

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 07, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One) **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes No

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

<u>Class</u>	<u>Outstanding as of November 1, 2013</u>
Common Stock, Par Value \$0.10 per share	2,732,431 Shares

GUARANTY FEDERAL BANCSHARES, INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Financial Statements (Unaudited):	
Condensed Consolidated Statements of Financial Condition	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Comprehensive Income (Loss)	5
Condensed Consolidated Statements of Stockholders' Equity	6
Condensed Consolidated Statements of Cash Flows	8
Notes to Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures about Market Risk	35
Item 4. Controls and Procedures	36
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	38
Item 1A. Risk factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 3. Defaults Upon Senior Securities	48
Item 4. Mine Safety Disclosures	48
Item 5. Other Information	48
Item 6. Exhibits	48
Signatures	49

PART I FINANCIAL INFORMATION**Item 1. Financial Statements****GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2013 (UNAUDITED) AND DECEMBER 31, 2012**

ASSETS	9/30/13	12/31/12
Cash	\$8,150,691	\$3,360,102
Interest-bearing deposits in other financial institutions	21,926,683	38,303,303
Cash and cash equivalents	30,077,374	41,663,405
Available-for-sale securities	105,870,922	101,980,644
Held-to-maturity securities	84,188	181,042
Stock in Federal Home Loan Bank, at cost	2,909,100	3,805,500
Mortgage loans held for sale	1,108,314	2,843,757
Loans receivable, net of allowance for loan losses of September 30, 2013 - \$8,472,838 - December 31, 2012 - \$8,740,325	458,486,044	465,531,973
Accrued interest receivable:		
Loans	1,500,552	1,674,814
Investments and interest-bearing deposits	321,150	380,555
Prepaid expenses and other assets	5,652,181	6,228,173
Prepaid FDIC deposit insurance premiums	-	1,438,636
Foreclosed assets held for sale	3,875,903	4,529,727
Premises and equipment, net	11,010,376	11,286,410
Bank owned life insurance	13,949,946	13,657,480
Income taxes receivable	521,565	910,174
Deferred income taxes	5,135,420	4,319,928
	\$640,503,035	\$660,432,218

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits	\$510,723,980	\$500,014,715
Federal Home Loan Bank advances	52,950,000	68,050,000
Securities sold under agreements to repurchase	10,000,000	25,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	482,746	152,867
Accrued expenses and other liabilities	954,644	481,382
Accrued interest payable	262,892	399,684
	590,839,262	609,563,648

COMMITMENTS AND CONTINGENCIES

- -

STOCKHOLDERS' EQUITY

Capital Stock:

Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding at September 30, 2013 and December 31, 2012 - 12,000 shares	11,935,162	11,789,276
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2013 and December 31, 2012 - 6,783,603 and 6,781,803 shares, respectively	678,360	678,180
Common stock warrants; December 31, 2012 - 459,459 shares	-	1,377,811
Additional paid-in capital	57,619,722	58,267,529
Retained earnings, substantially restricted	42,594,785	39,324,292
Accumulated other comprehensive income (loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes	(1,939,925)	800,826
	110,888,104	112,237,914
Treasury stock, at cost; September 30, 2013 and December 31, 2012 - 4,051,172 and 4,056,862 shares, respectively	(61,224,331)	(61,369,344)
	49,663,773	50,868,570
	\$640,503,035	\$660,432,218

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2013	9/30/2012	9/30/2013	9/30/2012
Interest Income				
Loans	\$5,866,225	\$6,385,397	\$17,747,071	\$19,119,392
Investment securities	452,645	421,453	1,352,102	1,304,804
Other	31,025	39,654	137,163	134,589
	6,349,895	6,846,504	19,236,336	20,558,785
Interest Expense				
Deposits	717,324	1,006,771	2,209,918	3,195,561
Federal Home Loan Bank advances	311,210	388,323	987,754	1,156,042
Subordinated debentures	134,474	139,313	403,146	418,679
Other	66,700	168,777	338,397	515,302
	1,229,708	1,703,184	3,939,215	5,285,584
Net Interest Income	5,120,187	5,143,320	15,297,121	15,273,201
Provision for Loan Losses	200,000	2,600,000	850,000	5,600,000
Net Interest Income After Provision for Loan Losses	4,920,187	2,543,320	14,447,121	9,673,201
Noninterest Income				
Service charges	299,708	292,221	853,542	816,564
Gain on sale of investment securities	14,149	30,610	219,132	137,715
Gain on sale of loans	262,210	506,593	1,286,229	1,344,002
Gain on sale of state low-income housing tax credits	-	281,561	1,441,012	281,561
Loss on foreclosed assets held for sale	(27,643)	(1,033,421)	(175,746)	(1,205,301)
Other income	327,674	298,899	956,241	889,482
	876,098	376,463	4,580,410	2,264,023
Noninterest Expense				
Salaries and employee benefits	2,257,469	2,336,622	6,922,577	6,953,594
Occupancy	437,879	416,432	1,313,772	1,212,920
FDIC deposit insurance premiums	141,089	119,400	424,725	546,489
Prepayment penalty on securities sold under agreements to repurchase	-	-	1,510,000	-
Data processing	164,719	141,714	518,854	416,116
Advertising	106,251	75,000	318,753	225,000
Other expense	903,045	1,013,811	2,959,708	2,699,220
	4,010,452	4,102,979	13,968,389	12,053,339
Income (Loss) Before Income Taxes	1,785,833	(1,183,196)	5,059,142	(116,115)
Provision (Credit) for Income Taxes	439,847	(466,108)	1,192,763	(577,870)
Net Income (Loss)	1,345,986	(717,088)	3,866,379	461,755
Preferred Stock Dividends and Discount Accretion	198,630	198,630	595,890	877,931
Net Income (Loss) Available to Common Shareholders	\$1,147,356	\$(915,718)	\$3,270,489	\$(416,176)

Basic Income (Loss) Per Common Share	\$0.42	\$(0.34) \$1.20	\$(0.15)
Diluted Income (Loss) Per Common Share	\$0.41	\$(0.34) \$1.16	\$(0.15)

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2013	9/30/2012	9/30/2013	9/30/2012
NET INCOME (LOSS)	\$1,345,986	\$(717,088)	\$3,866,379	\$461,755
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(26,465)	621,689	(4,131,266)	966,415
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(14,149)	(30,610)	(219,132)	(137,715)
Total other items in comprehensive income (loss)	(40,614)	591,079	(4,350,398)	828,700
Income tax expense (credit) related to other items of comprehensive income	(15,027)	218,699	(1,609,647)	306,619
Other comprehensive income (loss)	(25,587)	372,380	(2,740,751)	522,081
TOTAL COMPREHENSIVE INCOME (LOSS)	\$1,320,399	\$(344,708)	\$1,125,628	\$983,836

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid- In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2013	\$11,789,276	\$678,180	\$1,377,811	\$58,267,529	\$(61,369,344)	\$39,324,292	\$800,826	\$50,866,449
Net income	-	-	-	-	-	3,866,379	-	3,866,379
Change in unrealized appreciation depreciation) on available-for-sale securities, net of income taxes	-	-	-	-	-	-	(2,740,751)	(2,740,751)
Preferred stock discount accretion	145,886	-	-	-	-	(145,886)	-	-
Preferred stock dividends (5%)	-	-	-	-	-	(450,000)	-	(450,000)
Common stock warrants repurchased	-	-	(1,377,811)	(625,439)	-	-	-	(2,003,250)
Stock award plans	-	-	-	(31,597)	250,795	-	-	219,198
Stock options exercised	-	180	-	9,229	-	-	-	9,409
Treasury stock purchased	-	-	-	-	(105,782)	-	-	(105,782)
Balance, September 30, 2013	\$11,935,162	\$678,360	\$-	\$57,619,722	\$(61,224,331)	\$42,594,785	\$(1,939,925)	\$49,663,773

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2012 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumula Other Comprehe Income
Balance, January 1, 2012	\$16,425,912	\$677,980	\$1,377,811	\$58,333,614	\$(204,930)	\$(61,623,816)	\$38,456,991	\$791,285
Net income	-	-	-	-	-	-	461,755	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	522,081
Preferred stock redeemed	(5,000,000)	-	-	-	-	-	-	-
Preferred stock discount accretion	314,735	-	-	-	-	-	(314,735)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(563,195)	-
Stock award plans	-	-	-	(60,476)	-	280,208	-	-
Stock options exercised	-	200	-	12,188	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(25,736)	-	-
Release of ESOP shares	-	-	-	(41,787)	171,000	-	-	-
Balance, September 30, 2012	\$11,740,647	\$678,180	\$1,377,811	\$58,243,539	\$(33,930)	\$(61,369,344)	\$38,040,816	\$1,313,36

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

	9/30/2013	9/30/2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,866,379	\$461,755
Items not requiring (providing) cash:		
Deferred income taxes	794,155	(86,811)
Depreciation	619,530	537,986
Provision for loan losses	850,000	5,600,000
Gain on loans and investment securities	(1,505,361)	(1,481,717)
Loss on sale of foreclosed assets held for sale	80,957	1,211,718
Gain on sale of state low-income housing tax credits	(1,441,012)	(281,561)
Amortization of deferred income, premiums and discounts	480,426	470,945
Stock award plan expense	219,199	219,732
Origination of loans held for sale	(44,234,389)	(57,474,261)
Proceeds from sale of loans held for sale	47,131,305	58,155,072
Release of ESOP shares	-	129,213
Increase in cash surrender value of bank owned life insurance	(292,466)	(285,142)
Changes in:		
Prepaid FDIC deposit insurance premiums	1,438,636	517,612
Accrued interest receivable	233,667	70,853
Prepaid expenses and other assets	575,992	584,054
Accounts payable and accrued expenses	336,470	247,274
Income taxes receivable	388,609	(596,444)
Net cash provided by operating activities	9,542,097	8,000,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	5,968,759	11,126,480
Principal payments on held-to-maturity securities	96,854	29,293
Principal payments on available-for-sale securities	8,840,250	10,607,814
Proceeds from maturities of available-for-sale securities	9,000,000	1,000,000
Purchase of premises and equipment	(343,496)	(471,155)
Purchase of available-for-sale securities	(50,890,798)	(53,279,303)
Proceeds from sale of available-for-sale securities	24,628,847	24,808,516
Proceeds from maturities of interest-bearing deposits	-	5,587,654
Redemption of Federal Home Loan Bank stock	896,400	41,400
Purchase of bank owned life insurance	-	(2,500,000)
Proceeds on sale of state low-income housing tax credits	1,441,012	281,561
Proceeds from sale of foreclosed assets held for sale	844,524	3,337,207
Net cash provided by investing activities	482,352	569,467
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW and savings accounts	29,026,691	10,680,780
Net decrease in certificates of deposit	(18,317,426)	(1,887,125)

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Net decrease of securities sold under agreements to repurchase	(15,000,000)	-
Repayments of FHLB advances	(15,100,000)	-
Stock options exercised	9,408	12,388
Repayment of preferred stock	-	(5,000,000)
Repurchase of common stock warrants	(2,003,250)	-
Advances from borrowers for taxes and insurance	329,879	312,074
Cash dividends paid on preferred stock	(450,000)	(594,445)
Treasury stock purchased	(105,782)	(25,736)
Net cash provided by (used in) financing activities	(21,610,480)	3,497,936
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,586,031)	12,067,681
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,663,405	26,574,082
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$30,077,374	\$38,641,763

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") 2012 Annual Report on Form 10-K 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, 2012, 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 condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2013				
Equity Securities	\$ 102,212	\$ 6,640	\$(21,207)	\$ 87,645
Debt Securities:				
U. S. government agencies	38,811,258	6,082	(1,238,748)	37,578,592
Municipals	13,908,184	21,746	(570,508)	13,359,422
Corporates	989,707	-	(4,680)	985,027
Government sponsored mortgage-backed securities	55,138,807	446,536	(1,725,107)	53,860,236
	\$ 108,950,168	\$ 481,004	\$(3,560,250)	\$ 105,870,922

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
Equity Securities	\$ 102,212	\$ 306	\$(31,604)	\$ 70,914
Debt Securities:				
U. S. government agencies	38,188,554	202,213	(39,706)	38,351,061
Municipals	10,212,376	250,269	(84,456)	10,378,189
Corporates	1,839,976	67,889	-	1,907,865
Government sponsored mortgage-backed securities	50,366,374	1,304,242	(398,001)	51,272,615
	\$ 100,709,492	\$ 1,824,919	\$(553,767)	\$ 101,980,644

Maturities of available-for-sale debt securities as of September 30, 2013:

	Amortized Cost	Approximate Fair Value
1-5 years	\$ 14,794,810	\$ 14,626,622
6-10 years	30,073,248	28,849,588
Over 10 years	8,841,091	8,446,831
Government sponsored mortgage-backed securities not due on a single maturity date	55,138,807	53,860,236
	\$ 108,847,956	\$ 105,783,277

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, 2013				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 84,188	\$ 3,875	\$ -	\$ 88,063

\$ 84,188 \$ 3,875 \$ - \$ 88,063

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 181,042	\$ 12,440	\$ -	\$ 193,482

Maturities of held-to-maturity securities as of September 30, 2013:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 84,188	\$ 88,063
	\$ 84,188	\$ 88,063

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$49,095,490 and \$56,022,882 as of September 30, 2013 and December 31, 2012, respectively. The approximate fair value of pledged securities amounted to \$47,751,211 and \$57,384,685 as of September 30, 2013 and December 31, 2012, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of \$219,132 and \$137,715 as of September 30, 2013 and September 30, 2012, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$81,079 and \$50,955 as of September 30, 2013 and September 30, 2012, respectively.

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

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2013 and December 31, 2012, was \$86,897,001 and \$30,121,495, respectively, which is approximately 82% and 29% 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 tables show gross unrealized losses and approximate fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012.

Description of Securities	September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
		Losses		Losses		Losses
Equity Securities	\$-	\$-	\$26,720	\$(21,207)	\$26,720	\$(21,207)
U. S. government agencies	35,825,183	(1,238,747)	-	-	35,825,183	(1,238,747)
Municipals	10,303,846	(536,812)	516,704	(33,696)	10,820,550	(570,508)
Corporates	985,026	(4,680)	-	-	985,026	(4,680)
Government sponsored mortgage-backed securities	32,685,494	(1,470,320)	6,554,028	(254,788)	39,239,522	(1,725,108)
	\$79,799,549	\$(3,250,559)	\$7,097,452	\$(309,691)	\$86,897,001	\$(3,560,250)

Description of Securities	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
		Losses		Losses		Losses
Equity Securities	\$-	\$-	\$39,930	\$(31,604)	\$39,930	\$(31,604)
U. S. government agencies	7,298,687	(39,706)	-	-	7,298,687	(39,706)
Municipals	2,648,047	(76,318)	538,300	(8,138)	3,186,347	(84,456)
Government sponsored mortgage-backed securities	19,596,531	(398,001)	-	-	19,596,531	(398,001)
	\$29,543,265	\$(514,025)	\$578,230	\$(39,742)	\$30,121,495	\$(553,767)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at September 30, 2013 and December 31, 2012 include:

	September 30, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$93,413,523	\$99,381,934
Multi-family	48,680,101	46,405,034
Real estate - construction	39,385,606	48,917,296
Real estate - commercial	171,855,505	167,760,850
Commercial loans	96,993,237	95,226,762
Consumer and other loans	16,847,615	16,716,858
Total loans	467,175,587	474,408,734
Less:		
Allowance for loan losses	(8,472,838)	(8,740,325)
Deferred loan fees/costs, net	(216,705)	(136,436)
Net loans	\$458,486,044	\$465,531,973

Classes of loans by aging at September 30, 2013 and December 31, 2012 were as follows:

As of September 30, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$-	\$ 59	\$ 454	\$ 513	\$92,901	\$ 93,414	\$ -
Multi-family	-	-	-	-	48,680	48,680	-
Real estate - construction	578	-	-	578	38,808	39,386	-
Real estate - commercial	4,320	-	-	4,320	167,535	171,855	-
Commercial loans	-	20	2,072	2,092	94,901	96,993	-
Consumer and other loans	116	13	-	129	16,719	16,848	-

Total	\$5,014	\$ 92	\$ 2,526	\$7,632	\$459,544	\$ 467,176	\$ -
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As of December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$52	\$4	\$-	\$56	\$99,326	\$99,382	\$ -
Multi-family	-	-	-	-	46,405	46,405	-
Real estate - construction	22	28	640	690	48,227	48,917	-
Real estate - commercial	-	352	-	352	167,409	167,761	-
Commercial loans	10	610	785	1,405	93,822	95,227	-
Consumer and other loans	57	-	-	57	16,660	16,717	-
Total	\$141	\$994	\$1,425	\$2,560	\$471,849	\$474,409	\$ -

Nonaccruing loans are summarized as follows:

	September 30, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$2,392,537	\$2,280,856
Multi-family	-	-
Real estate - construction	5,473,379	6,274,241
Real estate - commercial	5,253,511	3,663,771
Commercial loans	5,229,846	2,793,457
Consumer and other loans	293,722	318,963
Total	\$18,642,995	\$15,331,288

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months and nine months ended September 30, 2013 and 2012:

Three months ended	Commercial		One to	Multi-family		Commercial	Consumer	Unallocated Total	
September 30, 2013	Construction	Real Estate	four family				and Other		
Allowance for loan losses:	<i>(In Thousands)</i>								
Balance, beginning of period	\$1,999	\$ 2,026	\$1,229	\$ 291	\$ 2,065	\$ 267	\$ 500	\$8,377	
Provision charged to expense	571	(24)	(178)	(71)	(189)	(52)	143	\$200	
Losses charged off	(117)	-	(6)	-	-	(17)	-	\$(140)	
Recoveries	5	-	5	-	8	18	-	\$36	
Balance, end of period	\$2,458	\$ 2,002	\$1,050	\$ 220	\$ 1,884	\$ 216	\$ 643	\$8,473	

Nine months ended	Commercial		One to	Multi-family		Commercial	Consumer	Unallocated Total	
September 30, 2013	Construction	Real Estate	four family				and Other		
Allowance for loan losses:	<i>(In Thousands)</i>								
Balance, beginning of period	\$2,525	\$ 2,517	\$1,316	\$ 284	\$ 1,689	\$ 255	\$ 154	\$8,740	

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Provision charged to expense	445	(329)	(138)	(64)	462	(15)	489	\$850
Losses charged off	(555)	(186)	(140)	-	(373)	(70)	-	\$(1,324)
Recoveries	43	-	12	-	106	46	-	\$207
Balance, end of period	\$2,458	\$ 2,002	\$1,050	\$ 220	\$ 1,884	\$ 216	\$ 643	\$8,473

Three months ended	Commercial		One to	Commercial		Consumer		Unallocated	Total
	Construction	Real Estate	four family	Multi-family	Commercial	and Other			
September 30, 2012									
Allowance for loan losses:	<i>(In Thousands)</i>								
Balance, beginning of period	\$2,368	\$ 4,380	\$1,574	\$ 415	\$ 3,997	\$ 357	\$ 35		\$13,126
Provision charged to expense	732	(1,403)	(251)	(136)	2,901	(59)	816		\$2,600
Losses charged off	(1,295)	(507)	(22)	-	(5,518)	(15)	-		\$(7,357)
Recoveries	-	28	11	-	58	10	-		\$107
Balance, end of period	\$1,805	\$ 2,498	\$1,312	\$ 279	\$ 1,438	\$ 293	\$ 851		\$8,476

Nine months ended September 30, 2012	Commercial		One to	Multi-family	Commercial	Consumer	Unallocated	Total
	Construction	Real Estate	four family			and Other		
Allowance for loan losses:	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,508	\$ 2,725	\$1,735	\$ 390	\$ 1,948	\$ 372	\$ 935	\$10,613
Provision charged to expense	576	692	(309)	(111)	4,894	(58)	(84)	\$5,600
Losses charged off	(1,295)	(985)	(130)	-	(5,538)	(49)	-	\$(7,997)
Recoveries	16	66	16	-	134	28	-	\$260
Balance, end of period	\$1,805	\$ 2,498	\$1,312	\$ 279	\$ 1,438	\$ 293	\$ 851	\$8,476

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2013 and December 31, 2012:

As of September 30, 2013	Commercial		One to	Multi-family	Commercial	Consumer	Unallocated	Total
	Construction	Real Estate	four family			and Other		
Allowance for loan losses:	<i>(In Thousands)</i>							
Ending balance: individually evaluated for impairment	\$1,135	\$ -	\$1	\$ -	\$ 826	\$ 44	\$ -	\$2,006
Ending balance: collectively evaluated for impairment	\$1,323	\$ 2,002	\$1,049	\$ 220	\$ 1,058	\$ 172	\$ 643	\$6,467
Loans:								
Ending balance: individually evaluated for impairment	\$5,474	\$ 5,253	\$2,463	\$ -	\$ 5,230	\$ 658	\$ -	\$19,078
Ending balance: collectively evaluated for impairment	\$33,912	\$ 166,602	\$90,951	\$ 48,680	\$ 91,763	\$ 16,190	\$ -	\$448,098
December 31, 2012	Construction	Commercial	One to	Multi-family	Commercial	Consumer	Unallocated	Total
		Real Estate	four family					

	family				and Other			
Allowance for loan losses:	<i>(In Thousands)</i>							
Ending balance:								
individually evaluated for impairment	\$608	\$180	\$90	\$-	\$441	\$48	\$-	\$1,367
Ending balance:								
collectively evaluated for impairment	\$2,087	\$2,167	\$1,226	\$284	\$1,248	\$207	\$154	\$7,373
Loans:								
Ending balance:								
individually evaluated for impairment	\$6,275	\$5,673	\$2,360	\$-	\$2,555	\$414	\$-	\$17,277
Ending balance:								
collectively evaluated for impairment	\$42,642	\$162,088	\$97,022	\$46,405	\$92,672	\$16,303	\$-	\$457,132

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

The following table summarizes the recorded investment in impaired loans at September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012		
	Unpaid			Unpaid		
	Recorded	Specific		Recorded	Specific	
	Principal	Allowance		Principal	Allowance	
	Balance	Balance		Balance	Balance	
	<i>(In Thousands)</i>					
Loans without a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$2,046	\$2,161	\$ -	\$2,245	\$2,271	\$ -
Multi-family	-	-	-	-	-	-

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Real estate - construction	277	277	-	5,015	5,575	-
Real estate - commercial	4,862	5,187	-	2,430	2,755	-
Commercial loans	1,100	1,403	-	318	689	-
Consumer and other loans	133	133	-	103	103	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$241	\$241	\$ 1	\$115	\$130	\$ 90
Multi-family	-	-	-	-	-	-
Real estate - construction	5,101	5,621	1,135	1,260	1,260	608
Real estate - commercial	-	-	-	3,243	3,243	180
Commercial loans	3,807	4,118	826	2,237	2,237	441
Consumer and other loans	280	280	44	311	311	48
Total						
Real estate - residential mortgage:						
One to four family units	\$2,287	\$2,402	\$ 1	\$2,360	\$2,401	\$ 90
Multi-family	-	-	-	-	-	-
Real estate - construction	5,378	5,898	1,135	6,275	6,835	608
Real estate - commercial	4,862	5,187	-	5,673	5,998	180
Commercial loans	4,907	5,521	826	2,555	2,926	441
Consumer and other loans	413	413	44	414	414	48
Total	\$17,847	\$19,421	\$ 2,006	\$17,277	\$18,574	\$ 1,367

The following tables summarize average impaired loans and related interest recognized on impaired loans for the three months and nine months ended September 30, 2013 and 2012:

	For the Three Months Ended		For the Three Months Ended	
	September 30, 2013		September 30, 2012	
	Average		Average	
	Investment	Interest	Investment	Interest
	in	Income	in	Income
	Impaired	Recognized	Impaired	Recognized
	Loans		Loans	
	<i>(In Thousands)</i>			
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$1,782	\$ 1	\$2,601	\$ 5
Multi-family	-	-	-	-
Real estate - construction	1,703	-	4,953	-
Real estate - commercial	5,091	4	4,273	18
Commercial loans	1,343	-	2,719	4
Consumer and other loans	123	-	151	1
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$599	\$ -	\$106	\$ -
Multi-family	-	-	-	-
Real estate - construction	3,829	-	770	-
Real estate - commercial	-	-	9,085	-
Commercial loans	2,712	-	4,774	-
Consumer and other loans	252	-	417	-
Total				
Real estate - residential mortgage:				
One to four family units	\$2,381	\$ 1	\$2,707	\$ 5
Multi-family	-	-	-	-
Real estate - construction	5,532	-	5,723	-
Real estate - commercial	5,091	4	13,358	18
Commercial loans	4,055	-	7,493	4
Consumer and other loans	375	-	568	1
Total	\$17,434	\$ 5	\$29,849	\$ 28

	For the Nine Months Ended		For the Nine Months Ended	
	September 30, 2013 Average		September 30, 2012 Average	
	Investment in Impaired Loans (<i>In Thousands</i>)	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$2,028	\$ 4	\$1,807	\$ 17
Multi-family	-	-	-	-
Real estate - construction	4,044	-	3,046	-
Real estate - commercial	4,458	40	4,626	49
Commercial loans	878	1	2,342	15
Consumer and other loans	107	-	230	11
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$296	\$ -	\$334	\$ -
Multi-family	-	-	-	-
Real estate - construction	1,849	-	4,111	-
Real estate - commercial	748	-	7,800	-
Commercial loans	2,741	-	3,693	-
Consumer and other loans	310	-	316	-
Total				
Real estate - residential mortgage:				
One to four family units	\$2,324	\$ 4	\$2,141	\$ 17
Multi-family	-	-	-	-
Real estate - construction	5,893	-	7,157	-
Real estate - commercial	5,206	40	12,426	49
Commercial loans	3,619	1	6,035	15
Consumer and other loans	417	-	546	11
Total	\$17,459	\$ 45	\$28,305	\$ 92

At September 30, 2013, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction on the face amount or maturity amount of the debt as stated in the original loan, (iv) a temporary period of interest-only payments, (v) a reduction in accrued interest, and (vi) an extension of amortization.

The following table summarizes, by class, loans that were newly classified as TDRs for the three months ended September 30, 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	\$ -	\$ -
Multi-family	-	-	-
Real estate - construction	1	73,845	73,845
Real estate - commercial	-	-	-
Commercial loans	2	1,892,006	1,891,410
Consumer and other loans	-	-	-
Total	3	\$ 1,965,851	\$ 1,965,255

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended September 30, 2013:

	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	\$ -	\$-	\$-	\$ -
Multi-family	-	-	-	-
Real estate - construction	-	73,845	-	73,845
Real estate - commercial	-	-	-	-
Commercial loans	-	-	1,891,410	1,891,410
Consumer and other loans	-	-	-	-
Total	\$ -	\$73,845	\$ 1,891,410	\$ 1,965,255

During the three months ended September 30, 2012, there was one new commercial real estate loan modified that met the definition of a troubled debt restructuring that totaled \$389,993. The concession granted on this loan was an extension of amortization. As of September 30, 2012 the Bank also had \$5.7 million of construction loans, \$1.7 million of one-to-four family and \$1.9 million of commercial real estate loans that were classified as troubled debt restructurings.

The following table presents the carrying balance of TDRs as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$1,837,765	\$1,653,934
Multi-family	-	-
Real estate - construction	5,665,630	6,229,201
Real estate - commercial	5,139,025	2,246,508
Commercial loans	4,579,444	1,851,099
Consumer and other loans	-	-
Total	\$17,221,865	\$11,980,742

The Bank has allocated \$1,525,708 and \$169,538 of specific reserves to customers whose loan terms have been modified in TDRs as of September 30, 2013 and December 31, 2012, respectively.

There were two one to four family TDRs totaling \$330,000 for which there was a payment default within twelve months following the modification during the nine months ending September 30, 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass-This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention-This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard-This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful-This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of September 30, 2013 and December 31, 2012:

September 30, 2013	Commercial Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	<i>(In Thousands)</i>						
Rating:							
Pass	\$26,800	\$ 161,855	\$85,324	\$ 48,258	\$ 85,833	\$ 16,054	\$424,124

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Special Mention	7,155	3,004	5,176	422	5,043	90	20,890
Substandard	866	6,996	2,914	-	3,766	704	15,246
Doubtful	4,565	-	-	-	2,351	-	6,916
Total	\$39,386	\$ 171,855	\$93,414	\$ 48,680	\$ 96,993	\$ 16,848	\$467,176

December 31, 2012	Commercial Construction Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total	
	<i>(In Thousands)</i>						
Rating:							
Pass	\$35,775	\$ 156,448	\$94,209	\$ 45,133	\$ 88,230	\$15,840	\$435,635
Special Mention	6,868	4,976	1,636	1,272	2,255	93	17,100
Substandard	5,581	6,337	3,507	-	4,742	784	20,951
Doubtful	693	-	30	-	-	-	723
Total	\$48,917	\$ 167,761	\$99,382	\$ 46,405	\$ 95,227	\$ 16,717	\$474,409

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's 2012 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, 2013:

	Number of shares		Weighted
	Incentive	Non-Incentive	Average
	Stock	Stock	Exercise
	Option	Option	Price
Balance outstanding as of January 1, 2013	174,500	167,000	\$ 16.38
Granted	-	-	-
Exercised	(1,800)	-	5.23
Forfeited	(2,200)	(44,500)	16.86
Balance outstanding as of September 30, 2013	170,500	122,500	16.42
Options exercisable as of September 30, 2013	149,500	104,250	18.15

Stock-based compensation expense, consisting of stock options and restricted stock awards, recognized for the three months ended September 30, 2013 and 2012 was \$31,923 and \$40,056, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2013 and 2012 was \$219,199 and \$219,732, respectively. As of September 30, 2013, there was \$99,815 of unrecognized compensation expense related to nonvested stock options and restricted stock awards, which will be recognized over the remaining vesting period.

In January 2013 and 2012, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested as of the date of the grant and thus, expensed in full on the date of the grant. The amount expensed was \$116,032 and \$110,009 for 2013 and 2012, respectively, which represents 16,576 shares of common stock at a market price of \$7.00 at the date of grant in 2013 and 18,520 shares of common stock at a market price of \$5.94 at the

date of grant in 2012.

Note 6: Income (Loss) Per Common Share

	For three months ended September 30, 2013			For nine months ended September 30, 2013		
	Income Available to Common	Common Shares Outstanding	Per Common Share	Income Available to Common	Common Shares Outstanding	Per Common Share
Basic Income (Loss) Per Common Share	\$1,147,356	2,732,431	\$ 0.42	\$3,270,489	2,734,487	\$ 1.20
Effect of Dilutive Securities		87,377			78,072	
Diluted Income (Loss) Per Common Share	\$1,147,356	2,819,808	\$ 0.41	\$3,270,489	2,812,559	\$ 1.16

	For three months ended September 30, 2012			For nine months ended September 30, 2012		
	Income Available to Common	Common Shares Outstanding	Per Common Share	Income Available to Common	Common Shares Outstanding	Per Common Share
Basic Income (Loss) Per Common Share	\$(915,718)	2,717,789	\$ (0.34)	\$(416,176)	2,712,446	\$ (0.15)
Effect of Dilutive Securities		-			-	
Diluted Income (Loss) Per Common Share	\$(915,718)	2,717,789	\$ (0.34)	\$(416,176)	2,712,446	\$ (0.15)

Stock options to purchase 155,000 of common stock were outstanding during the three and nine months ended September 30, 2013 but were not included in the computation of diluted income per common share because their exercise prices were greater than the average market price of the common shares. Due to the Company's net loss available to common shareholders for the three and nine month periods ended September 30, 2012, no potentially dilutive shares were included in the computation of diluted loss per common share.

Note 7: New Accounting Pronouncements

In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The update clarifies the scope of transactions that are subject to the disclosures about offsetting. The update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Or, the organization may cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

Note 8: Disclosures about Fair Value of Assets and Liabilities

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

used to measure fair value:

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

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

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

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

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

The following table presents the fair value measurements of assets recognized in the accompanying condensed consolidated statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012 (dollar amounts in thousands):

September 30, 2013

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 88	\$-	\$ -	\$88
Debt securities:				
U.S. government agencies	-	37,579	-	37,579
Municipals	-	13,359	-	13,359
Corporate Bonds	-	985	-	985
Government sponsored mortgage-backed securities	-	53,860	-	53,860
Available-for-sale securities	\$ 88	\$105,783	\$ -	\$105,871

December 31, 2012

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 71	\$-	\$ -	\$71
Debt securities:				
U.S. government agencies	-	38,351	-	38,351
U.S. corporate	-	1,908	-	1,908
Municipals	-	10,378	-	10,378
Government sponsored mortgage-backed securities	-	51,273	-	51,273
Available-for-sale securities	\$ 71	\$101,910	\$ -	\$101,981

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

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

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

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires the Company to obtain a current independent appraisal or observable market price of the collateral as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
September 30, 2013	\$ -	\$ -	\$10,027	\$10,027
December 31, 2012	\$ -	\$ -	\$10,557	\$10,557

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
September 30, 2013	\$ -	\$ -	\$341	\$341
December 31, 2012	\$ -	\$ -	\$3,883	\$3,883

There were no transfers between valuation levels for any asset during the nine months ended September 30, 2013 or 2012. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurement (dollar amounts in thousands):

Fair Value

Valuation Technique

September 30, 2013