GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 14, 2006

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, 2006

OR

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

For the transition period from _______ to _______

Commission 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)

Telephone Number: (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 [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [ ] Accelerated filer [ ]
Non-accererated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act. Yes [ ] No [X]

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

Class	Outstanding as of August 14, 2006
Common Stock, Par Value $0.10 per share	2,945,069 Shares

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005

ASSETS		6/30/06	12/31/05
Cash	$	16,156,148	17,990,774
Interest-bearing deposits in other financial institutions		2,866,366	2,515,704
Cash and cash equivalents		19,022,514	20,506,478
Available-for-sale securities		9,137,118	6,757,147
Held-to-maturity securities		867,224	944,724
Stock in Federal Home Loan Bank, at cost		5,738,700	4,978,800
Mortgage loans held for sale		2,276,742	2,092,279
Loans receivable, net of allowance for loan losses of June 30, 2006 - $5,600,869 - December 31, 2005 - $5,399,654		445,791,619	433,435,429
Accrued interest receivable:			
Loans		2,255,262	2,040,872
Investments		93,167	48,255
Prepaid expenses and other assets		1,874,028	2,604,425
Foreclosed assets held for sale		507,626	26,775
Premises and equipment		7,495,959	7,452,798
Deferred income taxes		1,051,655	112,686
	$	496,111,614	481,000,668
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Deposits	$	316,007,688	320,058,951
Federal Home Loan Bank advances		116,000,000	100,000,000
Securities sold under agreements to repurchase		2,150,065	1,594,258
Subordinated debentures		15,465,000	15,465,000
Advances from borrowers for taxes and insurance		652,401	212,320
Accrued expenses and other liabilities		467,809	288,587
Accrued interest payable		857,551	508,164
Dividend payable		460,767	459,074
Income taxes payable		-	322,165
		452,061,281	438,908,519
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY			
Common Stock:			

$0.10 par value; authorized 10,000,000 shares;			
issued June 30, 2006 - 6,630,061 shares;			
December 31, 2005 - 6,571,348 shares		663,006	657,135
Additional paid-in capital		55,082,007	53,778,686
Unearned ESOP shares		(1,458,930)	(1,572,930)
Retained earnings, substantially restricted		38,756,891	36,533,338
Accumulated other comprehensive income			
Unrealized appreciation on available-for-sale securities,			
net of income taxes; June 30, 2006 - $911,117;			
December 31, 2005 - $1,158,114		1,400,212	1,971,925
		94,443,186	91,368,154
Treasury stock, at cost; June 30, 2006 - 3,677,842 shares;			
December 31, 2005 - 3,639,301 shares		(50,392,853)	(49,276,005)
		44,050,333	42,092,149
	$	496,111,614	481,000,668

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
INTEREST INCOME				
Loans	$ 8,246,924	6,357,976	16,131,712	12,084,855
Investment securities	125,310	102,481	227,317	198,272
Other	14,035	100,458	105,155	178,706
	8,386,269	6,560,914	16,464,184	12,461,833
INTEREST EXPENSE				
Deposits	2,475,419	1,698,567	4,744,711	3,257,674
Federal Home Loan Bank advances	1,363,217	1,078,599	2,586,639	1,972,571
Subordinated debentures	258,889	-	514,835	-
Other	27,650	6,213	48,413	10,342
	4,125,175	2,783,379	7,894,598	5,240,587
NET INTEREST INCOME	4,261,094	3,777,536	8,569,586	7,221,246
PROVISION FOR LOAN LOSSES	225,000	240,000	450,000	465,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,036,094	3,537,536	8,119,586	6,756,246
NONINTEREST INCOME				
Service charges	337,667	412,123	649,922	793,471
Late charges and other fees	58,791	49,237	150,272	140,712
Gain on sale of investment securities	176,497	187,115	374,921	382,903
Gain on sale of loans	160,392	117,173	279,965	259,121
Income (loss) on foreclosed assets	(333)	1,389	(265)	4,190
Other income	225,856	74,167	325,875	144,717
	958,870	841,204	1,780,690	1,725,114
NONINTEREST EXPENSE				
Salaries and employee benefits	1,483,714	1,163,558	2,926,804	2,436,382
Occupancy	370,548	331,539	687,863	664,748
SAIF deposit insurance premiums	9,910	10,330	20,232	19,991
Data processing	70,004	91,411	125,141	179,323
Advertising	100,519	21,875	202,254	50,570
Other expense	508,805	446,984	948,600	895,076
	2,543,500	2,065,697	4,910,894	4,246,090
INCOME BEFORE INCOME TAXES	2,451,464	2,313,042	4,989,382	4,235,270
PROVISION FOR INCOME TAXES	870,074	864,327	1,843,667	1,571,781
NET INCOME	$ 1,581,390	1,448,715	3,145,715	2,663,489

BASIC EARNINGS PER SHARE	$	0.56	0.53	1.12	0.96
DILUTED EARNINGS PER SHARE	$	0.54	0.50	1.08	0.91

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2006	$ 657,135	53,778,686	(1,572,930)	(49,276,005)	36,533,338	1,971,925	42,092,149
Comprehensive income							
Net income	-	-	-	-	3,145,715	-	3,145,715
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	(571,713)	(571,713)
Total comprehensive income							2,574,002
Dividends ($0.33 per share)	-	-	-	-	(922,162)	-	922,162
Stock award plans	-	267,033	-	-	-	-	267,033
Stock options exercised	5,871	822,348	-	-	-	-	828,219
Release of ESOP shares	-	213,940	114,000	-	-	-	327,940
Treasury stock purchased	-	-	-	(1,116,848)	-	-	(1,116,848)
Balance, June 30, 2006	$ 663,006	55,082,007	(1,458,930)	(50,392,853)	38,756,891	1,400,212	44,050,333

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2005	$ 649,386	52,384,842	(1,800,930)	(45,712,994)	32,437,131	2,815,828	40,773,263
Comprehensive income							
Net income	-	-	-	-	2,663,489	-	2,663,489
Change in unrealized appreciation							
on available-for-sale securities, net							
of income taxes	-	-	-	-	-	(633,946)	(633,946)
Total comprehensive income							2,029,543
Dividends ($0.32 per share)	-	-	-	-	(884,532)	-	(884,532)
Stock award plans	-	11,582	-	-	-	-	11,582
Stock options exercised	2,469	303,496	-	-	-	-	305,965
Release of ESOP shares	-	152,886	114,000	-	-	-	266,886
Treasury stock purchased	-	-	-	(2,344,116)	-	-	(2,344,116)
Balance, June 30, 2005	$ 651,855	52,852,806	(1,686,930)	(48,057,110)	34,216,088	2,181,882	40,158,591

See Notes to Condensed Consolidated Financial Statements
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GUARANTY FEDERAL BANCSHARES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

		6/30/2006	6/30/2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$	3,145,715	2,663,489
Items not requiring (providing) cash:			
Deferred income taxes		(691,974)	(214,649)
Depreciation		325,643	393,855
Provision for loan losses		450,000	465,000
Gain on loans and investment securities		(654,886)	(642,024)
(Gain) loss on sale of premises and equipment		(150)	1,925
Gain on sale of foreclosed assets		(1,023)	(6,003)
Amortization of deferred income, premiums and discounts		62,171	(13,223)
Stock award plan expense		267,033	24,064
Origination of loans held for sale		(24,056,667)	(18,083,680)
Proceeds from sale of loans held for sale		24,152,169	18,666,581
Release of ESOP shares		327,940	266,886
Changes in:			
Accrued interest receivable		(259,302)	(344,960)
Prepaid expenses and other assets		730,397	267,858
Accounts payable and accrued expenses		530,302	156,512
Income taxes payable		(322,165)	124,956
Net cash provided by operating activities		4,004,225	3,726,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Net increase in loans		(13,380,969)	(30,507,965)
Principal payments on held-to-maturity securities		82,020	161,048
Principal payments on available-for-sale securities		81,724	-
Proceeds from maturities of available-for-sale securities		500,000	4,500,000
Purchase of premises and equipment		(373,194)	(489,550)
Proceeds from sale of premises and equipment		4,540	4,200
Purchase of available-for-sale securities		(3,780,316)	(4,962,267)
Proceeds from sale of available-for-sale securities		380,795	388,777
Purchase of FHLB stock		(759,900)	(855,800)
Proceeds from sale of foreclosed assets		22,298	337,653
Net cash used in investing activities		(17,223,002)	(31,423,904)
CASH FLOWS FROM FINANCING ACTIVITIES			
Stock options exercised		828,219	305,964
Cash dividends paid		(921,184)	(897,378)
Net increase (decrease) in demand deposits,			
NOW accounts and savings accounts		(5,855,752)	393,728
Net increase in certificates of deposit and securities sold			

under agreements to repurchase		2,360,296	3,493,595
Proceeds from FHLB advances		792,414,000	499,050,000
Repayments of FHLB advances		(776,414,000)	(479,050,000)
Advances from borrowers for taxes and insurance		440,082	485,928
Treasury stock purchased		(1,116,848)	(2,344,116)
Net cash provided by financing activities		11,734,813	21,437,451
DECREASE IN CASH AND CASH EQUIVALENTS		(1,483,964)	(6,259,596)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		20,506,478	15,896,458
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	19,022,514	9,636,862

See Notes to Condensed Consolidated Financial Statements

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.

The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K annual report for 2005 filed with the Securities and Exchange Commission. The condensed consolidated statement of financial condition of the Company as of December 31, 2005, 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.

Note 2: Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Guaranty Federal Bancshares, Inc. (the “Company”), its wholly owned subsidiary, Guaranty Bank (the “Bank”) and the wholly-owned subsidiary of the Bank, Guaranty Financial Services of Springfield, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Benefit Plans

Stock Award Plans

The Company has established four stock award plans for the benefit of certain directors, officers and employees of the Bank and its subsidiary. The plans provide a proprietary interest in the Company in a manner designed to encourage these individuals to remain with the Bank. A committee of the Bank’s Board of Directors administers the plans. The Company accounts for the cost of share purchases under the plans as a reduction of stockholders' equity. The awards vest at the rate of 20% per year over a five-year period. Compensation expense is recognized based on the Company’s stock price on the date the shares are awarded to employees.

At the annual stockholders’ meeting on October 18, 1995, the Bank’s stockholders approved the Recognition and Retention Plan (the “RRP”). Following approval of the Plan, the Bank contributed $464,643 to a separate trust to purchase the 75,106 shares of the Company’s common stock in the RRP. As of June 30, 2006 all shares in this plan have vested.

At a special stockholders’ meeting on July 22, 1998, the Company’s stockholders approved the Restricted Stock Plan (the “RSP”). Following approval of the Plan, the Company contributed $2,373,065 to a separate trust to purchase the 173,632 shares in the RSP. As of June 30, 2006 all shares in this plan have vested.

During the year ended June 30, 2000, the directors of the Company established the Stock Compensation Plan (the “2000 SCP”) with both a stock award component and a stock option component. Under the stock award component of this plan, the Committee awarded 7,125 shares of the Company's common stock. Following approval of the Plan, the Company contributed $85,945 to a separate trust to purchase the 7,125 shares in the SCP. As of June 30, 2006 all shares in this plan have vested.

During the year ended June 30, 2001, the directors of the Company established the Stock Compensation Plan (the "2001 SCP") with both a stock award component and a stock option component. Under the stock award component of this plan, the Committee awarded 10,239 shares of the Company's common stock. The shares for this plan were taken from forfeited shares in the RSP. As of June 30, 2006 there are 2,047 shares in this plan that are not vested.

The Bank recognized $6,400 and $14,271 and $8,588 and $24,064 of expense under these stock award plans in the three month and six month periods ended June 30, 2006 and 2005, respectively.

Stock Option Plans

The Company has established four stock option plans for the benefit of certain directors, officers and employees of the Bank and its subsidiary. A committee of the Company's Board of Directors administers the plans. The stock options under these plans may be either incentive stock options or nonqualified stock options. Incentive stock options can be granted only to participants who are employees of the Bank or its subsidiary. The option price must not be less than the market value of the Company stock on the date of grant. All options expire no later than ten years from the date of grant. The options vest at the rate of 20% per year over a five-year period.

At the annual stockholders' meeting on October 18, 1995, the Bank's stockholders approved the 1994 Stock Option and Incentive Plan for the benefit of certain directors, officers and employees of the Bank and its subsidiary. Under this Plan, the Committee may grant stock options for up to 187,764 shares of the Company's common stock.

At a special stockholders' meeting on July 22, 1998, the Company's stockholders approved the 1998 Stock Option and Incentive Plan. Under this plan, the Committee may grant stock options for up to 434,081 shares of the Company's common stock.

Under the stock option component of the 2000 SCP, the Committee granted nonqualified stock options for 17,875 shares of the Company's common stock.

Under the stock option component of the 2001 SCP, the Committee has granted all stock options under the plan.

During the six months ended December 31, 2003, the directors of the Company authorized the issuance of 5,000 stock options as an employment inducement to a new officer of the Bank pursuant to a stock option agreement. Stock options awarded under this agreement are considered non-qualified for federal income tax purposes.

During the year ended December 31, 2004, the directors of the Company authorized the issuance of 25,000 stock options as an employment inducement to a new officer of the Bank pursuant to a stock option agreement. Stock options awarded under this agreement are considered non-qualified for federal income tax purposes.

On May 19, 2004, the Company's stockholders voted to approve a 2004 Stock Option Plan ("2004 SOP"). The purpose of the plan is to attract and retain qualified personnel for positions of substantial responsibility. The aggregate number of shares with respect to options issued under this plan shall not exceed 250,000 shares. To date 35,000 stock options have been granted under this plan.

The table below summarizes transactions under the Company's stock option plans for six months ended June 30, 2006:

	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of December 31, 2005	164,785	175,091	15.65
Granted	10,000	10,000	28.06
Exercised	13,470	45,243	14.11
Forfeited	5,000	-	27.90
Balance outstanding as of June 30, 2006	156,315	139,848	16.60
Options exercisable as of June 30, 2006	111,017	69,743	13.48

In December, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment" (SFAS 123R). SFAS 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant and eliminates the choice to account for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), which is how the Company previously accounted for its stock options. The Company adopted SFAS 123R effective January 1, 2006 using the modified prospective method and, as such, results for prior periods have not been restated. Stock-based compensation expense will be recognized for all stock option granted or modified after January 1, 2006. In addition, unvested options existing at January 1, 2006, will be recognized in expense over the remaining vesting period. The fair value of all stock options has been estimated using the Black-Scholes option pricing model using various assumptions, some of which are highly subjective.

As a result of adopting SFAS 123R on January 1, 2006, incremental stock-based compensation expense recognized was $17,001 and $34,009 during the three months and six months ended June 30, 2006, respectively. As of June 30, 2006, there was $198,969 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

Prior to January 1, 2006, no compensation expense was recognized for stock option grants, as all such grants had an exercise price equal to the fair market value on the date of grant. The following illustrates the effect on net income and earnings per share if the Company had applied the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," prior to January 1, 2006:

		Three Months ended June 30, 2005	Six Months ended June 30, 2005
Net income, as reported	$	1,448,715	2,663,489
Less: Total stock-based employee compensation cost determined under the fair value-based method, net of income taxes		(9,105)	(17,887)
Pro forma net income	$	1,439,610	2,645,602
Earnings per share:			
Basic - as reported	$	0.53	0.96
Basic - pro forma	$	0.52	0.95
Diluted - as reported	$	0.50	0.91
Diluted - pro forma	$	0.50	0.91

Note 4: Earnings Per Share

	For three months ended June 30, 2006			For six months ended June 30, 2006		
	Income Available to Stockholders	Average Shares Outstanding	Per-share	Income Available to Stockholders	Average Shares Outstanding	Per-share
Basic Earnings per Share	$ 1,581,390	2,803,805	$ 0.56	$ 3,145,715	2,796,692	$ 1.12
Effect of Dilutive Securities:						
Stock Options		107,218			119,763	
Diluted Earnings per Share	$ 1,581,390	2,911,023	$ 0.54	$ 3,145,715	2,916,455	$ 1.08

	For three months ended June 30, 2005			For six months ended June 30, 2005		
	Income Available to Stockholders	Average Shares Outstanding	Per-share	Income Available to Stockholders	Average Shares Outstanding	Per-share
Basic Earnings per Share	$ 1,448,715	2,754,204	$ 0.53	$ 2,663,489	2,784,843	$ 0.96
Effect of Dilutive Securities:						
Stock Options		132,784			135,007	
Diluted Earnings per Share	$ 1,448,715	2,886,988	$ 0.50	$ 2,663,489	2,919,850	$ 0.91

Note 5: Other Comprehensive Income

		6/30/2006	6/30/2005
Unrealized gains (losses) on available-for-sale securities	$	(532,560)	(623,360)
Less: Reclassification adjustment for realized (gains) losses included in income		(374,921)	(382,903)
Other comprehensive income (loss), before tax effect		(904,481)	(1,006,263)
Tax expense (benefit)		(335,768)	(372,317)
OTHER COMPREHENSIVE INCOME (LOSS)	$	(571,713)	(633,946)

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

General

The primary function of the Company has been to monitor its investment in the Bank. As a result, the results of operations of the Company are derived primarily from the operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews the Company's financial condition as of June 30, 2006, and the results of operations for the three months and six months ended June 30, 2006 and 2005.

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; and other factors set forth in reports and other documents filed by the Company with the Securities and Exchange Commission 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, 2005.

Financial Condition

The Company's total assets increased $15,110,946 from $481,000,668 as of December 31, 2005, to $496,111,614 as of June 30, 2006.

Cash and cash equivalents decreased $1,483,964 (7%) from $20,506,478 as of December 31, 2005, to $19,022,514 as of June 30, 2006. The decrease is primarily due to a smaller amount of uncollected funds on deposit with a correspondent bank as of June 30, 2006, compared to December 31, 2005.

Securities available-for-sale increased $2,379,971, (35%) from $6,757,147 as of December 31, 2005, to $9,137,118 as of June 30, 2006. The increase was primarily due to the purchase of various government agency securities during the period totaling approximately $3,500,000. The Bank currently holds 42,600 shares of Federal Home Loan Mortgage Corporation ("FHLMC") stock with an amortized cost of $41,721 in the available-for-sale category. As of June 30, 2006, the gross unrealized gain on the FHLMC stock was $2,386,905, a decrease from $3,176,010 as of December 31, 2005.

Securities held-to-maturity decreased primarily due to principal repayments by $77,500 (8%) from $944,724 as of December 31, 2005, to $867,224 as of June 30, 2006.

Stock in Federal Home Loan Bank of Des Moines ("FHLB") increased by $759,900 (15%), due to the purchase of such stock necessary to meet FHLB requirements.

Net loans receivable increased by $12,356,190 (3%) from $433,435,429 as of December 31, 2005, to $445,791,619 as of June 30, 2006. Commercial real estate loans increased by $13,759,533 (11%) from $122,884,052 as of December 31, 2005, to $136,643,585 as of June 30, 2006. The Bank plans to continue its emphasis on commercial lending, while selling the majority of conforming single family loan production on the secondary market. As a result, permanent mortgage loans secured by both owner and non-owner occupied residential real estate decreased by $9,798,329 (10%). Loans held for sale increased $184,463 (9%) to $2,276,742 as of June 30, 2006, compared to $2,092,279 at December 31, 2005. The Bank also continued to be active in construction lending. Construction loans increased by $11,465,614 (16%) to $81,855,517 as of June 30, 2006, compared to $70,389,903 as of December 31, 2005. Loan growth is anticipated to continue and represents a major part of the Bank's planned asset growth. See also discussion under "Quantitative and Qualitative Disclosure about Market Risk - Asset/Liability Management."

Allowance for loan losses increased $201,215 (4%) from $5,399,654 as of December 31, 2005 to $5,600,869 as of June 30, 2006. The allowance increased due to the provision for loan losses of $450,000 recorded during this period exceeding net loan charge-offs of $248,785 during this period. Management of the Company decided to increase the allowance for loan losses by this provision charge primarily as a result of the continued growth of the Bank's loan portfolio, particularly its commercial loan portfolio. See discussion under "Results of Operations - Comparison of Three Month and Six Months Periods Ended June 30, 2006 and 2005 - Provision for Loan Losses." The allowance for loan losses as of June 30, 2006 and December 31, 2005 was 1.27% and 1.29%, respectively, of average net loans outstanding. As of June 30, 2006, the allowance for loan losses was 157% of impaired loans compared to 75% as of December 31, 2005.

Premises and equipment increased $43,161 (1%) from $7,452,798, as of December 31, 2005 to $7,495,959 as of June 30, 2006, due to purchases of equipment less depreciation recognized on these assets.

Deposits decreased $4,051,263 (1%) from $320,058,951 as of December 31, 2005, to $316,007,688 as of June 30, 2006. For the six months ended June 30, 2006, checking and savings accounts decreased by $5,855,752 (5%) and certificates of deposits increased by $1,804,489 (1%). The decrease in checking and savings was primarily due to activity in commercial demand accounts. Due to the nature of the commercial account holders business, there are large fluctuations in account balances. The increase in certificates of deposit was primarily due to the Company's decision to increase rates paid on retail certificates of deposit. As a result retail certificates of deposits increased $21,823,257 (17%) during the period. During the same period brokered certificates of deposit decreased $20,018,769 (35%). See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk - Asset/Liability Management."

FHLB advances increased by $16,000,000 from $100,000,000 as of December 31, 2005, to $116,000,000 as of June 30, 2006, due to new advances exceeding repayments. These funds were primarily used to fund new loans.

On December 15, 2005, the Company completed an offering of $15 million of "Trust Preferred Securities" (defined hereinafter). The Company formed two wholly-owned subsidiaries, each a Delaware statutory trust (each a "Trust", and collectively, the "Trusts"), for the purpose of issuing the $15 million of Trust Preferred Securities. The proceeds of the sale of Trust Preferred Securities, together with the proceeds of the Trusts' sale of their common securities to the Company for $465,000, were used by each Trust to purchase certain debentures from the Company. The Company issued 30-year junior subordinated deferrable interest debentures to the Trusts in the principal amount of $5,155,000 ("Trust I Debentures") and $10,310,000 ("Trust II Debentures", and together with the Trust I Debentures, the "Debentures") pursuant to the terms of Indentures dated December 15, 2005 by and between the Company and Wilmington Trust Company, as trustee. The Trust I Debentures bear interest at a fixed rate of 6.92%, payable quarterly. The Trust II

Debentures bear interest at a fixed rate of 6.47% for 5 years, payable quarterly, after issuance and thereafter at a floating rate equal to the three month LIBOR plus 1.45%. The interest payments by the Company to the Trusts will be used to pay the dividends payable by the Trusts to the holders of the Trust Preferred Securities. The Company has not issued additional debentures since December 15, 2005.

As a part of management's review of available funding, management continually evaluates the cost of FHLB advances, the cost of issuing junior subordinated debentures and the cost of the national brokered certificate of deposit market versus retail certificates of deposit in the local market. The aggregate of brokered certificates of deposit include both the cost of the interest paid to the depositor and the fee paid to the broker. At times, the all-inclusive cost of brokered certificates of deposit is less than the marginal cost of increasing local retail certificate of deposits. Management believes a combination of these sources of funds will provide the lowest cost long-term funding.

Advances from borrowers for taxes and insurance increased $440,081 (207%) from $212,320 as of December 31, 2005, to $652,401 as of June 30, 2006 which was due to the timing of collection and payment of real estate taxes.

Stockholders' equity (including unrealized appreciation on securities available-for-sale, net of tax) increased $1,958,184 (3%) from $42,092,149 as of December 31, 2005, to $44,050,333 as of June 30, 2006. This increase was due to several factors. The Company's net income during this period was $3,145,715 which was partially offset by dividends in the amount of $461,397 which were declared on March 16, 2006 and paid on April 14, 2006, to stockholders' of record as of March 30, 2006 and $467,809 which were declared on June 23, 2006 and paid on July 14, 2006, to stockholders' of record as of July 3, 2006. In addition, the increase in stockholders' equity was further offset as the Company repurchased 38,541 shares of treasury stock at an aggregate cost of $1,116,848 (an average cost of $28.98 per share) and a decrease in unrealized appreciation on available for sale securities, net of taxes, of $571,713 during this period. As of June 30, 2006, 2 shares of the Company's common stock remain to be repurchased under the repurchase plan announced by the Company on November 22, 2002. On a per share basis, stockholders' equity increased from $15.17 as of December 31, 2005 to $15.70 as of June 30, 2006.

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, junior subordinate debentures and other 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 net income.

The following table 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.

	Six months ended 6/30/2006			Six months ended 6/30/2005		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$ 441,900	16,132	7.30%	$ 405,957	12,085	5.95%
Investment securities	7,145	227	6.35%	9,876	198	4.01%
Other assets	9,862	105	2.13%	12,219	179	2.93%
Total interest-earning	458,907	16,464	7.18%	428,052	12,462	5.82%
Noninterest-earning	20,784			19,483		
	$ 479,691			$ 447,535		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$ 13,974	144	2.06%	$ 15,291	91	1.19%
Transaction accounts	76,313	739	1.94%	87,470	623	1.42%
Certificates of deposit	193,592	3,862	3.99%	171,507	2,543	2.97%
FHLB advances	105,811	2,587	4.89%	105,242	1,973	3.75%
Subordinated debentures	15,465	515	6.66%	-	-	0.00%
Other borrowed funds	3,488	48	2.75%	1,090	10	1.83%
Total interest-bearing	408,643	7,895	3.86%	380,600	5,240	2.75%
Noninterest-bearing	27,241			26,413		
Total liabilities	435,884			407,013		
Stockholders' equity	43,807			40,522		
	$ 479,691			$ 447,535		
Net earning balance	$ 50,264			$ 47,452		
Earning yield less costing rate			3.32%			3.07%
Net interest income, and net yield spread on interest earning assets		$ 8,569	3.73%		$ 7,222	3.37%
Ratio of interest-earning assets to interest-bearing liabilities		112%			112%	

Results of Operations - Comparison of Three Month and Six Month Periods Ended June 30, 2006 and 2005

Net income for the three months and six months ended June 30, 2006 was $1,581,390 and $3,145,715, respectively, as compared to $1,448,715 and $2,663,489, respectively, for the three months and six months ended June 30, 2005, which represents an increase in earnings of $132,675 (9%) for the three month period, and an increase in earnings of $482,226 (18%) for the six month period.

Interest Income

Total interest income for the three months and six months ended June 30, 2006, increased $1,825,355 (28%) and $4,002,351 (32%), respectively, as compared to the three months and six months ended June 30, 2005. For the three month and six month periods ended June 30, 2006 compared to the same periods in 2005, the average yield on interest earning assets increased 127 basis points to 7.26% and increased 136 basis points to 7.18%, respectively, while the average balance of interest earning assets increased $23,834,000 and $30,855,000, respectively.

Interest Expense

Total interest expense for the three months and six months ended June 30, 2006, increased $1,341,796 (48%) and $2,654,011 (51%), respectively, when compared to the three months and six months ended June 30, 2005. For the three month and six month periods ended June 30, 2006 compared to the same periods in 2005, the average cost of interest bearing liabilities increased 115 basis points to 4.01% and 111 basis points to 3.86%, respectively, while the average balance increased $22,372,000 and $28,043,000, respectively. The increase in interest expense is attributed, in part, to the issuance by the Company of $15,465,000 of 30-year junior subordinated debentures on December 15, 2005, as explained previously.

Net Interest Income

As a result of the interest income and interest expense for the three months and six months ended June 30, 2006 as discussed above, net interest income for the three months and six months ended June 30, 2006 increased $483,558 (13%) and $1,348,340 (19%), respectively, when compared to the same periods in 2005.

Provision for Loan Losses

Based primarily on the continued growth of the commercial loan portfolio, management decided to record a provision for loan losses of $225,000 and $450,000 for the three months and six months ended June 30, 2006, respectively, compared to $240,000 and $465,000 for the same periods in 2005. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential losses, 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 increased $117,666 (14%) and $55,576 (3%) for the three months and six months ended June 30, 2006, respectively, when compared to the three months and six months ended June 30, 2005. The increases for the three months and six months ended June 30, 2006, were primarily due to increases in gain on sale of loans, late charges and other income, which were partially offset by decreases in service charges and gain on sale of investments as discussed below.

Gain on sale of loans increased $43,219 (37%) and $20,844 (8%) for the three months and six months ended June 30, 2006, respectively, when compared to the same periods in 2005, which was a result of an increase in mortgages loans sold on the secondary market.

Late charges and other fees increased $9,554 (19%) and $9,560 (7%) for the three months and six months ended June 30, 2006, respectively, when compared to the same periods in 2005. These increases were primarily due to more prepayment penalties paid on loans in the three month and six month periods ended June 30, 2006, compared to the same periods in 2005.

Other income increased $151,689 (205%) and $181,158 (125%) for the three months and six months ended June 30, 2006, respectively when compared to the same periods in 2005. This increase was primarily due to profit on the sale on mortgage servicing rights that occurred during the three months and six months ended June 30, 2006. During these periods the bank recorded $118,971 profit from the sale of mortgage servicing rights. In addition, there was increase in the amount of ATM fees collected during the three months and six months ended June 30, 2006, compared to the same period in 2005.

Service charges on transaction accounts decreased by $74,456 (18%) and $143,549 (18%) during the three months and six months ended June 30, 2006, respectively, when compared to the same periods in 2005. This is a result of a decrease in the amount of “non-sufficient funds” and overdraft fees collected during this three month and six month period when compared to the same period in 2005. This decrease is a result of fewer “non-sufficient funds” checks presented per account during the three month and six month period ended June 30, 2006, compared to the same periods in 2005.

Noninterest Expense

Noninterest expense increased $477,803 (23%) and $664,804 (16%) for the three months and six months ended June 30, 2006, respectively when compared to the three months and six months ended June 30, 2005. The increases for the three months and six months ended June 30, 2006 were primarily due to increases in salaries and employee benefits and advertising, which were partially offset by decreases in data processing as discussed below.

Salaries and employee benefits increased $320,156 (28%) and $490,422 (20%) for the three months and six months ended June 30, 2006, respectively when compared to the same periods in 2005. This increase was due to several factors, including additions in executive and staff positions, pay increases to existing employees and increases in employee benefit costs during the three month and six month periods ended June 30, 2006 when compared to the same periods in 2005.

Advertising expense increased $78,644 (360%) and $151,684 (300%) for the three months and six months ended June 30, 2006, respectively when compared to the same periodsin 2005. This increase was primarily due to the Bank’s decision to increase its exposure through the use of several different advertising mediums.

Data processing expense decreased $21,407 (23%) and $54,182 (30%) for the three months and six months ended June 30, 2006 when compared to the same periods in 2005. This decrease was primarily due to the Bank’s decision to terminate its relationship with a third-party vendor that provided data processing services during the three month and six month periods ended June 30, 2006.

Provision for Income Taxes

There was an increase of $5,747 (1%) and $271,886 (17%) in the provision for income taxes for the three months and six months ended June 30, 2006, respectively, as compared to the same periods in 2005. These increases were due to an increase in before tax income of $138,422 and $754,112 for the three months and six months ended June 30, 2006, respectively, compared to the same periods in 2005.

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 Bank’s allowance for loan losses as of June 30, 2006, was $5,600,869 or 1.27% of average net loans receivable. Total assets classified as substandard, doubtful or loss as of June 30, 2006, were $8,870,846 or 1.8% of total assets. Management considered nonperforming and total classified assets in evaluating the adequacy of the Bank’s allowance for loan losses.

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

		6/30/2006	12/31/2005	12/31/2004
Nonperforming loans	$	3,099	721	1,007
Real estate acquired in settlement of loans		508	27	78
Total nonperforming assets	$	3,607	748	1,085
Total nonperforming assets as a percentage of total assets		0.73%	0.17%	0.25%
Allowance for loan losses	$	5,601	5,400	4,537
Allowance for loan losses as a percentage of average net loans		1.27%	1.29%	1.16%

The increase in nonperforming from December 31, 2005 to June 30, 2006 was primarily due to one borrower who has a total of seventeen loans that were placed on non-accrual status during this period. The total amount outstanding is approximately $2.3 million. These loans are secured by six patio homes and nine building lots, along with two unsecured loans. The Bank feels that the established allowance on this credit is adequate at this time. During this period the bank also acquired three properties through foreclosure with an estimated fair value of $502,000.

Liquidity and Capital Resources

The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from maturing investment securities, issuances of junior subordinated debentures and extensions of credit from FHLB. While scheduled loan and security repayments and the maturity of short-term investments are somewhat predictable sources of funding, deposit flows are influenced by many factors, which make their cash flows difficult to anticipate.

The Bank uses its liquidity resources principally to satisfy its ongoing commitments which include funding loan commitments, funding maturing certificates of deposit as well as deposit withdrawals, maintaining liquidity, purchasing investments, and meeting operating expenses. As of June 30, 2006, the Bank had approximately $2,738,000 in commitments to originate mortgage and commercial loans. These commitments will be funded through existing cash balances, cash flow from operations and, if required, FHLB advances. Management believes that anticipated cash flows and deposit growth will be adequate to meet the Bank's liquidity needs.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

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

The Bank is also managing interest rate risk by the origination of construction loans. As of June 30, 2006, such loans represented 18% of the net loans receivable and continue to account for a larger portion of the Bank's existing portfolio. In general, these loans have higher yields, shorter maturities and greater interest rate sensitivity than other real estate loans.

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. As of December 31, 2005, the Bank's savings accounts, checking accounts, and money market deposit accounts totaled $130,252,633 or 41% of its total deposits. As of June 30, 2006, these accounts totaled $124,396,881 or 39% of the Bank's total deposits. The Bank believes, based on historical experience, that a substantial portion of such accounts represents non-interest rate sensitive core deposits.

Interest Rate Sensitivity Analysis

The following table sets forth as of June 30, 2006 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous and permanent increases and 100, 200 and 300 basis point instantaneous and permanent decreases in market interest rates. Dollar amounts are expressed in thousands.

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+300	$ 37,686	$ (3,476)	-8%	7.90%	-0.49%
+200	39,655	(1,507)	-4%	8.23%	-0.16%
+100	40,898	(264)	-1%	8.40%	0.02%
NC	41,162	-	-	8.39%	-
-100	40,132	(1,030)	-3%	8.12%	-0.26%
-200	38,226	(2,936)	-7%	7.69%	-0.70%
-300	35,386	(5,776)	-14%	7.08%	-1.31%

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.

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

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

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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 Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company conducted an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures. Based on the foregoing, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2006.

(b) There have been no changes in the Company’s internal control over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings
Not applicable

Item 1A. Risk Factors
Not applicable

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

The following table summarizes the repurchase activity of the Company's common stock during the Company's second quarter ended June 30, 2006.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2006 to April 30, 2006	-	-	-	11,100
May 1, 2006 to May 31, 2006	11,098	29.74	11,098	2
June 1, 2006 to June 30, 2006	-	-	-	2
Total	11,098	29.74	11,098	

(1) The Company has a repurchase plan which was announced on November 22, 2002. This plan authorizes the purchase by the Company of 300,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Submission of Matters to a Vote of Common Security Holders

The annual meeting of stockholders of the Company was held on May 24, 2006. At the meeting the stockholders elected Shaun A. Burke, Kurt D. Hellweg and James R. Batten to three-year terms as directors of the Company, while Jack L. Barham, Wayne V. Barnes, Gregory V. Ostergren , James L. Sivils, III, Don M. Gibson, and Tim Rosenbury, continue to serve as directors. Also at that meeting, BKD, LLP was ratified as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006.

Director Election:		
Nominee	Votes For	Votes Withheld
Shaun A. Burke	2,345,251	60,620
Kurt D. Hellweg	2,353,102	52,769
James R. Batten	2,353,427	52,444

Auditor Ratification:	
Votes for	2,385,982
Votes against	19,060
Abstentions	829

Item 5. Other Information

None.

Item 6. Exhibits

11. Statement re computation of per share earnings (set forth in "Note 4: Earnings Per Share" of the Notes to Condensed Consolidated Financial Statements (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 Rule 13a - 14(b) and 18 U.S.C. Section 1350

32.2 CFO certification pursuant to Rule 13a - 14(b) and 18 U.S.C. Section 1350

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	August 14, 2006

Shaun A. Burke
President and Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

/s/ Bruce Winston	August 14, 2006

Bruce Winston
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)