GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
May 16, 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 March 31, 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 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 May 6, 2011
Common Stock, Par Value $0.10 per share	2,672,359 Shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	3/31/11	12/31/10
Cash	$2,994,369	$2,968,669
Interest-bearing deposits in other financial institutions	37,694,911	11,176,660
Cash and cash equivalents	40,689,280	14,145,329
Interest-bearing deposits	5,587,654	12,785,000
Available-for-sale securities	98,727,919	96,844,653
Held-to-maturity securities	246,083	260,956
Stock in Federal Home Loan Bank, at cost	5,025,200	5,025,200
Mortgage loans held for sale	280,500	2,685,163
Loans receivable, net of allowance for loan losses of March 31, 2011 - $12,909,473 - December 31, 2010 - $13,082,703	492,044,408	501,980,385
Accrued interest receivable:		
Loans	1,757,204	2,058,576
Investments and interest-bearing deposits	412,713	611,698
Prepaid expenses and other assets	6,932,485	6,161,861
Prepaid FDIC deposit insurance premiums	2,712,475	2,977,356
Foreclosed assets held for sale	10,850,102	10,539,867
Premises and equipment	11,295,444	11,324,685
Bank owned life insurance	10,529,434	10,449,630
Deferred income taxes	4,860,347	4,817,761
	$691,951,248	$682,668,120
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$489,806,563	$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	231,450	134,002
Accrued expenses and other liabilities	633,540	655,404
Accrued interest payable	684,795	878,675
	639,621,348	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 March 31, 2011 and December 31, 2010 - 17,000 shares	16,219,241	16,150,350
Common stock, $0.10 par value; authorized 10,000,000 shares; issued March 31, 2011 and December 31, 2010 - 6,779,800 shares;	677,980	677,980

Common stock warrants; March 31, 2011 and December 31, 2010 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,349,490	58,505,046
Unearned ESOP shares	(375,930)	(432,930)
Retained earnings, substantially restricted	35,988,485	35,746,914
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes	1,708,981	1,843,004
	113,946,058	113,868,175
Treasury stock, at cost; March 31, 2011 and December 31, 2010 - 4,070,860 and 4,080,220 shares, respectively	(61,616,158)	(61,827,409)
	52,329,900	52,040,766
	$691,951,248	$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 ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	3/31/2011	3/31/2010
Interest Income		
Loans	$6,717,072	$7,194,253
Investment securities	725,211	936,943
Other	87,835	134,086
	7,530,118	8,265,282
Interest Expense		
Deposits	1,599,941	2,834,114
Federal Home Loan Bank advances	600,379	778,876
Subordinated debentures	206,812	255,946
Other	279,179	286,869
	2,686,311	4,155,805
Net Interest Income	4,843,807	4,109,477
Provision for Loan Losses	900,000	950,000
Net Interest Income After Provision for Loan Losses	3,943,807	3,159,477
Noninterest Income		
Service charges	339,231	378,452
Other fees	7,197	6,478
Gain on sale of investment securities	3,704	160,275
Gain on sale of loans	278,200	298,317
Gain (loss) on foreclosed assets	(133,987)	44,833
Other income	263,554	286,017
	757,899	1,174,372
Noninterest Expense		
Salaries and employee benefits	2,265,151	2,065,502
Occupancy	426,865	425,017
FDIC deposit insurance premiums	285,744	309,654
Data processing	139,660	107,299
Advertising	75,000	75,000
Other expense	959,804	773,547
	4,152,224	3,756,019
Income Before Income Taxes	549,482	577,830
Provision for Income Taxes	26,520	101,964
Net Income	522,962	475,866
Preferred Stock Dividends and Discount Accretion	281,391	281,391
Net Income Available to Common Shareholders	$241,571	$194,475
Basic Income Per Common Share	$0.09	$0.07
Diluted Income Per Common Share	$0.09	$0.07

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 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	-	-	-	-	-	-	522,962	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	(134,023
Total comprehensive income								
Preferred stock discount accretion	68,891	-	-	-	-	-	(68,891)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	25,749	-	-	-	-
Treasury stock re-issued	-	-	-	(156,806)	-	256,823	-	-
Treasury stock purchased	-	-	-	-	-	(45,572)	-	-
Release of ESOP shares	-	-	-	(24,499)	57,000	-	-	-
Balance, March 31, 2011	$16,219,241	$677,980	$1,377,811	$58,349,490	$(375,930)	$(61,616,158)	$35,988,485	$1,708,98

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 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	-	-	-	-	-	-	475,866	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	(127,970
Total comprehensive income								
Preferred stock discount accretion	68,890	-	-	-	-	-	(68,890)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	28,399	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(2,012)	-	-
Release of ESOP shares	-	-	-	(31,139)	57,000	-	-	-
Balance, March 31, 2010	$15,943,678	$677,980	$1,377,811	$58,520,906	$(603,930)	$(61,822,881)	$35,936,181	$1,568,53

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	3/31/2011	3/31/2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$522,962	$475,866
Items not requiring (providing) cash:		
Deferred income taxes	36,126	739,716
Depreciation	177,507	207,075
Provision for loan losses	900,000	950,000
Gain on loans and investment securities	(281,904)	(458,592)
(Gain) loss on sale of foreclosed assets	51,769	(90,619)
Accretion of gain on termination of interest rate swaps	-	(254,373)
Amortization of deferred income, premiums and discounts	(9,346)	(11,650)
Stock award plan expense	25,749	28,399
Origination of loans held for sale	(10,525,511)	(12,520,610)
Proceeds from sale of loans held for sale	13,208,374	14,465,014
Release of ESOP shares	32,501	25,861
Treasury shares re-issued	100,017	-
Increase in cash surrender value of bank owned life insurance	(79,804)	(100,146)
Changes in:		
Prepaid FDIC deposit insurance premiums	264,881	295,204
Accrued interest receivable	500,357	358,593
Prepaid expenses and other assets	141,333	118,846
Accounts payable and accrued expenses	(215,744)	(132,467)
Income taxes receivable	-	(637,751)
Net cash provided by operating activities	4,849,267	3,458,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	8,022,272	10,510,939
Principal payments on available-for-sale securities	3,812,706	3,332,230
Principal payments on held-to-maturity securities	14,873	57,308
Proceeds from maturities of available-for-sale securities	10,500,000	12,456,500
Purchase of premises and equipment	(148,266)	(139,662)
Purchase of available-for-sale securities	(17,142,280)	(33,686,763)
Proceeds from sale of available-for-sale securities	737,277	7,778,597
Purchase of interest-bearing deposits	-	(12,501,000)
Proceeds from maturities of interest-bearing deposits	7,197,346	5,788,983
Purchase of tax credit investments	(911,957)	-
Capitalized costs on foreclosed assets held for sale	(85,586)	(6,966)
Proceeds from sale of foreclosed assets held for sale	746,633	976,793
Net cash provided by (used in) investing activities	12,743,018	(5,433,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts and savings accounts	11,773,317	2,336,467
Net decrease in certificates of deposit	(2,661,027)	(5,858,550)
Advances from borrowers for taxes and insurance	97,448	116,428
Preferred cash dividends paid	(212,500)	(212,500)
Treasury stock purchased	(45,572)	(2,012)
Net cash provided by (used in) financing activities	8,951,666	(3,620,167)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,543,951	(5,594,842)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,145,329	33,016,697
CASH AND CASH EQUIVALENTS, END OF PERIOD	$40,689,280	$27,421,855

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in 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 March 31, 2011				
Equity Securities	$102,212	$9,767	$(30,680)	$81,299
Debt Securities:				
U. S. government agencies	31,516,913	156,185	(218,338)	31,454,760
U. S. treasuries	2,499,216	-	(5,466)	2,493,750
Government sponsored mortgage-backed securities	61,896,909	2,801,242	(41)	64,698,110
	$96,015,250	$2,967,194	$(254,525)	$98,727,919

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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 March 31, 2011:

	Amortized Cost	Approximate Fair Value
1-5 years	$32,032,642	$32,030,564
6-10 years	1,983,487	1,917,946
Government sponsored mortgage-backed securities not due on a single maturity date	61,896,909	64,698,110
	$95,913,038	$98,646,620

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 March 31, 2011				
Debt Securities:				
Government sponsored mortgage-backed securities	$246,083	$18,967	$-	$ 265,050
	$246,083	$18,967	$-	$ 265,050

	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 March 31, 2011:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$246,083	$ 265,050
	$246,083	$ 265,050

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $68,052,945 and $60,631,261 as of March 31, 2011 and December 31, 2010, respectively. The approximate fair value of pledged securities amounted to $70,654,327 and $62,981,616 as of March 31, 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 $3,704 and $160,275 as of March 31, 2011 and March 31, 2010, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was $1,370 and $59,302 as of March 31, 2011 and March 31, 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 March 31, 2011 and December 31, 2010, was $21,315,592 and $5,386,231, respectively, which is approximately 22% 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 March 31, 2011 and December 31, 2010.

	March 31, 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	$-	$-	$40,854	$(30,680)	$40,854	$(30,680)
U. S. government agencies	17,916,736	(218,338)	-	-	17,916,736	(218,338)
U. S. treasuries	2,493,750	(5,466)	-	-	2,493,750	(5,466)
Government sponsored mortgage-backed securities	864,252	(41)	-	-	864,252	(41)
	$21,274,738	$(223,845)	$40,854	$(30,680)	$21,315,592	$(254,525)

	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 March 31, 2011 and December 31, 2010 include:

	March 31, 2011	December 31, 2010
Real estate - residential mortgage:		
One to four family units	$ 102,555,697	$ 103,052,035
Multi-family	48,840,024	44,138,034
Real estate - construction	59,796,346	63,308,397
Real estate - commercial	188,198,430	195,889,801
Commercial loans	83,617,854	85,427,589
Consumer and other loans	22,114,796	23,425,843
Total loans	505,123,147	515,241,699
Less:		
Allowance for loan losses	(12,909,473)	(13,082,703)
Deferred loan fees/costs, net	(169,266)	(178,611)
Net loans	$ 492,044,408	$ 501,980,385

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

As of March 31, 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	$ 1,015	$ -	$ 1,062	$ 2,077	$ 100,479	$ 102,556	$ -
Multi-family	-	-	-	-	48,840	48,840	-
Real estate - construction	-	22	102	124	59,672	59,796	-
Real estate - commercial	410	-	167	577	187,621	188,198	-
Commercial loans	1,334	1,940	1,956	5,230	78,388	83,618	-
Consumer and other loans	209	50	71	330	21,785	22,115	-
Total	$ 2,968	$ 2,012	$ 3,358	$ 8,338	$ 496,785	$ 505,123	$ -

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:

	March 31, 2011	December 31, 2010
Real estate - residential mortgage:		
One to four family units	$ 3,205,333	$ 3,119,760
Multi-family	-	-
Real estate - construction	10,960,017	8,934,666
Real estate - commercial	2,421,045	2,980,117
Commercial loans	4,551,637	7,743,116
Consumer and other loans	252,202	234,475
Total	$ 21,390,234	$ 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 ended March 31, 2011 and the year ended December 31, 2010:

March 31, 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	803	274	518	(7)	12	(1,485)	785	$900
Losses charged off	(69)	(1,475)	(265)	-	(518)	(40)	-	$(2,367)
Recoveries	10	2	-	-	34	1,247	-	$1,293
Balance, end of period	$5,291	$ 1,926	$1,966	$ 521	$ 2,011	$409	$ 785	$12,909
Ending balance: individually evaluated for impairment	$3,491	$ 181	$518	$ -	$ 678	$86	$ -	$4,954
Ending balance: collectively evaluated for impairment	$1,800	$ 1,745	$1,448	$ 521	$ 1,333	$323	$ 785	$7,955
Loans:								
Ending balance: individually evaluated for impairment	$12,069	$ 4,211	$4,552	$ -	$ 5,794	$1,148	-	$27,774
Ending balance: collectively evaluated for impairment	$47,727	$ 183,987	$98,004	$ 48,840	$ 77,824	$20,967	-	$477,349

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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 the three months ended March 31, 2010:

		March 31, 2010
Balance, beginning of period	$	14,076,123
Provision charged to expense		950,000
Losses charged off, net of recoveries		(2,605,207)
Balance, end of period	$	12,420,916

The following summarized impaired loans at March 31, 2011 and December 31, 2010:

March 31, 2011	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In Thousands)		
Real estate - residential mortgage:					

One to four family units	$4,552	$4,558	$518	$3,797	$ 35
Multi-family	-	-	-	-	-
Real estate - construction	12,069	12,172	3,491	11,202	2
Real estate - commercial	4,211	5,225	181	4,906	11
Commercial loans	5,794	7,850	678	7,407	35
Consumer and other loans	1,148	1,149	86	1,091	18
Total	$27,774	$30,954	$4,954	$28,403	$ 101

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December 31, 2010	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In Thousands)		
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 March 31, 2011 and December 31, 2010:

March 31, 2011	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
				(In Thousands)			
Rating:							
Pass	$40,812	$ 160,624	$93,032	$ 48,333	$ 73,203	$20,130	$436,134
Special Mention	4,468	14,057	3,009	507	2,161	199	24,401
Substandard	14,516	13,517	6,515	-	8,254	1,786	44,588
Total	$59,796	$ 188,198	$102,556	$ 48,840	$ 83,618	$22,115	$505,123

December 31, 2010	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
				(In Thousands)			
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

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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 three months ended March 31, 2011:

	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	-	-	-
Balance outstanding as of March 31, 2011	194,750	170,829	16.14
Options exercisable as of March 31, 2011	109,350	100,829	20.18

Stock-based compensation expense recognized for the three months ended March 31, 2011 and 2010 was $25,749 and $28,399, respectively. As of March 31, 2011, there was $250,039 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 three months ended March 31, 2011. The amount expensed was $100,017 for the 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 March 31, 2011		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	$241,571	2,669,006	$0.09
Effect of Dilutive Securities		11,305	
Diluted Income per Common Share	$241,571	2,680,311	$0.09

	For three months ended March 31, 2010		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	$194,475	2,636,561	$0.07
Effect of Dilutive Securities		-	
Diluted Income per Common Share	$194,475	2,636,561	$0.07

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Stock options to purchase 365,579 and 329,579 shares of common stock were outstanding during the three months ended March 31, 2011and 2010, respectively, and stock warrants to purchase 459,459 shares of common stock were outstanding during the three months ended March 31, 2010, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Note 7: Other Comprehensive Income (Loss)

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

	3/31/2011	3/31/2010
Unrealized gains (losses) on available-for-sale securities	$(209,031)	$211,521
Accretion of gains on interest rate swaps into income	-	(254,373)
Less: Reclassification adjustment for realized gains included in income	(3,704)	(160,275)
Other comprehensive loss, before tax effect	(212,735)	(203,127)
Tax benefit	(78,712)	(75,157)
Other comprehensive loss	$(134,023)	$(127,970)

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

	3/31/2011	12/31/2010
Unrealized gain on available-for-sale securities	$2,712,669	$2,925,404
Tax effect	1,003,688	1,082,400
Net of tax amount	$1,708,981	$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.

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

3/31/2011				
Financial assets:				
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$81	$-	$-	$81
Debt securities:				
U.S. government agencies	-	31,455	-	31,455
U. S. treasuries	-	2,494	-	2,494
Government sponsored mortgage-backed securities	-	64,698	-	64,698
Available-for-sale securities	$81	$98,647	$-	$98,728

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

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2011	$-	$-	$3,254	$3,254
December 31, 2010	$-	$-	$16,163	$16,163

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2011	$-	$-	$775	$775
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 March 31, 2011 and December 31, 2010.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$40,689,280	$40,689,280	$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	246,083	265,050	260,956	281,784
Federal Home Loan Bank stock	5,025,200	5,025,200	5,025,200	5,025,200
Mortgage loans held for sale	280,500	280,500	2,685,163	2,685,163
Loans, net	492,044,408	498,338,660	501,980,385	508,839,154
Interest receivable	2,169,917	2,169,917	2,670,274	2,670,274
Financial liabilities:				
Deposits	489,806,563	491,626,123	480,694,273	482,094,550
Federal Home Loan Bank advances	93,050,000	91,537,691	93,050,000	92,694,525
Securities sold under agreements to repurchase	39,750,000	40,500,035	39,750,000	40,473,482
Subordinated debentures	15,465,000	15,465,000	15,465,000	15,465,000
Interest payable	684,795	684,795	878,675	878,675
Unrecognized financial instruments				
(net of contractual value):				
Commitments to extend credit	-	-	-	-
Unused lines of credit	-	-	-	-

Note 10: 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 three interest rate swap agreements with a total notional value of $90 million. At termination, the swaps had a market value (gain) of approximately $1.7 million. The gain was deferred and was accreted into income. The Company recognized $254,373 of this gain for the three months ended March 31, 2010. 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 agreement.

Note 11: 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").

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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 the Company at such time that the federal government no longer holds any of the Company’s Series A Preferred Stock.

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 March 31, 2011, and the results of operations for the three months ended March 31, 2011 and 2010.