,182
December 31, 2010	$-	$-	$6,686	$6,686

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets 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 balance sheets approximate those assets' fair value.

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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 June 30, 2011 and December 31, 2010.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 30,171,753	$ 30,171,753	$ 14,145,329	$ 14,145,329
Interest-bearing deposits	5,587,654	5,587,654	12,785,000	12,785,000
Held-to-maturity securities	236,194	254,613	260,956	281,784
Federal Home Loan Bank stock	4,959,400	4,959,400	5,025,200	5,025,200
Mortgage loans held for sale	2,174,641	2,174,641	2,685,163	2,685,163
Loans, net	497,545,089	506,984,522	501,980,385	508,839,154
Interest receivable	2,172,024	2,172,024	2,670,274	2,670,274
Financial liabilities:				
Deposits	485,066,934	486,978,319	480,694,273	482,094,550
Federal Home Loan Bank advances	93,050,000	92,769,076	93,050,000	92,694,525
Securities sold under agreements to repurchase	39,750,000	40,616,433	39,750,000	40,473,482
Subordinated debentures	15,465,000	15,465,000	15,465,000	15,465,000
Interest payable	648,496	648,496	878,675	878,675
Unrecognized financial instruments				