

GUARANTY FEDERAL BANCSHARES INC

Form 10-Q

November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One) ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

OR

☐ 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

(Address of principal executive offices)

65807

(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 ☒ No ☐

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 ☐ No ☐

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 ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

☐ No ☒ x

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

Class	Outstanding as of November 3, 2010
Common Stock, Par Value \$0.10 per share	2,652,487 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	9/30/10	12/31/09
Cash	\$ 5,144,273	\$ 4,527,813
Interest-bearing deposits in other financial institutions	20,100,765	28,488,884
Cash and cash equivalents	25,245,038	33,016,697
Interest-bearing deposits	17,785,000	16,560,802
Available-for-sale securities	101,034,764	102,659,251
Held-to-maturity securities	273,256	472,783
Stock in Federal Home Loan Bank, at cost	5,381,200	5,976,600
Mortgage loans held for sale	3,637,312	3,465,080
Loans receivable, net of allowance for loan losses of September 30, 2010 - \$12,540,590 - December 31, 2009 - \$14,076,123	492,954,944	525,038,053
Accrued interest receivable:		
Loans	1,906,645	2,014,418
Investments and interest-bearing deposits	573,520	657,145
Prepaid expenses and other assets	6,438,151	6,731,409
Prepaid FDIC deposit insurance premiums	3,252,833	4,135,875
Foreclosed assets held for sale	18,008,451	6,759,648
Premises and equipment	11,453,945	11,817,516
Bank owned life insurance	10,365,381	10,069,540
Income taxes receivable	4,185,640	3,718,970
Deferred income taxes	3,176,820	4,686,065
	\$ 705,672,900	\$ 737,779,852

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits	\$ 493,687,036	\$ 513,051,102
Federal Home Loan Bank advances	101,050,000	116,050,000
Securities sold under agreements to repurchase	39,750,000	39,750,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	475,344	135,610
Accrued expenses and other liabilities	726,500	519,385
Accrued interest payable	1,005,382	1,398,122
	652,159,262	686,369,219

COMMITMENTS AND CONTINGENCIES

-

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STOCKHOLDERS' EQUITY

Capital Stock:

Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding September 30, 2010 and December 31, 2009 - 17,000 shares	16,081,459	15,874,788
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2010 and December 31, 2009 - 6,779,800 shares;	677,980	677,980

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Common stock warrants; September 30, 2010 and December 31, 2009 -

459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,506,029	58,523,646
Unearned ESOP shares	(489,930)	(660,930)
Retained earnings, substantially restricted	36,388,105	35,741,705
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	2,799,593	1,696,502
	115,341,047	113,231,502
Treasury stock, at cost; September 30, 2010 and December 31, 2009		
-4,080,220 and 4,079,067 shares, respectively	(61,827,409)	(61,820,869)
	53,513,638	51,410,633
	\$ 705,672,900	\$ 737,779,852

See Notes to Condensed Consolidated Financial Statements

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

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

See Notes to Condensed Consolidated Financial Statements

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

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income
Balance, January 1, 2010	\$15,874,788	\$677,980	\$1,377,811	\$58,523,646	\$(660,930)	\$(61,820,869)	\$35,741,705	\$1,696,500
Comprehensive income								
Net income	-	-	-	-	-	-	1,490,573	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	1,103,090
Total comprehensive income								
Preferred stock discount accretion	206,671	-	-	-	-	-	(206,671)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(637,502)	-
Stock award plans	-	-	-	80,896	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(6,540)	-	-
Release of ESOP shares	-	-	-	(98,513)	171,000	-	-	-
Balance, September 30, 2010	\$16,081,459	\$677,980	\$1,377,811	\$58,506,029	\$(489,930)	\$(61,827,409)	\$36,388,105	\$2,799,590

See Notes to Condensed Consolidated Financial Statements

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

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income
Balance, January 1, 2009	\$-	\$677,980	\$-	\$58,535,159	\$(888,930)	\$(61,813,354)	\$39,114,189	\$1,687,851
Comprehensive loss								
Net loss	-	-	-	-	-	-	(1,649,739)	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	165,641
Total comprehensive loss								
Preferred stock issued	15,622,189	-	-	-	-	-	-	-
Common stock warrants issued	-	-	1,377,811	-	-	-	-	-
Preferred stock discount accretion	183,708	-	-	-	-	-	(183,708)	-
Preferred stock dividends accrued (5%)	-	-	-	-	-	-	(566,667)	-
Stock award plans	-	-	-	70,699	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(7,515)	-	-
Release of ESOP shares	-	-	-	(74,010)	171,000	-	-	-
Balance, September 30, 2009	\$15,805,897	\$677,980	\$1,377,811	\$58,531,848	\$(717,930)	\$(61,820,869)	\$36,714,075	\$1,853,491

See Notes to Condensed Consolidated Financial Statements

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

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

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

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

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

Note 2: Principles of Consolidation

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

Note 3: Securities

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

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

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

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

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2010				
Debt Securities:				
U. S. government agencies	\$ 2,238	\$-	\$-	\$ 2,238
Government sponsored mortgage-backed securities	271,018	22,661	-	293,679
	\$ 273,256	\$ 22,661	\$-	\$ 295,917

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

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

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

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

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

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

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2010 and December 31, 2009, was \$34,696 and \$7,052,226, respectively, which is approximately 0.03% and 6.84%, respectively, of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

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

Description of Securities	September 30, 2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$-	\$-	\$34,696	\$(36,838)	\$34,696	\$(36,838)

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December 31, 2009

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

Note 4: Benefit Plans

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

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2010	148,750	136,704	\$ 19.40
Granted	45,000	45,000	5.25
Exercised	-	-	-
Forfeited	-	(10,875)	10.50
Balance outstanding as of September 30, 2010	193,750	170,829	16.17
Options exercisable as of September 30, 2010	79,250	89,329	21.49

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

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

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Note 5: Income (Loss) Per Common Share

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

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

Stock options to purchase 364,579 shares of common stock were outstanding during the three and nine months ended September 30, 2010 and 285,454 shares were outstanding during the three months ended September 30, 2009, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares. Due to the Company's net loss for the nine month period ended September 30, 2009, no potentially dilutive shares were included in the computation of diluted earnings per common share.

Note 6: Other Comprehensive Income

Other comprehensive income components and related taxes were as follows:

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

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

	9/30/2010	12/31/2009
Unrealized gain on available-for-sale securities	\$ 4,443,798	\$ 2,184,098
Unrealized gain on interest rate swaps	-	508,746
	4,443,798	2,692,844
Tax effect	1,644,205	996,342
Net of tax amount	\$ 2,799,593	\$ 1,696,502

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Note 7: New Accounting Pronouncements

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

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

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

Note 8: Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

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

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

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

9/30/2010

Financial assets:

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

12/31/2009

Financial assets:

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

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

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

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

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

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

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
September 30, 2010	\$ -			