GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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	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 T 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 "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller reporting company T

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

£ No T

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 10, 2009
Common Stock, Par Value $0.10 per share	2,625,140 Shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2009 (UNAUDITED) AND DECEMBER 31, 2008

ASSETS	6/30/09	12/31/08
Cash	$3,489,898	$3,826,567
Interest-bearing deposits in other financial institutions	40,529,599	11,270,448
Cash and cash equivalents	44,019,497	15,097,015
Interest-bearing deposits	21,404,000	-
Available-for-sale securities	108,504,661	65,505,339
Held-to-maturity securities	510,363	556,465
Stock in Federal Home Loan Bank, at cost	6,730,100	6,730,100
Mortgage loans held for sale	3,592,915	1,933,798
Loans receivable, net of allowance for loan losses of June 30, 2009 - $14,264,462 - December 31, 2008 - $16,728,492	527,216,656	556,393,243
Accrued interest receivable:		
Loans	1,973,445	2,310,062
Investments	609,351	322,388
Prepaid expenses and other assets	6,677,335	4,065,359
Foreclosed assets held for sale	5,366,465	5,655,257
Premises and equipment	12,152,973	11,323,463
Income taxes receivable	3,454,926	9,091
Deferred income taxes	4,491,042	5,768,813
	$746,703,729	$675,670,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$525,425,902	$447,079,469
Federal Home Loan Bank advances	111,436,000	132,436,000
Securities sold under agreements to repurchase	39,750,000	39,750,000
Subordinated debentures	15,465,000	15,465,000
Notes payable	-	1,435,190
Advances from borrowers for taxes and insurance	416,108	166,327
Accrued expenses and other liabilities	1,172,995	448,226
Accrued interest payable	1,608,209	1,577,279
	695,274,214	638,357,491
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Series A preferred stock, $0.01 par value; authorized 2,000,000 shares; issued and outstanding June 30, 2009 - 17,000 shares	15,737,007	-
Common stock, $0.10 par value; authorized 10,000,000 shares; issued June 30, 2009 and December 31, 2008 - 6,779,800 shares;	677,980	677,980

Common stock warrants; June 30, 2009 - 459,459 shares	1,377,811	-
Additional paid-in capital	58,532,921	58,535,159
Unearned ESOP shares	(774,930)	(888,930)
Retained earnings, substantially restricted	36,421,003	39,114,189
Accumulated other comprehensive income	1,278,592	1,687,858
	113,250,384	99,126,256
Treasury stock, at cost; June 30, 2009 and December 31, 2008 - 4,079,067and 4,077,567 shares, respectively	(61,820,869)	(61,813,354)
	51,429,515	37,312,902
	$746,703,729	$675,670,393

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Interest Income				
Loans	$7,412,658	$8,045,298	$14,857,367	$16,647,514
Investment securities	1,074,845	829,023	1,904,241	1,404,188
Other	16,609	50,883	65,805	104,535
	8,504,112	8,925,204	16,827,413	18,156,237
Interest Expense				
Deposits	3,943,129	3,520,038	7,978,435	7,506,570
Federal Home Loan Bank advances	785,395	762,156	1,567,645	1,495,445
Subordinated debentures	255,946	255,946	511,892	511,892
Other	219,904	273,570	454,393	498,869
	5,204,374	4,811,710	10,512,365	10,012,776
Net Interest Income	3,299,738	4,113,494	6,315,048	8,143,461
Provision for Loan Losses	3,300,000	5,684,079	4,280,000	6,504,079
Net Interest Income (Expense) After Provision for Loan Losses	(262)	(1,570,585)	2,035,048	1,639,382
Noninterest Income				
Service charges	472,144	502,578	897,333	961,978
Other fees	15,107	7,811	26,452	14,209
Gain (loss) on investment securities	315,439	(97,788)	315,439	(97,788)
Gain on sale of loans	444,373	257,428	799,783	488,505
Income (loss) on foreclosed assets	98,037	(32,625)	(52,675)	(45,827)
Other income	177,363	183,006	345,103	381,184
	1,522,463	820,410	2,331,435	1,702,261
Noninterest Expense				
Salaries and employee benefits	1,978,967	1,920,095	4,011,427	3,811,557
Occupancy	475,471	407,105	956,735	794,693
FDIC deposit insurance premiums	670,500	62,499	945,030	124,998
Data processing	103,856	92,517	214,458	182,333
Advertising	75,690	99,999	166,666	199,998
Other expense	730,838	630,885	1,485,571	1,200,929
	4,035,322	3,213,100	7,779,887	6,314,508
Loss Before Income Taxes	(2,513,121)	(3,963,275)	(3,413,404)	(2,972,865)
Credit for Income Taxes	(881,039)	(1,466,995)	(1,189,202)	(1,093,443)
Net Loss	(1,632,082)	(2,496,280)	(2,224,202)	(1,879,422)
Preferred Stock Dividends and Discount Accretion	281,390	-	468,984	-
Net Loss Available to Common Shareholders	$(1,913,472)	$(2,496,280)	$(2,693,186)	$(1,879,422)
Basic Loss Per Common Share	$(0.73)	$(0.96)	$(1.03)	$(0.72)
Diluted Loss Per Common Share	$(0.73)	$(0.96)	$(1.03)	$(0.72)

See Notes to Condensed Consolidated Financial Statements

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

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2009	$-	$677,980	$-	$58,535,159	$(888,930)	$(61,813,354)	$39,114,189	$1,687,85
Comprehensive loss								
Net loss	-	-	-	-	-	-	(2,224,202)	-
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	-	-	(409,266
Total comprehensive loss								
Preferred stock issued	15,622,189	-	-	-	-	-		-
Common stock warrants issued	-	-	1,377,811	-	-	-	-	-
Preferred stock discount accretion	114,818	-	-	-	-	-	(114,818)	-
Preferred stock dividends accrued (5%)	-	-	-	-	-	-	(354,166)	-
Stock award plans	-	-	-	47,448	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(7,515)	-	-
Release of ESOP shares	-	-	-	(49,686)	114,000	-	-	-
Balance, June 30, 2009	$15,737,007	$677,980	$1,377,811	$58,532,921	$(774,930)	$(61,820,869)	$36,421,003	$1,278,59

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2008	$673,649	$57,571,929	$(1,116,930)	$(60,348,204)	$45,402,449	$503,767	$42,686,660
Comprehensive income							
Net loss	-	-	-	-	(1,879,422)	-	(1,879,422)
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	(2,294,815)	(2,294,815)
Total comprehensive income							(4,174,237)
Dividends ($0.36 per share)	-	-	-	-	(931,013)	-	(931,013)
Stock award plans	-	48,476	-	-	-	-	48,476
Stock options exercised	4,131	550,280	-	-	-	-	554,411
Release of ESOP shares	-	171,764	114,000	-	-	-	285,764
Treasury stock purchased	-	-	-	(1,465,150)	-	-	(1,465,150)
Balance, June 30, 2008	$677,780	$58,342,449	$(1,002,930)	$(61,813,354)	$42,592,014	$(1,791,048)	$37,004,911

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GUARANTY FEDERAL BANCSHARES, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)

	6/30/2009	6/30/2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(2,224,202)	$(1,879,422)
Items not requiring (providing) cash:		
Deferred income taxes	1,518,133	(1,781,997)
Depreciation	519,993	432,691
Provision for loan losses	4,280,000	6,504,079
Gain on loans and investment securities	(1,115,222)	(390,717)
Gain on sale of foreclosed assets	(88,296)	(2,480)
Accretion of gain on termination of interest rate swaps	(508,746)	-
Amortization of deferred income, premiums and discounts	126,982	12,565
Stock award plan expense	47,448	48,476
Origination of loans held for sale	(48,609,832)	(29,460,245)
Proceeds from sale of loans held for sale	47,750,498	31,318,150
Release of ESOP shares	64,314	285,764
Changes in:		
Accrued interest receivable	49,654	380,289
Prepaid expenses and other assets	139,929	(61,141)
Accounts payable and accrued expenses	649,449	385,189
Income taxes receivable	(3,445,835)	(561,226)
Net cash provided by (used in) operating activities	(845,733)	5,229,975
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	22,975,678	(47,928,718)
Principal payments on held-to-maturity securities	31,310	45,097
Principal payments on available-for-sale securities	5,945,457	1,035,092
Proceeds from maturities of available-for-sale securities	-	1,550,000
Purchase of premises and equipment	(1,349,503)	(1,813,959)
Purchase of available-for-sale securities	(61,589,748)	(55,304,401)
Proceeds from sale of available-for-sale securities	12,683,212	-
Purchase of interest-bearing deposits	(21,404,000)	-
Purchase of Federal Home Loan Bank stock	-	(2,156,100)
Purchase of tax credit investments	(2,751,905)	-
Proceeds from sale of foreclosed assets	2,322,122	582,570
Net cash used in investing activities	(43,137,377)	(103,990,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock options exercised	-	554,411
Cash dividends paid on common stock	-	(932,397)
Net increase in demand deposits, NOW and savings accounts	124,707,128	17,588,346
Net increase (decrease) in certificates of deposit	(46,360,695)	10,946,317
Net increase in securities sold under agreements to repurchase	-	29,900,705
Proceeds from FHLB advances	-	1,086,450,000
Repayments of FHLB advances	(21,000,000)	(1,039,100,000)
Proceeds from issuance of notes payable	-	1,064,000
Repayments of notes payable	(1,435,190)	(347,000)
Advances from borrowers for taxes and insurance	249,781	283,410

Proceeds from preferred stock and warrants	17,000,000	-
Cash dividends paid on preferred stock	(247,917)	-
Treasury stock purchased	(7,515)	(1,465,150)
Net cash provided by financing activities	72,905,592	104,942,642
INCREASE IN CASH AND CASH EQUIVALENTS	28,922,482	6,182,198
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,097,015	12,046,202
CASH AND CASH EQUIVALENTS, END OF PERIOD	$44,019,497	$18,228,400

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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.

The results of operations for the periods 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 2008 filed with the Securities and Exchange Commission. The condensed consolidated statement of financial condition of the Company as of December 31, 2008, 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 Guaranty Federal Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2009				
Equity Securities:				
FHLMC stock	$26,057	$-	$(9,565)	$16,492
Other	474,767	300,093	(45,214)	729,646
Debt Securities:				
U. S. government agencies	29,481,045	109,396	(154,130)	29,436,311
Mortgage-backed securities	77,510,789	932,073	(120,650)	78,322,212
	$107,492,658	$1,341,562	$(329,559)	$108,504,661

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2008				
Equity Securities:				
FHLMC stock	$26,057	$-	$(6,639)	$19,418
Other	572,087	4,157	(34,611)	541,633
Debt Securities:				
U. S. government agencies	2,450,000	24,130	-	2,474,130
Mortgage-backed securities	61,304,310	1,173,274	(7,426)	62,470,158
	$64,352,454	$1,201,561	$(48,676)	$65,505,339

Maturities of available-for-sale debt securities as of June 30, 2009:

	Amortized Cost	Approximate Fair Value
Within one year	$ 7,500,000	$ 7,533,614
One through five years	19,531,045	19,581,657
After ten years	2,450,000	2,321,040
Mortgage-backed securities not due on a single maturity date	77,510,789	78,322,212
	$ 106,991,834	$ 107,758,523

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2009				
Debt Securities:				
U. S. government agencies	$120,745	$-	$(3,623)	$ 117,122
Mortgage-backed securities	389,618	27,489	-	417,107
	$510,363	$27,489	$(3,623)	$ 534,229

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2008				
Debt Securities:				
U. S. government agencies	$135,538	$-	$(3,236)	$ 132,302
Mortgage-backed securities	420,927	24,565	(1,395)	444,097
	$556,465	$24,565	$(4,631)	$ 576,399

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Maturities of held-to-maturity securities as of June 30, 2009:

	Amortized Cost	Approximate Fair Value
Five through ten years	$ 120,745	$ 117,122
Mortgage-backed securities not due on a single maturity date	389,618	417,107
	$ 510,363	$ 534,229

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $55,358,730 and $54,504,638 as of June 30, 2009 and December 31, 2008, respectively. The approximate fair value of pledged securities amounted to $56,046,314 and $55,417,307 as of June 30, 2009 and December 31, 2008, respectively.

Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific identification method. Gross gains of $315,439 for the three and six months ended June 30, 2009 and gross losses of $97,788 for the three and six months ended June 30, 2008 were realized from the sale of available-for-sale securities and other write-downs. The tax effect of these net gains (losses) was $116,712 and ($36,182) for the periods in 2009 and 2008, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of paragraph 16 of SFAS No. 115, Staff Accounting Bulletin 59 and FASB Staff Position Nos. 115-1 and 115-2. Certain investment securities are valued 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.

No securities were written down for other-than-temporary impairment during the three and six month periods ended June 30, 2009 and 2008. During the fourth quarter of 2008, the Company determined that one investment security in the other equity securities category had become other than temporarily impaired. As a result of this impairment, the Company charged down the security to its current market value. The total of this charge-down was $465,827 for fiscal year 2008.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2009 and December 31, 2008, was $20,499,428 and $1,629,386, respectively, which is approximately 19% and 3% 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 June 30, 2009 and December 31, 2008.

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	June 30, 2009					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	$16,492	$(9,565)	$26,320	$(45,214)	$42,812	$(54,779)
U. S. Government Agencies	6,446,751	(157,753)	-	-	6,446,751	(157,753)
Mortgage-backed securities	14,009,865	(120,650)	-	-	14,009,865	(120,650)
	$20,473,108	$(287,968)	$26,320	$(45,214)	$20,499,428	$(333,182)

	December 31, 2008					
	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	$56,342	$(41,250)	$-	$-	$56,342	$(41,250)
U. S. Government Agencies	-	-	132,302	(3,236)	132,302	(3,236)
Mortgage-backed securities	1,440,742	(8,821)	-	-	1,440,742	(8,821)
	$1,497,084	$(50,071)	$132,302	$(3,236)	$1,629,386	$(53,307)

Note 4: Benefit Plans

The Company has stock-based employee compensation plans, which are described fully in the Company's December 31, 2008 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for the six months ended June 30, 2009:

	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2009	108,250	116,704	$ 23.29
Granted	37,500	20,000	$ 5.30
Exercised	-	-	-
Forfeited	-	-	-
Balance outstanding as of June 30, 2009	145,750	136,704	$ 19.63
Options exercisable as of June 30, 2009	50,950	87,704	$ 20.84

Stock-based compensation expense recognized for the three months ended June 30, 2009 and 2008 was $23,022 and $24,172, respectively. Stock-based compensation expense recognized for the six months ended June 30, 2009 and 2008 was $47,448 and $48,476, respectively. As of June 30, 2009, there was $238,521 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

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Note 5: Loss Per Common Share

	For three months ended June 30, 2009			For six months ended June 30, 2009		
	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Loss Per Common Share	$(1,913,472)	2,619,997	$(0.73)	$(2,693,186)	2,617,663	$(1.03)
Effect of Dilutive Securities:						
Stock Options		N/A			N/A	
Diluted Loss Per Common Share	$(1,913,472)	2,619,997	$(0.73)	$(2,693,186)	2,617,663	$(1.03)

	For three months ended June 30, 2008			For six months ended June 30, 2008		
	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Loss Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Loss Per Common Share	$(2,496,280)	2,599,233	$(0.96)	$(1,879,422)	2,602,257	$(0.72)
Effect of Dilutive Securities:						
Stock Options		N/A			N/A	
Diluted Loss Per Common Share	$(2,496,280)	2,599,233	$(0.96)	$(1,879,422)	2,602,257	$(0.72)

Due to the Company's net loss for the three months and six months ended June 30, 2009 and 2008, no potentially dilutive shares were included in the computation of diluted earnings per share.

Note 6: Other Comprehensive Loss

Other comprehensive loss components and related taxes were as follows:

	6/30/2009	6/30/2008
Unrealized gains (losses) on available-for-sale securities	$ 174,557	$ (3,740,351)
Accretion of gains on interest rate swaps into income	(508,746)	-
Less: Reclassification adjustment for realized (gains) losses included in income	(315,439)	97,788
Other comprehensive loss, before tax effect	(649,628)	(3,642,563)
Tax benefit	(240,362)	(1,347,748)
Other comprehensive loss	$ (409,266)	$ (2,294,815)

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

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	6/30/2009	12/31/2008
Unrealized gain on available-for-sale securities	$ 1,012,003	$ 1,152,885
Unrealized gain on interest rate swaps	1,017,508	1,526,254
	2,029,511	2,679,139
Tax effect	750,919	991,281
Net of tax amount	$ 1,278,592	$ 1,687,858

Note 7: New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in generally accepted accounting principles. SFAS No. 157 emphasizes that fair value is a market-based measurement based on an exchange transaction between market participants in which an entity sells an asset or transfers a liability. SFAS No. 157 also establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The provisions of SFAS No. 157 were effective as of January 1, 2008. The adoption of the standard did not have a material impact on the consolidated financial statements. In February 2008, Financial Accounting Standards Board Staff Position No. 157-2, Effective Date of FASB Statement No. 157 was issued that delayed the application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. The adoption of the standard did not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS 161 amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 was effective for the Company on January 1, 2009 and did not have a material impact on the consolidated financial statements at adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4 (“FSP FAS 157-4”), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This accounting standard was effective for the Company for the second quarter of 2009. The adoption of the standard did not have a material impact on the consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1 ("FSP FAS 107-1 and APB 28-1"), Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This accounting standard was effective for the Company for the second quarter of 2009. The adoption of the standard did not have a material impact on the consolidated financial statements.

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In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2 (“FSP FAS 115-2 and FAS 124-2”), Recognition and Presentation of Other-Than-Temporary-Impairments. The objective of an other-than-temporary impairment analysis under existing GAAP is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. This FSP amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This accounting standard was effective for the Company for the second quarter of 2009. The adoption of the standard did not have a material impact on the consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This accounting standard was effective for second quarter of 2009 and did not have a material impact on the consolidated financial statements. The Company evaluated all events or transactions that occurred from June 30, 2009 to August 12, 2009, the date the Company issued these financial statements. During the period, the Company did not have any material recognizable or non-recognizable subsequent events.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Principles, a Replacement of FASB Statement No. 162. This standard establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The standard will be effective for the Company for the periods ending after September 15, 2009 and is not expected to have a significant impact on the Company’s financial statements.

Note 8: Fair Value Disclosures

SFAS No. 157 establishes a hierarchy that prioritizes the use of fair value inputs used in valuation methodologies into the following three levels:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means.

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Level 3: Significant unobservable inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the Company's valuation methodologies used to measure and disclose the fair values of its assets on a recurring or nonrecurring basis:

Available-for-sale securities: Securities classified as available for sale are recorded at fair value on a recurring basis utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, benchmark yields, market spreads, live trading levels and market consensus prepayment speeds, among other things.

Loans: The Company does not record loans at fair value on a recurring basis. However, nonrecurring fair value adjustments to collateral dependent loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of the underlying collateral.

Impaired loans: Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using third party appraisals or internally developed appraisals.

Foreclosed Assets Held for Sale: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollar amounts in thousands):

6/30/2009				
Available-for-sale securities:	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$746	$-	$-	$746
U.S. government agencies	-	29,437	-	29,437
Mortgage-backed securities	-	78,322	-	78,322
	$746	$107,759	$-	$108,505

12/31/2008				
Available-for-sale securities:	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$561	$-	$-	$561
U.S. government agencies	-	2,474	-	2,474
Mortgage-backed securities	-	62,470	-	62,470
	$561	$64,944	$-	$65,505

Certain assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets measured at fair value on a non-recurring basis during the three months ended June 30, 2009 and December 31, 2008 were valued using the valuation inputs shown below (dollar amounts in thousands):

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6/30/2009	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Impaired loans	$-	-	29,877	$29,877

12/31/2008	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Impaired loans	$-	-	32,706	$32,706

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$44,019,497	$44,019,497	$15,097,015	$15,097,015
Interest-bearing deposits	21,404,000	21,404,000	-	-
Available-for-sale securities	108,504,661	108,504,661	65,505,339	65,505,339
Held-to-maturity securities	510,363	534,229	556,465	576,399
Federal Home Loan Bank stock	6,730,100	6,730,100	6,730,100	6,730,100
Mortgage loans held for sale	3,592,915	3,592,915	1,933,798	1,933,798
Loans, net	527,216,656	535,182,726	556,393,243	575,444,855
Interest receivable	2,582,796	2,582,796	2,632,450	2,632,450
Financial liabilities:				
Deposits	525,425,902	530,748,457	447,079,469	456,127,421
Federal Home Loan Bank advances	111,436,000	108,060,873	132,436,000	134,713,550
Securities sold under agreements to repurchase	39,750,000	40,033,682	39,750,000	40,622,942
Subordinated debentures	15,465,000	15,465,000	15,465,000	15,465,000
Notes payable	-	-	1,435,190	1,435,190
Interest payable	1,608,209	1,608,209	1,577,279	1,577,279
Unrecognized financial instruments (net of contractual value):				
Commitments to extend credit	-	-	-	-
Unused lines of credit	-	-	-	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents and Federal Home Loan Bank stock
The carrying amounts reported in the balance sheets approximate those assets' fair value.

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Interest Receivable
The carrying amount of interest receivable approximates its fair value.

Mortgage Loans Held for Sale
The carrying amount of mortgage loans held for sale approximate their fair value due to the short term nature of the category.

Loans
The fair value of loans is estimated by discounting the future cash flows using the Treasury Yield Curve over the estimated life of the loans, adjusted for credit risk. Loans with similar characteristics are aggregated for purposes of the calculations.

Deposits
The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the Treasury Yield Curve over their estimated life.

Federal Home Loan Bank Advances and Securities Sold under Agreements to Repurchase
The fair value of advances and subordinated debentures is estimated by using the Treasury Yield Curve over the estimated life of the instruments.

Subordinated Debentures and Notes Payable
For these variable rate instruments, the carrying amount is a reasonable estimate of fair value.

Interest Payable
The carrying amounts of interest payable approximates fair value.

Commitments to Extend Credit, Letters of Credit and Lines of Credit
The fair value of commitments 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 is 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.

Note 9: Derivative Financial Instruments

The Company records all derivative financial instruments at fair value in the financial statements. Derivatives are used as a risk management tool to hedge the exposure to changes in interest rates or other identified market risks.

When a derivative is intended to be a qualifying hedged instrument, the Company prepares written hedge documentation that designates the derivative as 1) a hedge of fair value of a recognized asset or liability (fair value hedge) or 2) a hedge of a forecasted transaction, such as, the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The written documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item, and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

On November 7, 2008, the Company elected to terminate its three interest rate swap agreements with a total notional value of $90 million. At termination, the swaps had a market value (gain) of $1.7 million. The remaining gain of $1.0 million as of June 30, 2009 will be accreted into interest income over the remaining twelve month term in accordance with the stated maturity date of the original agreements. See Note 6 for the effects of the swaps on the statements of financial condition and statements of operations.

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Note 10: Preferred Stock and Common Stock Warrants

On January 30, 2009, as part of the U.S. Department of the Treasury's Troubled Asset Relief Program's Capital Purchase Program (“CPP”), the Company entered into a Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the "Treasury") pursuant to which the Company sold to the Treasury 17,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and issued a ten year warrant (the "Warrant") to purchase 459,459 shares of the Company's common stock (the "Common Stock") for $5.55 per share (the "Warrant Shares") for a total purchase price of $17.0 million (the "Transaction").

The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative preferred dividends at a rate of 5% per year for the first five years, payable quarterly, and 9% thereafter. The Series A Preferred Stock has a liquidation preference of $1,000 per share, plus accrued and unpaid dividends. The failure by the Company to pay a total of six quarterly dividends, whether or not consecutive, gives the holders of the Series A Preferred Stock the right to elect two directors to the Company's Board of Directors.

During the first three years after the Transaction, the Company may not redeem the Series A Preferred Stock except in conjunction with a "qualified equity offering" meeting certain requirements. After three years, 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. The number of Warrant Shares may be reduced by up to one-half if the Company completes an equity offering satisfying certain requirements by December 31, 2009. 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 holder of the Warrant has certain registration rights to facilitate a sale of the Series A Preferred Stock upon written request to the Company. Neither the Series A Preferred Stock, the Warrant nor the Warrant Shares will be subject to any contractual restrictions on transfer, except that Treasury may not transfer the Warrant with respect to, and/or exercise the Warrant for more than one-half of the 459,459 Warrant Shares prior to the earlier of (i) the date on which the Company has received aggregate gross proceeds of at least $17.0 million from one or more “Qualified Equity Offerings” and (ii) December 31, 2009. A “Qualified Equity Offering” is defined as the sale for cash by the Company of preferred stock or common stock that qualifies as Tier 1 capital.

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 $15.6 million for the Series A Preferred Stock and $1.4 million for the Warrant. The discount of $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 is subject to comment until August 14, 2009.

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As a result of the Company's participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to any CPP recipient, including the Company, at such time that the federal government no longer holds any of the Company's Series A Preferred Stock.

Note 11: FDIC deposit insurance assessments

On February 27, 2009, the FDIC approved to set forth a Restoration Plan for replenishing the Deposit Insurance Fund (DIF). The FDIC approved to increase regular premium rates for 2009, implement changes to the risk-based assessment system and impose a special assessment on insured institutions as of June 30, 2009, to be collected on September 30, 2009. It was also approved to allow the FDIC to impose possible additional special assessments thereafter to maintain public confidence in the DIF.

On May 22, 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's efforts to rebuild the DIF. The final rule also allows the FDIC to impose additional special assessments of 5 basis points for the third and fourth quarters of 2009, if the FDIC estimates that the DIF reserve ratio will fall to a level that would adversely affect public confidence in federal deposit insurance or to a level that would be close to or below zero.

As a result of these changes and the special assessment, the Company has experienced a significant increase in its FDIC deposit insurance premium expense for 2009. FDIC deposit insurance expense, including the special assessment, for the three and six months ended June 30, 2009 were $670,500 and $945,030, respectively, compared to $62,499 and $124,998, respectively, during the same periods in 2008.

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 Guaranty Bank (the "Bank"), a wholly-owned subsidiary of the Company. 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 June 30, 2009, and the results of operations for the three and six months ended June 30, 2009 and 2008.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates, in general or local economic conditions, in the real estate market, and in federal or state regulations and legislation governing the operations of the Company or the Bank; and other factors set forth in reports and other documents filed by the Company with the 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, 2008.

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Financial Condition

The Company's total assets increased $71,033,336 (11%) from $675,670,393 as of December 31, 2008, to $746,703,729 as of June 30, 2009.

Cash and cash equivalents increased $28,922,482 (192%) from $15,097,015 as of December 31, 2008, to $44,019,497 as of June 30, 2009. Interest-bearing deposits increased $21,404,000 from $0 as of December 31, 2008, to $21,404,000 as of June 30, 2009. These increases were due to the funding provided by the Bank's money market deposit campaign. See further explanation below.

Securities available-for-sale increased $42,999,322 (66%) from $65,505,339 as of December 31, 2008, to $108,504,661 as of June 30, 2009. The increase is primarily due to purchases of $61.6 million offset by sales and principal payments received of $18.6 million. The purchases were made with funding provided by the Bank's money market deposit campaign. See further explanation below.

Securities held-to-maturity decreased primarily due to principal repayments by $46,102 (8%) from $556,465 as of December 31, 2008, to $510,363 as of June 30, 2009.

Net loans receivable decreased by $29,176,587 (5%) from $556,393,243 as of December 31, 2008, to $527,216,656 as of June 30, 2009 primarily due to principal paydowns and unanticipated payoffs. Commercial real estate loans increased by $24,589,833 (12%) from $204,218,526 as of December 31, 2008, to $228,808,360 as of June 30, 2009. Commercial loans decreased $10,554,678 (9%) from $118,468,028 as of December 31, 2008, to $107,913,349 as of June 30, 2009. Permanent multi-family loans decreased by $985,625 (3%) from $31,757,153 as of December 31, 2008, to $30,771,527 as of June 30, 2009. Construction loans decreased by $42,147,777 (50%) to $42,924,801 as of June 30, 2009 compared to $85,072,577 as of December 31, 2008.

Allowance for loan losses decreased $2,464,030 (14%) from $16,728,492 as of December 31, 2008 to $14,264,462 as of June 30, 2009. The allowance decreased due to net loan charge-offs of $6,744,030 exceeding the provision for loan losses of $4,280,000 recorded during the period. Management charged-off specific loans that had been identified and classified as impaired at December 31, 2008. Due to the charge-offs noted and continuing concerns over the local and national economy and specific borrowers, management decided to record a provision for loan losses for the period in order to maintain the allowance at a level in accordance with management's internal review and methodology. See discussion under "Results of Operations – Comparison of Three and Six Month Periods Ended June 30, 2009 and 2008 – Provision for Loan Losses." The allowance for loan losses, as a percentage of gross loans outstanding, as of June 30, 2009 and December 31, 2008 was 2.63% and 2.92%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of June 30, 2009 and December 31, 2008 was 49.9% and 80.8%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loans losses in the Bank's existing loan portfolio.

Deposits increased $78,346,433 (18%) from $447,079,469 as of December 31, 2008, to $525,425,902 as of June 30, 2009. For the six months ended June 30, 2009, checking and savings accounts increased by $124.7 million and certificates of deposit decreased by $46.4 million. The increase in checking and savings was due to the Bank's strong emphasis on increasing money market accounts through an aggressive deposit campaign. Management has implemented additional marketing efforts to obtain additional personal and commercial checking business from these money market customers. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Federal Home Loan Bank of Des Moines ("FHLB") advances decreased by $21,000,000 from $132,436,000 as of December 31, 2008, to $111,436,000 as of June 30, 2009 due to principal repayments during the period.

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Notes payable decreased $1,435,190 (100%) from $1,435,190 as of December 31, 2008, to $0 as of June 30, 2009, due to the full repayment of the existing note payable during the period.

Stockholders' equity (including unrealized appreciation on securities available-for-sale and interest rate swaps, net of tax) increased $14,116,613 from $37,312,902 as of December 31, 2008, to $51,429,515 as of June 30, 2009. As a result of our participation in the CPP, our stockholders' equity increased by $17,000,000 during the period (See Note 10 to the Condensed Consolidated Financial Statements for further discussion). In addition, in conjuction with the Series A Preferred Stock issued under the CPP, the Company has recognized $354,166 of dividends (5%) and recorded $114,818 of accretion associated with the discount on the preferred stock. The Company's net loss during this period was $2,224,202. On a per common share basis, stockholders' equity decreased from $14.28 as of December 31, 2008 to $13.61 as of June 30, 2009.

Average Balances, Interest and Average Yields

The Company's profitability is primarily dependent upon net interest income, which represents the difference between interest and fees earned on loans and debt and equity securities, and the cost of deposits and borrowings. Net interest income is dependent on the difference between the average balances and rates earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Non-interest income, non-interest expense, and income taxes also impact the Company's results of operations.

The following tables sets forth certain information relating to the Company's average consolidated statements of financial condition and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields. All dollar amounts are in thousands.

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	Three months ended 6/30/2009			Three months ended 6/30/2008		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$554,783	$7,412	5.34 %	$552,631	$8,045	5.82 %
Investment securities and interest-bearing deposits	140,293	1,075	3.07 %	63,007	829	5.26 %
Other assets	33,431	17	0.20 %	7,765	51	2.63 %
Total interest-earning	728,507	8,504	4.67 %	623,403	8,925	5.73 %
Noninterest-earning	21,736			21,961		
	$750,243			$645,364		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$12,873	29	0.90 %	$13,347	31	0.93 %
Transaction accounts	210,892	1,492	2.83 %	102,899		