GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 16, 2009

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 September 30, 2009

OR

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

For the transition period from _______ to _______

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	43-1792717
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1341 West Battlefield Springfield, Missouri	65807
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes T No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer o 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 o 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 November 10, 2009
Common Stock, Par Value $0.10 per share	2,630,840 Shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

ASSETS	9/30/09	12/31/08
Cash	$1,600,687	$3,826,567
Interest-bearing deposits in other financial institutions	17,474,539	11,270,448
Cash and cash equivalents	19,075,226	15,097,015
Interest-bearing deposits	27,105,802	-
Available-for-sale securities	110,908,412	65,505,339
Held-to-maturity securities	495,433	556,465
Stock in Federal Home Loan Bank, at cost	6,730,100	6,730,100
Mortgage loans held for sale	1,652,861	1,933,798
Loans receivable, net of allowance for loan losses of September 30, 2009 - $13,220,409 - December 31, 2008 - $16,728,492	526,151,829	556,393,243
Accrued interest receivable:		
Loans	2,076,414	2,310,062
Investments	570,545	322,388
Prepaid expenses and other assets	6,958,187	4,065,359
Foreclosed assets held for sale	5,879,132	5,655,257
Premises and equipment	12,029,723	11,323,463
Income taxes receivable	3,780,084	9,091
Deferred income taxes	3,981,842	5,768,813
	$727,395,590	$675,670,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$505,737,285	$447,079,469
Federal Home Loan Bank advances	111,050,000	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	514,734	166,327
Accrued expenses and other liabilities	972,665	448,226
Accrued interest payable	1,483,595	1,577,279
	674,973,279	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 September 30, 2009 - 17,000 shares	15,805,897	-
Common stock, $0.10 par value; authorized 10,000,000 shares;issued September 30, 2009 and December 31, 2008 - 6,779,800 shares;	677,980	677,980

Common stock warrants; September 30, 2009 - 459,459 shares	1,377,811	-
Additional paid-in capital	58,531,848	58,535,159
Unearned ESOP shares	(717,930)	(888,930)
Retained earnings, substantially restricted	36,714,075	39,114,189
Accumulated other comprehensive income	1,853,499	1,687,858
	114,243,180	99,126,256
Treasury stock, at cost; September 30, 2009 and December 31, 2008 - 4,079,067and 4,077,567 shares, respectively	(61,820,869)	(61,813,354)
	52,422,311	37,312,902
	$727,395,590	$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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2009	9/30/2008	9/30/2009	9/30/2008
Interest Income				
Loans	$7,402,215	$8,337,626	$22,259,582	$24,985,140
Investment securities	883,642	863,757	2,787,883	2,267,945
Other	248,478	66,416	314,283	170,951
	8,534,335	9,267,799	25,361,748	27,424,036
Interest Expense				
Deposits	3,816,803	3,341,155	11,795,238	10,847,725
Federal Home Loan Bank advances	791,470	873,536	2,359,115	2,368,981
Subordinated debentures	255,945	255,945	767,837	767,837
Other	221,864	276,567	676,257	775,436
	5,086,082	4,747,203	15,598,447	14,759,979
Net Interest Income	3,448,253	4,520,596	9,763,301	12,664,057
Provision for Loan Losses	670,000	1,675,000	4,950,000	8,179,079
Net Interest Income After Provision for Loan Losses	2,778,253	2,845,596	4,813,301	4,484,978
Noninterest Income				
Service charges	455,638	528,609	1,352,971	1,490,587
Other fees	14,913	12,911	41,365	27,120
Gain (loss) on investment securities	341,596	-	657,035	(97,788)
Gain on sale of loans	314,440	207,870	1,114,223	696,375
Loss on foreclosed assets	(14,045)	(75,006)	(66,720)	(120,833)
Other income	217,826	174,510	562,929	555,694
	1,330,368	848,894	3,661,803	2,551,155
Noninterest Expense				
Salaries and employee benefits	1,963,962	1,853,483	5,975,389	5,665,040
Occupancy	435,022	452,510	1,391,757	1,247,203
FDIC deposit insurance premiums	330,000	82,499	1,275,030	207,497
Data processing	107,063	95,335	321,521	277,668
Advertising	75,000	99,999	241,666	299,997
Other expense	480,909	583,446	1,966,480	1,784,375
	3,391,956	3,167,272	11,171,843	9,481,780
Income (Loss) Before Income Taxes	716,665	527,218	(2,696,739)	(2,445,647)
Provision (Credit) for Income Taxes	142,202	227,759	(1,047,000)	(865,684)
Net Income (Loss)	574,463	299,459	(1,649,739)	(1,579,963)
Preferred Stock Dividends and Discount Accretion	281,391	-	750,376	-
Net Income (Loss) Available to Common Shareholders	$293,072	$299,459	$(2,400,115)	$(1,579,963)
Basic Income (Loss) Per Common Share	$0.11	$0.11	$(0.92)	$(0.61)
Diluted Income (Loss) Per Common Share	$0.11	$0.11	$(0.92)	$(0.61)

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	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	-	-	-	-	-	-	(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	$1,853,49

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, 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	-	-	-	-	(1,579,963)	-	(1,579,963)
Change in unrealized appreciation on available-for-sale securities and effect of interest rate swaps, net of income taxes	-	-	-	-	-	(1,057,197)	(1,057,197)
Total comprehensive income							(2,637,160)
Dividends ($0.36 per share)	-	-	-	-	(928,548)	-	(928,548)
Stock award plans	-	187,877	-	-	-	-	187,877
Stock options exercised	4,331	574,330	-	-	-	-	578,661
Release of ESOP shares	-	195,105	171,000	-	-	-	366,105
Treasury stock purchased	-	-	-	(1,465,150)	-	-	(1,465,150)
Balance, September 30, 2008	$677,980	$58,529,241	$(945,930)	$(61,813,354)	$42,893,938	$(553,430)	$38,788,445

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, 2009 AND 2008 (UNAUDITED)

	9/30/2009	9/30/2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,649,739)	$(1,579,963)
Items not requiring (providing) cash:		
Deferred income taxes	1,689,690	(2,026,792)
Depreciation	742,368	677,993
Provision for loan losses	4,950,000	8,179,079
Gain on loans and investment securities	(1,771,258)	(598,587)
(Gain) loss on sale of foreclosed assets	(118,806)	26,826
Accretion of gain on termination of interest rate swaps	(763,119)	-
Amortization of deferred income, premiums and discounts	223,122	10,114
Stock award plan expense	70,699	72,211
Origination of loans held for sale	(61,381,907)	(40,497,385)
Proceeds from sale of loans held for sale	62,777,067	42,790,364
Release of ESOP shares	96,990	366,105
Changes in:		
Accrued interest receivable	(14,509)	(844,084)
Prepaid expenses and other assets	417,841	(689,431)
Accounts payable and accrued expenses	324,505	198,541
Income taxes receivable	(3,770,993)	(263,672)
Net cash provided by operating activities	1,821,951	5,821,319
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	22,159,013	(67,319,462)
Principal payments on held-to-maturity securities	46,240	62,113
Principal payments on available-for-sale securities	9,796,901	1,763,996
Proceeds from maturities of available-for-sale securities	6,500,000	1,850,000
Purchase of premises and equipment	(1,448,628)	(2,334,484)
Purchase of available-for-sale securities	(80,722,131)	(55,383,487)
Proceeds from sale of available-for-sale securities	20,432,170	-
Purchase of interest-bearing deposits	(29,605,802)	-
Proceeds from maturities of interest-bearing deposits	2,500,000	-
Purchase of Federal Home Loan Bank stock	-	(3,669,100)
Purchase of tax credit investments	(3,310,669)	-
Capitalized costs on foreclosed assets	(51,115)	-
Proceeds from sale of foreclosed assets	3,143,180	1,305,864
Net cash used in investing activities	(50,560,841)	(123,724,560)
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock options exercised	-	578,661
Cash dividends paid on common stock	-	(1,397,921)
Net increase in demand deposits, NOW and savings accounts	139,679,422	4,214,518
Net increase (decrease) in certificates of deposit	(81,021,606)	13,700,686
Net increase in securities sold under agreements to repurchase	-	29,900,705
Proceeds from FHLB advances	-	1,884,050,075
Repayments of FHLB advances	(21,386,000)	(1,811,700,075)
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	348,407	416,694
Proceeds from preferred stock and warrants	17,000,000	-
Cash dividends paid on preferred stock	(460,417)	-
Treasury stock purchased	(7,515)	(1,465,150)
Net cash provided by financing activities	52,717,101	119,015,193
INCREASE IN CASH AND CASH EQUIVALENTS	3,978,211	1,111,952
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,097,015	12,046,202
CASH AND CASH EQUIVALENTS, END OF PERIOD	$19,075,226	$13,158,154

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 Company's Form 10-K annual report for 2008 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, 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.

The Company evaluated subsequent events for potential recognition and/or disclosure through November 16, 2009, the date the condensed consolidated financial statements were issued.

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 September 30, 2009				
Equity Securities	$102,211	$2,576	$(39,476)	$65,311
Debt Securities:				
U. S. government agencies	30,486,795	137,658	(53,498)	30,570,955
Mortgage-backed securities	78,140,479	2,155,937	(24,270)	80,272,146
	$108,729,485	$2,296,171	$(117,244)	$110,908,412

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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 September 30, 2009:

	Amortized Cost	Approximate Fair Value
Within one year	$ 5,500,000	$ 5,526,884
One through five years	22,536,795	22,647,154
After ten years	2,450,000	2,396,917
Mortgage-backed securities not due on a single maturity date	78,140,479	80,272,146
	$ 108,627,274	$ 110,843,101

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, 2009				
Debt Securities:				
U. S. government agencies	$117,444	$-	$(259)	$ 117,185
Mortgage-backed securities	377,989	31,055	-	409,044
	$495,433	$31,055	$(259)	$ 526,229

	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 September 30, 2009:

	Amortized Cost	Approximate Fair Value
Five through ten years	$ 117,444	$ 117,185
Mortgage-backed securities not due on a single maturity date	377,989	409,044
	$ 495,433	$ 526,229

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $61,908,531 and $54,504,638 as of September 30, 2009 and December 31, 2008, respectively. The approximate fair value of pledged securities amounted to $63,527,999 and $55,417,307 as of September 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 $341,596 and $657,035 for the three and nine months ended September 30, 2009, respectively, and gross losses of $0 and $97,788 for the three and nine months ended September 30, 2008, respectively, were realized from the sale of available-for-sale securities and other write-downs. The tax effect of these net gains (losses) was $126,391 and $243,103 for the three and nine month periods ended 2009, respectively, and $0 and ($36,182) for the three and nine month periods ended 2008, respectively.

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

No securities were written down for other-than-temporary impairment during the three and nine month periods ended September 30, 2009 and 2008, respectively. 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 September 30, 2009 and December 31, 2008, was $8,652,217 and $1,629,386, respectively, which is approximately 8% 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 September 30, 2009 and December 31, 2008.

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September 30, 2009

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Equity Securities	$32,058	$(39,476)	$-	$-	$32,058	$(39,476)
U. S. Government Agencies	3,520,157	(53,757)	-	-	3,520,157	(53,757)
Mortgage-backed securities	5,100,002	(24,270)	-	-	5,100,002	(24,270)
	$8,652,217	$(117,503)	$-	$-	$8,652,217	$(117,503)

December 31, 2008

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total 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 nine months ended September 30, 2009:

	Number of shares: Incentive Stock Option	Number of shares: Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2009	108,250	116,704	$23.29
Granted	41,500	20,000	$5.31
Exercised	-	-	-
Forfeited	(1,000)	-	$28.43
Balance outstanding as of September 30, 2009	148,750	136,704	$19.40
Options exercisable as of September 30, 2009	55,450	87,704	$20.90

Stock-based compensation expense recognized for the three months ended September 30, 2009 and 2008 was $23,251 and $23,735, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2009 and 2008 was $70,699 and $72,211, respectively. As of September 30, 2009, there was $221,269 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

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Note 5: Income (Loss) Per Common Share

	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:						
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)

	For three months ended September 30, 2008			For nine months ended September 30, 2008		
	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	$299,459	2,603,686	$0.11	$(1,579,963)	2,602,706	$(0.61)
Effect of Dilutive Securities:						
Stock Options		2,789			N/A	
Diluted Income (Loss) Per Common Share	$299,459	2,606,475	$0.11	$(1,579,963)	2,602,706	$(0.61)

Due to the Company's net loss for the nine months ended September 30, 2009 and 2008, no potentially dilutive shares were included in the computation of diluted earnings per share. Stock options to purchase 285,454 and 206,500 shares of common stock were outstanding during the three months ended September 30, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

Note 6: Other Comprehensive Income (Loss)

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

	9/30/2009	9/30/2008
Unrealized gains (losses) on available-for-sale securities	$1,683,076	$(1,775,878)
Accretion of gains on interest rate swaps into income	(763,119)	-
Less: Reclassification adjustment for realized (gains) losses included in income	(657,035)	97,788
Other comprehensive income (loss), before tax effect	262,922	(1,678,090)
Tax effect	97,281	(620,893)
Other comprehensive income (loss)	$165,641	$(1,057,197)

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

	9/30/2009	12/31/2008
Unrealized gain on available-for-sale securities	$2,178,927	$1,152,885
Unrealized gain on interest rate swaps	763,135	1,526,254
	2,942,062	2,679,139
Tax effect	1,088,563	991,281
Net of tax amount	$1,853,499	$1,687,858

Note 7: New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-1 (formerly SFAS No. 168), "Topic 105 - Generally Accepted Accounting Principles - Accounting Standards Codification and the Hierarchy of Generally Accepted Principles." This standard establishes the FASB Accounting Standards Codification (ASC) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) 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. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The standard was effective for the third quarter of 2009 and did not have a material impact on the Company's consolidated financial statements. However, the appropriate changes to GAAP references have been made to the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46R"(not yet reflected in FASB ASC). The standard amends FIN No. 46R to require a company to analyze whether its 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. SFAS No. 167 amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. This Statement will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is not permitted.

In August 2009, the FASB issued ASU 2009-05, "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value" to provide guidance when estimating the fair value of a liability. When a quoted price in an active market for the identical liability is not available, fair value should be measured using:

- the quoted price of an identical liability when traded as an asset,
- quoted prices of similar liabilities or similar liabilities when traded as assets, or
- another valuation technique consistent with the principles of Topic 820 such as an income approach or a market approach.

If a restriction exists that prevents the transfer of the liability, a separate adjustment related to the restriction is not required when estimating fair value. The ASU was effective for the Company on October 1, 2009. Its adoption has no material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued ASC 320, 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 ASC 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 ASC did 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 Company's consolidated financial statements.

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Note 8: Fair Value Disclosures

ASC 820 "Fair Value Measurements and Disclosures" 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.

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 lower of cost or 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 September 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):

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9/30/2009				
Available-for-sale securities:	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$65	$-	$-	$65
U.S. government agencies	-	30,571	-	30,571
Mortgage-backed securities	-	80,272	-	80,272
	$65	$110,843	$-	$110,908

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 periods were valued using the valuation inputs shown below (dollar amounts in thousands):

9/30/2009				
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Impaired loans	$-	$-	$17,644	$17,644

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.

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	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$19,075,226	$19,075,226	$15,097,015	$15,097,015
Interest-bearing deposits	27,105,802	27,105,802	-	-
Available-for-sale securities	110,908,412	110,908,412	65,505,339	65,505,339
Held-to-maturity securities	495,433	526,229	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	1,652,861	1,652,861	1,933,798	1,933,798
Loans, net	526,151,829	531,485,785	556,393,243	575,444,855
Interest receivable	2,646,959	2,646,959	2,632,450	2,632,450
Financial liabilities:				
Deposits	505,737,285	510,641,496	447,079,469	456,127,421
Federal Home Loan Bank advances	111,050,000	108,674,873	132,436,000	134,713,550
Securities sold under agreements to repurchase	39,750,000	40,395,309	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	1,483,595	1,483,595	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.

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.

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

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

On November 7, 2008, the Company elected to terminate 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 $763,000 as of September 30, 2009 will be accreted into interest income over the remaining nine 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.

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.

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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 was subject to comment which ended on August 14, 2009. The Treasury has not yet published a final version of the IFR.

As a result of the Company’s participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to 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 a Restoration Plan for replenishing the Deposit Insurance Fund (DIF). The FDIC Restoration Plan increased regular premium rates for 2009, implemented changes to the risk-based assessment system and imposed a special assessment on insured institutions as of June 30, 2009, to be collected on September 30, 2009. It also allows the FDIC to impose possible additional special assessments thereafter to maintain public confidence in the DIF.

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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.

On November 12, 2009, the FDIC adopted a final rule to collect, in advance, insurance premiums for 2010, 2011 and 2012 in lieu of an additional special assessment. The payment will be due on December 30, 2009, along with the Bank's assessment payment for the third quarter of 2009.

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 nine months ended September 30, 2009 were $330,000 and $1,275,030, respectively, compared to $82,499 and $207,497, respectively, during the same periods in 2008.

Note 12: Subsequent Events

On October 30, 2009, the Company purchased $10 million of Bank owned life insurance on key members of management. Such policies will be recorded at their cash surrender value, or the amount that can be realized. Increases in cash surrender value in excess of the single premium paid will be reported as other noninterest income.

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 September 30, 2009, and the results of operations for the three and nine months ended September 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.

Financial Condition

The Company’s total assets increased $51,725,197 (8%) from $675,670,393 as of December 31, 2008, to $727,395,590 as of September 30, 2009.

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Cash and cash equivalents increased $3,978,211 (26%) from $15,097,015 as of December 31, 2008, to $19,075,226 as of September 30, 2009. Interest-bearing deposits increased $27,105,802 from $0 as of December 31, 2008, to $27,105,802 as of September 30, 2009. These increases were due to the funding provided by the Bank's money market deposit campaign and the decline in loan balances. See further explanation below.

Securities available-for-sale increased $45,403,073 (69%) from $65,505,339 as of December 31, 2008, to $110,908,412 as of September 30, 2009. The increase is primarily due to purchases of $80.7 million offset by sales and principal payments received of $36.7 million. The purchases were made with funding provided by the Bank's money market deposit campaign and the decline in loan balances. See further explanation below. During the three months ended September 30, 2009, the Company sold various securities in its investment portfolio with a recognized gain of $341,596, including its remaining 26,600 shares of Federal Home Loan Mortgage Corporation stock.

Securities held-to-maturity decreased primarily due to principal repayments by $61,032 (11%) from $556,465 as of December 31, 2008, to $495,433 as of September 30, 2009.

Net loans receivable decreased by $30,241,414 (5%) from $556,393,243 as of December 31, 2008, to $526,151,829 as of September 30, 2009 primarily due to principal paydowns and unanticipated payoffs. Commercial real estate loans increased by $30,256,974 (15%) from $204,218,526 as of December 31, 2008, to $234,475,500 as of September 30, 2009. Commercial loans decreased $7,424,294 (6%) from $118,468,028 as of December 31, 2008, to $111,043,734 as of September 30, 2009. Permanent multi-family loans increased by $1,500,105 (5%) from $31,757,152 as of December 31, 2008, to $33,257,257 as of September 30, 2009. Construction loans decreased by $56,708,000 (67%) to $28,364,577 as of September 30, 2009 compared to $85,072,577 as of December 31, 2008.

Allowance for loan losses decreased $3,508,083 (21%) from $16,728,492 as of December 31, 2008 to $13,220,409 as of September 30, 2009. The allowance decreased due to net loan charge-offs of $8,458,083 exceeding the provision for loan losses of $4,950,000 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, increases in nonperforming loans 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 additional discussion under "Results of Operations – Comparison of Three and Nine Month Periods Ended September 30, 2009 and 2008 – Provision for Loan Losses" and "Nonperforming Assets". The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of September 30, 2009 and December 31, 2008 was 2.45% and 2.92%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of September 30, 2009 and December 31, 2008 was 37.0% 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 $58,657,816 (13%) from $447,079,469 as of December 31, 2008, to $505,737,285 as of September 30, 2009. For the nine months ended September 30, 2009, checking and savings accounts increased by $139.7 million and certificates of deposit decreased by $81.0 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 $21,386,000 from $132,436,000 as of December 31, 2008, to $111,050,000 as of September 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 September 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 $15,109,409 from $37,312,902 as of December 31, 2008, to $52,422,311 as of September 30, 2009. As a result of the Company's participation in the CPP, 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 accrued $566,667 of dividends (5%) and recorded $183,708 of accretion associated with the discount on the preferred stock. The Company's net loss during this nine month period was $1,649,739.

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.

	Three months ended 9/30/2009				Three months ended 9/30/2008			
	Average Balance	Interest	Yield / Cost		Average Balance	Interest	Yield / Cost	
ASSETS								
Interest-earning:								
Loans	$538,229	$7,402	5.50	%	$571,616	$8,338	5.83	%
Investment securities	114,818	884	3.08	%	63,729	864	5.42	%
Other assets	60,674	248	1.63	%	8,105	66	3.26	%
Total interest-earning	713,721	8,534	4.78	%	643,450	9,268	5.76	%
Noninterest-earning	24,933				26,666			
	$738,654				$670,116			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing:								
Savings accounts	$13,275	31	0.93	%	$13,288	31	0.93	%
Transaction accounts	230,104	1,693	2.94	%	111,178	480	1.73	%
Certificates of deposit	247,712	2,093	3.38	%	280,324	2,829	4.04	%
FHLB advances	111,393	792	2.84	%	139,220	876	2.52	%
Securities sold under agreements to repurchase	39,750	221	2.22	%	39,750	260	2.62	%
Subordinated debentures	15,465	256	6.62	%	15,465	256	6.62	%
Other borrowed funds	-	-	0.00	%	1,435	15	4.18	%
Total interest-bearing	657,699	5,086	3.09	%	600,660	4,747	3.16	%

Noninterest-bearing	28,807