GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 14, 2007

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, 2007

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 ofincorporation or organization)	(IRS Employer Identification No.)
1341 West Battlefield **Springfield, Missouri**	**65807**
(Address of principal executive offices)	(Zip Code)

Telephone Number: (417) 520-4333

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

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

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

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

Class	Outstanding as of November 14, 2007
Common Stock, Par Value $0.10 per share	2,737,554 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006

ASSETS	**9/30/2007**	**12/31/06**
Cash	$ 10,743,882	10,684,831
Interest-bearing deposits in other financial institutions	408,020	4,195,770
Cash and cash equivalents	11,151,902	14,880,601
Available-for-sale securities	16,426,812	7,906,321
Held-to-maturity securities	678,638	763,025
Stock in Federal Home Loan Bank, at cost	3,042,043	5,382,700
Mortgage loans held for sale	667,250	3,004,635
Loans receivable, net of allowance for loan losses of September 30, 2007 - $5,797,691 - December 31, 2006 - $5,783,477	478,542,873	477,264,522
Accrued interest receivable:		
Loans	2,870,145	2,830,811
Investments	119,114	79,498
Prepaid expenses and other assets	2,742,801	2,955,483
Foreclosed assets held for sale	753,094	172,637
Premises and equipment	9,633,616	7,867,809
Income taxes receivable	-	774,469
Deferred income taxes	1,379,887	962,484
	$ 528,008,175	524,844,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 401,559,443	352,229,636
Federal Home Loan Bank advances	53,086,000	108,000,000
Securities sold under agreements to repurchase	9,861,400	1,703,221
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	657,104	222,869
Accrued expenses and other liabilities	600,415	441,890
Accrued interest payable	1,747,135	1,414,946
Dividend payable	482,077	468,190
	483,458,574	479,945,752
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Common Stock:		
$0.10 par value; authorized 10,000,000 shares; issued September 30, 2007 -6,726,485,shares; December 31, 2006 - 6,653,527 shares	672,648	665,353
Additional paid-in capital	57,371,689	55,730,352
Unearned ESOP shares	(1,173,930)	(1,344,930)

Retained earnings, substantially restricted	44,550,704	41,183,006
Accumulated other comprehensive		
Unrealized appreciation on available-for-sale securities, net of income taxes	966,875	1,534,548
	102,387,986	97,768,329
Treasury stock, at cost; September 30, 2007 - 3,931,588 shares; December 31, 2006 - 3,764,367 shares	(57,838,385)	(52,869,086)
	44,549,601	44,899,243
	$ 528,008,175	524,844,995

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2007	9/30/2006	9/30/2007	9/30/2006
INTEREST INCOME				
Loans	$ 9,487,166	8,870,204	27,743,936	25,001,916
Investment securities	119,660	112,571	308,682	339,888
Other	79,049	71,830	258,273	176,985
	9,685,875	9,054,605	28,310,891	25,518,789
INTEREST EXPENSE				
Deposits	4,179,228	2,638,877	11,636,397	7,383,588
Federal Home Loan Bank advances	737,296	1,610,387	2,726,634	4,197,026
Subordinated agreements	247,992	251,057	776,368	765,892
Other	37,229	42,774	37,229	91,187
	5,201,745	4,543,095	15,176,628	12,437,693
NET INTEREST INCOME	4,484,130	4,511,510	13,134,263	13,081,096
PROVISION FOR LOAN LOSSES	210,000	150,000	630,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,274,130	4,361,510	12,504,263	12,481,096
NONINTEREST INCOME				
Service charges	533,718	337,621	1,650,794	987,543
Late charges and other fees	76,035	36,136	206,847	186,408
Gain on sale of investment securities	181,632	176,958	567,603	551,879
Gain on sale of loans	282,357	172,827	906,225	452,792
Loss on foreclosed assets	(24,826)	(2,062)	(25,436)	(2,327)
Other income	167,989	199,570	511,153	525,445
	1,216,905	921,050	3,817,186	2,701,740
NONINTEREST EXPENSE				
Salaries and employee benefits	1,802,147	1,588,921	5,357,239	4,515,725
Occupancy	400,916	417,946	1,219,123	1,105,809
SAIF deposit insurance premiums	10,954	9,801	31,201	30,033
Data processing	96,136	77,415	298,405	202,556
Advertising	99,999	101,039	299,997	303,293
Other expense	576,406	435,072	1,650,929	1,383,672
	2,986,558	2,630,194	8,856,894	7,541,088
INCOME BEFORE INCOME TAXES	2,504,477	2,652,366	7,464,555	7,641,748
PROVISION FOR INCOME TAXES	891,786	1,028,044	2,682,100	2,871,711
NET INCOME	$ 1,612,691	1,624,322	4,782,455	4,770,037
BASIC EARNINGS PER SHARE	$ 0.60	0.58	1.75	1.71
DILUTED EARNINGS PER SHARE	$ 0.59	0.56	1.70	1.64

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2007 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2007	$ 665,353	55,730,352	(1,344,930)	(52,869,086)	41,183,006	1,534,548	44,899,243
Comprehensive income							
Net income	-	-	-	-	4,782,455	-	4,782,455
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	(567,673)	(567,673)
Total comprehensive income							4,214,782
Dividends ($0.52 per share)	-	-	-	-	(1,414,757)	-	(1,414,757)
Stock award plans	-	327,426	-	-	-	-	327,426
Stock options exercised	7,295	978,381	-	-	-	-	985,676
Release of ESOP shares	-	335,530	171,000	-	-	-	506,530
Treasury stock purchased	-	-	-	(4,969,299)	-	-	(4,969,299)
Balance, September 30, 2007	$ 672,648	57,371,689	(1,173,930)	(57,838,385)	44,550,704	966,875	44,549,601

See Notes to Condensed Consolidated Financial Statements

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

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2006	$ 657,135	53,778,686	(1,572,930)	(49,276,005)	36,533,338	1,971,925	42,092,149
Comprehensive income							
Net income	-	-	-	-	4,770,037	-	4,770,037
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	(360,829)	(360,829)
Total comprehensive income							4,409,208
Dividends ($0.495 per share)	-	-	-	-	(1,391,228)	-	(1,391,228)
Stock award plans	-	355,596	-	-	-	-	355,596
Stock options exercised	7,388	1,020,556	-	-	-	-	1,027,944
Release of ESOP shares	-	318,922	171,000	-	-	-	489,922
Treasury stock purchased	-	-	-	(2,507,779)	-	-	(2,507,779)
Balance, September 30, 2006	$ 664,523	55,473,760	(1,401,930)	(51,783,784)	39,912,147	1,611,096	44,475,812

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

		9/30/2007	9/30/2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$	4,782,455	4,770,037
Items not requiring (providing) cash:			
Deferred income taxes		(84,008)	(526,593)
Depreciation		663,496	569,646
Provision for loan losses		630,000	600,000
Gain on loans and investment securities		(1,473,828)	(1,004,671)
Gain on sale of premises and equipment and other assets		-	(110,766)
Gain on sale of foreclosed assets		(396)	(1,023)
Amortization of deferred income, premiums and discounts		5,100	32,072
Stock award plan expense		50,840	49,017
Origination of loans held for sale		(54,656,645)	(36,495,543)
Proceeds from sale of loans held for sale		57,900,255	36,551,565
Release of ESOP shares		506,530	489,922
Changes in:			
Accrued interest receivable		(78,950)	(511,136)
Prepaid expenses and other assets		212,682	502,488
Accounts payable and accrued expenses		336,860	828,086
Income taxes payable		1,204,909	306,579
Net cash provided by operating activities		9,999,300	6,049,680
CASH FLOWS FROM INVESTING ACTIVITIES			
Net increase in loans		(3,846,875)	(32,912,403)
Principal payments on held-to-maturity securities		82,999	158,120
Principal payments on available-for-sale securities		211,085	124,756
Proceeds from maturities of available-for-sale securities		500,000	500,000
Purchase of premises and equipment		(2,429,303)	(1,142,298)
Purchase of tax credit investments		-	(657,412)
Proceeds from sale of originated mortgage servicing rights		-	742,757
Proceeds from sale of premises and equipment		-	5,927
Purchase of available-for-sale securities		(10,630,694)	(3,780,316)
Proceeds from sale of available-for-sale securities		1,068,601	560,690
Redemption (purchase) of FHLB stock		2,340,657	(1,343,900)
Proceeds from sale of foreclosed assets		1,351,803	27,798
Net cash used in investing activities		(11,351,727)	(37,716,281)
CASH FLOWS FROM FINANCING ACTIVITIES			
Stock options exercised		985,676	1,027,944
Cash dividends paid		(1,400,870)	(1,391,228)
Net increase (decrease) in demand deposits, NOW accounts and savings accounts		8,510,522	(7,137,394)
Net increase in certificates of deposit and securities sold under agreements to repurchase		48,977,464	16,631,231
Proceeds from FHLB advances		1,266,588,600	1,337,414,000
Repayments of FHLB advances		(1,321,502,600)	(1,313,414,000)

Advances from borrowers for taxes and insurance		434,235	603,413
Treasury stock purchased		(4,969,299)	(2,507,779)
Net cash provided by (used in) financing activities		(2,376,272)	31,226,187
DECREASE IN CASH AND CASH EQUIVALENTS		(3,728,699)	(440,414)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		14,880,601	20,506,478
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	11,151,902	20,066,064

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.

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2006 filed with the Securities and Exchange Commission. The condensed consolidated statement of financial condition of the Company as of December 31, 2006, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

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

Note 3: Benefit Plans

The Company has stock-based employee compensation plans, which are described fully in the Company's December 31, 2006 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, 2007:

	Number of shares		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2007	155,491	115,206	17.30
Granted	13,500	25,000	29.39
Exercised	(46,958)	(26,000)	13.51
Forfeited	-	-	-
Balance outstanding as of September 30, 2007	122,033	114,206	19.93
Options exercisable as of September 30, 2007	68,036	67,206	15.75

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

Stock-based compensation expense recognized for the three months ended September 30, 2007 and 2006 was $19,605 and $15,185, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2007 and 2006 was $50,840 and $49,017, respectively. As of September 30, 2007, there was $237,044 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

Note 4: Earnings Per Share

	For three months ended September 30, 2007			For nine months ended September 30, 2007		
	Income Available to Stockholders	Average Shares Outstanding	Per-share	Income Available to Stockholders	Average Shares Outstanding	Per-share
Basic Earnings per Share	$ 1,612,691	2,694,772	$ 0.60	$ 4,782,455	2,738,082	$ 1.75
Effect of Dilutive Securities:						
Stock Options		58,094			78,967	
Diluted Earnings per Share	$ 1,612,691	2,752,866	$ 0.59	$ 4,782,455	2,817,049	$ 1.70

	For three months ended September 30, 2006			For nine months ended September 30, 2006		
	Income Available to Stockholders	Average Shares Outstanding	Per-share	Income Available to Stockholders	Average Shares Outstanding	Per-share
Basic Earnings per Share	$ 1,624,322	2,782,887	$ 0.58	$ 4,770,037	2,792,040	$ 1.71
Effect of Dilutive Securities:						
Stock Options		111,721			109,448	
Diluted Earnings per Share	$ 1,624,322	2,894,608	$ 0.56	$ 4,770,037	2,901,488	$ 1.64

Note 5: Other Comprehensive Loss

Other comprehensive loss components and related taxes were as follows for the nine months ended September 30, 2007 and 2006:

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		9/30/2007	9/30/2006
Unrealized losses on available-for-sale securities	$	(333,465)	(20,865)
Less: Reclassification adjustment for realized gains included in income		(567,603)	(551,879)
Other comprehensive loss, before tax benefit		(901,068)	(572,744)
Tax benefit		(333,395)	(211,915)
OTHER COMPREHENSIVE LOSS	$	(567,673)	(360,829)

Note 6: Change in Accounting Principle

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS No. 109 - Accounting for Income Taxes*. This interpretation addresses accounting for tax uncertainties that arise when a position that an entity takes on its tax return may be different from the position that the taxing authority may take, and provides guidance about the accounting for tax benefits associated with uncertain tax positions, classification of a liability recognized for those positions, and interim reporting considerations. This Interpretation requires that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit. The provisions of FIN 48 were effective as of January 1, 2007, with any cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The adoption of this standard did not have a material impact on the consolidated financial condition or results of operations of the Company. The Company's federal and state income tax returns are open and subject to examinations from the 2004 tax year and forward.

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

General

The primary function of the Company is to monitor 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, 2007, and the results of operations for the three and nine months ended September 30, 2007 and 2006.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates; and other factors set forth in reports and other documents filed by the Company with the Securities and Exchange Commission from time to time, including the risk factors described under Item 1A. of the Company's Form 10-K for the fiscal year ended December 31, 2006.

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Financial Condition

The Company's total assets increased $3,163,180 from $524,844,995 as of December 31, 2006, to $528,008,175 as of September 30, 2007.

Cash and cash equivalents decreased $3,728,699 (25%) from $14,880,601 as of December 31, 2006, to $11,151,902 as of September 30, 2007.

Securities available-for-sale increased $8,520,491 (108%) from $7,906,321 as of December 31, 2006, to $16,426,812 as of September 30, 2007. The Bank currently holds 27,600 shares of Federal Home Loan Mortgage Corporation ("FHLMC") stock with an amortized cost of $27,036 in the available-for-sale category. As of September 30, 2007, the gross unrealized gain on the FHLMC stock was $1,601,640, a decrease from $2,449,293 as of December 31, 2006 which was due to the sale of 9,000 shares of stock during the nine month period and a decrease in the stock price from $67.90 per share at December 31, 2006 to $59.01 per share at September 30, 2007. The increase in securities available-for-sale is primarily due to purchases of $10,630,694 offset by the sale of 9,000 shares of the FHLMC stock during the nine months ended September 30, 2007.

Securities held-to-maturity decreased primarily due to principal repayments by $84,387 (11%) from $763,025 as of December 31, 2006, to $678,638 as of September 30, 2007.

From December 31, 2006 to September 30, 2007, stock in Federal Home Loan Bank of Des Moines ("FHLB") decreased by $2,340,657 (43%), due to the redemption of such stock to continue to maintain a level to meet FHLB advance requirements.

Net loans receivable increased by $1,278,351 (0.3%) from $477,264,522 as of December 31, 2006, to $478,542,873 as of September 30, 2007. Commercial loans increased $5,417,842 (7%) from $82,675,514 as of December 31, 2006, to $88,093,356 as of September 30, 2007. Commercial real estate loans increased by $7,801,311 (5%) from $155,800,918 as of December 31, 2006, to $163,602,229 as of September 30, 2007. Permanent multi-family loans decreased by $14,802,277 (29%) due to several unexpected payoffs. Construction loans increased by $4,989,271 (6%) to $88,956,247 as of September 30, 2007, compared to $83,966,976 as of December 31, 2006. Loan growth is anticipated in future quarters and represents a major part of the Bank's planned asset growth.

Allowance for loan losses increased $14,214 (0.2%) from $5,783,477 as of December 31, 2006 to $5,797,691 as of September 30, 2007. The allowance increased due to the provision for loan losses of $630,000 exceeding net loan charge-offs of $615,786 during the period. Management of the Company decided to record a provision for loan losses to partially offset the net charge-offs for the period and maintain the allowance at a level in accordance with management's methodology. See discussion under "Results of Operations – Comparison of Three and Nine Month Periods Ended September 30, 2007 and 2006 – Provision for Loan Losses." The allowance for loan losses as of September 30, 2007 and December 31, 2006 was 1.21% and 1.20% of net loans outstanding, respectively.

Premises and equipment increased $1,765,807 (22%) from $7,867,809 as of December 31, 2006 to $9,633,616 as of September 30, 2007 due primarily to two land purchases for future branch and operations sites.

Deposits increased $49,329,807 (14%) from $352,229,636 as of December 31, 2006, to $401,559,443 as of September 30, 2007. For the nine months ended September 30, 2007, checking and savings accounts increased by $8,510,522 and certificates of deposits increased by $40,819,285. The increase in checking and savings was due to the Bank's continued emphasis on developing commercial checking business. The increase in certificates of deposit was primarily due to the Company's emphasis on retail customers offset by a decrease in brokered deposits. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

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FHLB advances decreased by $54,914,000 (51%) from $108,000,000 as of December 31, 2006, to $53,086,000 as of September 30, 2007, due to repayments exceeding new advances. The Company was able to make such repayments through the funds generated from deposit growth.

Securities sold under agreements to repurchase increased $8,158,179 (479%) from $1,703,221 as of December 31, 2006, to $9,861,400 as of September 30, 2007, due to a floating rate leveraged transaction completed during the quarter.

Stockholders' equity (including unrealized appreciation on securities available-for-sale, net of tax) decreased $349,642 (1%) from $44,899,243 as of December 31, 2006, to $44,549,601 as of September 30, 2007. The Company's net income during this period was $4,782,455 which was partially offset by dividends in the amount of $1,414,757 which were declared in the nine month period ended September 30, 2007. In addition, the increase in stockholders' equity was further offset as the Company repurchased 167,221 shares of the Company's outstanding stock at an aggregate cost of $4,969,299 (an average cost of $29.71 per share) and a decrease in unrealized appreciation on available for sale securities, net of taxes, of $567,673 during this period. On a per share basis, stockholders' equity increased from $16.30 as of December 31, 2006 to $16.64 as of September 30, 2007.

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 net income.

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

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	Three months ended 9/30/2007			Three months ended 9/30/2006		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$ 475,697	9,487	7.98%	$ 452,860	8,870	7.83%
Investment securities	9,223	120	5.20%	7,537	113	6.00%
Other assets	7,542	79	4.19%	9,786	72	2.94%
Total interest-earning	492,462	9,686	7.87%	470,183	9,055	7.70%
Noninterest-earning	24,187			21,330		
	$ 516,649			$ 491,513		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$ 12,760	73	2.29%	$ 16,105	115	2.86%
Transaction accounts	103,252	776	3.01%	76,225	430	2.26%
Certificates of deposit	254,800	3,330	5.23%	188,441	2,094	4.44%
FHLB Advances	54,753	738	5.39%	119,109	1,610	5.41%
Subordinated agreements	15,465	261	6.75%	15,465	251	6.49%
Other borrowed funds	2,003	24	4.79%	5,811	43	2.96%
Total interest-bearing	443,033	5,202	4.70%	421,156	4,543	4.31%
Noninterest-bearing	28,437			25,823		
Total liabilities	471,470			446,979		
Stockholders' equity	45,179			44,534		
	$ 516,649			$ 491,513		
Net earning balance	$ 49,429			$ 49,027		
Earning yield less costing rate			3.17%			3.39%
Net interest income, and net yield spreadon interest earning assets		$ 4,484	3.64%		$ 4,512	3.84%
Ratio of interest-earning assets to interest-bearing liabilities		111%			112%	

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	Nine months ended 9/30/2007			Nine months ended 9/30/2006		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$ 473,148	27,744	7.82%	$ 445,594	25,002	7.48%
Investment securities	8,543	309	4.82%	7,277	340	6.23%
Other assets	8,079	258	4.26%	9,836	177	2.40%
Total interest-earning	489,770	28,311	7.71%	462,707	25,519	7.35%
Noninterest-earning	23,942			20,968		
	$ 513,712			$ 483,675		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$ 13,836	250	2.41%	$ 14,692	259	2.35%
Transaction accounts	101,124	2,235	2.95%	76,283	1,169	2.04%
Certificates of deposit	240,164	9,151	5.08%	191,856	5,956	4.14%
FHLB Advances	67,571	2,727	5.38%	110,293	4,197	5.07%
Subordinated agreements	15,465	776	6.69%	15,465	766	6.60%
Other borrowed funds	1,338	38	3.79%	4,271	91	2.84%
Total interest-bearing	439,498	15,177	4.60%	412,860	12,438	4.02%
Noninterest-bearing	28,277			26,763		
Total liabilities	467,775			439,623		
Stockholders' equity	45,937			44,052		
	$ 513,712			$ 483,675		
Net earning balance	$ 50,272			$ 49,847		
Earning yield less costing rate			3.10%			3.34%
Net interest income, and net yield spread on interest earning assets		$ 13,134	3.58%		$ 13,081	3.77%
Ratio of interest-earning assets to interest-bearing liabilities		111%			112%	

Results of Operations - Comparison of Three and Nine Month Periods Ended September 30, 2007 and 2006

Net income for the three months and nine months ended September 30, 2007 was $1,612,691 and $4,782,455 as compared to $1,624,322 and $4,770,037 for the three months and nine months ended September 30, 2006, which represents a decrease in earnings of $11,631 (1%) for the three month period, and an increase in earnings of $12,418 (1%) for the nine month period.

Interest Income

Total interest income for the three months and nine months ended September 30, 2007, increased $631,270 (7%) and $2,792,102 (11%), respectively, as compared to the three months and nine months ended September 30, 2006. For the three month and nine month periods ended September 30, 2007 compared to the same periods in 2006, the average yield on interest earning assets increased 17 basis points to 7.87% and 36 basis points to 7.71%, respectively, and the average balance of interest earning assets increased approximately $22,279,000 and $27,063,000, respectively.

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Interest Expense

Total interest expense for the three months and nine months ended September 30, 2007, increased $658,650 (14%) and $2,738,935 (22%), respectively, when compared to the three months and nine months ended September 30, 2006. For the three month and nine month periods ended September 30, 2007 compared to the same periods in 2006, the average cost of interest bearing liabilities increased 39 basis points to 4.70% and 58 basis points to 4.60%, respectively, and the average balance of interest bearing liabilities increased approximately $21,877,000 and $26,638,000, respectively, when compared to the same periods in 2006.

Net Interest Income

Net interest income for the three months and nine months ended September 30, 2007, decreased $27,380 (1%) and increased $53,167 (0.4%), respectively when compared to the same periods in 2006.

Provision for Loan Losses

Based on its internal analysis and methodology, management recorded a provision for loan loss of $210,000 and $630,000 for the three months and nine months ended September 30, 2007, respectively, compared to $150,000 and $600,000 for the same periods in 2006. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management of the Company anticipates the need to continue increasing the allowance for loan losses through charges to the provision for loan losses as anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Noninterest Income

Noninterest income increased $295,855 (32%) and $1,115,446 (41%) for the three months and nine months ended September 30, 2007, respectively, when compared to the three months and nine months ended September 30, 2006.

Service charges on transaction accounts increased by $196,097 (58%) and $663,251 (67%) for the three months and nine months ended September 30, 2007, respectively, when compared to the same periods in 2006. This is a result of an increase in the amount of insufficient funds and overdraft charges during these periods when compared to the same period in 2006. This is primarily due to the Bank's overdraft privilege program that was implemented in the fourth quarter of 2006.

Gain on sale of loans increased $109,530 (63%) and $453,433 (100%) for the three months and nine months ended September 30, 2007, respectively, when compared to the same periods in 2006, which was a result of an increase in the volume and yield of mortgage loans sold on the secondary market during the three months and nine months ended September 30, 2007, compared to the same periods in 2006.

Noninterest Expense

Noninterest expense increased $356,364 (14%) and $1,315,806 (17%) for the three months and nine months ended September 30, 2007, respectively, when compared to the three months and nine months ended September 30, 2006.

Salaries and employee benefits increased $213,226 (13%) and $841,514 (19%) for the three months and nine months ended September 30, 2007 when compared to the same period in 2006. This increase was due to several factors, including additions in executive and staff positions, pay increases to existing employees and increases in employee benefit costs during the three month and nine month periods ended September 30, 2007 when compared to the same periods in 2006.

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Occupancy expense decreased $17,030 (4%) and increased $113,314 (10%), respectively, and data processing expense increased $18,721 (24%) and $95,849 (47%), respectively, for the three months and nine months ended September 30, 2007 when compared to the same periods in 2006. These increases were primarily due to increased depreciation and maintenance expenses relating to the Bank's conversion to a new core processing system in 1st quarter 2006.

Other expense increased $141,334 (32%) and $267,257 (19%) for the three months and nine months ended September 30, 2007, respectively, when compared to the same periods in 2006. This increase was primarily due to an increase in the amount of ATM expenses during these periods. The Bank converted to a new ATM network provider in September 2006. The expense is recorded at gross, rather than net of income earned as was previously done prior to the conversion. Currently, the associated income related to ATM services is recorded in noninterest income.

Provision for Income Taxes

There was a decrease of $136,258 (13%) and $189,611 (7%) in the provision for income taxes for the three months and nine months ended September 30, 2007, respectively, when compared to the same periods in 2006 due to a decrease in taxable income and the purchase of certain tax credit investments for the three months and nine months ended September 30, 2007, compared to the same periods in 2006.

Nonperforming Assets

The allowance for loan losses is calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Bank's existing loan portfolio. When making such evaluation, management considers such factors as the repayment status of its loans, the estimated net realizable value of the underlying collateral, borrowers' intent (to the extent known by the Bank) and ability to repay the loan, local economic conditions and the Bank's historical loss ratios. The Bank's allowance for loan losses as of September 30, 2007, was $5,797,691 or 1.21% of net loans receivable. Total loans classified as substandard, doubtful or loss as of September 30, 2007, were $17,424,064 or 3.30% of total assets. Management also considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

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

		9/30/2007	12/31/2006	12/31/2005
Nonperforming loans	$	6,504	2,748	721
Real estate acquired in settlement of loans		753	173	27
Total nonperforming assets	$	7,257	2,921	748
Total nonperforming assets as a percentage of total assets		1.37%	0.56%	0.17%
Allowance for loan losses	$	5,798	5,783	5,400
Allowance for loan losses as a percentage of average net loans		1.21%	1.20%	1.25%

The primary increase in nonperforming assets at September 30, 2007 compared to December 31, 2006 was one large loan secured by commercial real estate that was placed into nonaccrual status in April 2007. Currently, management believes that this one loan is adequately collateralized and reserved for at September 30, 2007.

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Liquidity and Capital Resources

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

The Bank uses its liquidity resources principally to satisfy its ongoing commitments which include funding loan commitments, funding maturing certificates of deposit as well as deposit withdrawals, maintaining liquidity, purchasing investments, and meeting operating expenses. Management believes that anticipated cash flows and deposit growth will be adequate to meet the Bank's liquidity needs.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

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

The Bank constantly monitors its deposits in an effort to decrease their interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements.

Interest Rate Sensitivity Analysis

The following table sets forth as of September 30, 2007 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous and permanent increases and 100, 200 and 300 basis point instantaneous and permanent decreases in market interest rates. Dollar amounts are expressed in thousands.

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+300	$ 45,924	$ 2,994	7%	8.89%	0.72%
+200	45,694	2,764	6%	8.79%	0.62%

+100	44,575	1,645	4%	8.53%	0.36%
NC	42,930	-	-	8.17%	-
-100	41,024	(1,906)	-4%	7.76%	-0.41%
-200	38,432	(4,498)	-10%	7.23%	-0.94%
-300	35,388	(7,542)	-18%	6.61%	-1.55%

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Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

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

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

Impact of New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in generally accepted accounting principles. SFAS No. 157 emphasizes that fair value is a market-based measurement based on an exchange transaction between market participants in which an entity sells an asset or transfers a liability. SFAS No. 157 also establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is to be effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company is evaluating this Statement to determine the impact, if any, on certain of its financial assets and liabilities.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides companies with the option to report selected financial assets and liabilities at fair value. Under the option, any changes in fair value would be included in earnings. This Statement seeks to reduce both complexity in accounting and volatility in earnings caused by differences in the existing accounting rules. Existing accounting principles use different measurement attributes for different assets and liabilities, which can lead to earnings volatility. This Statement helps to mitigate this type of accounting-induced volatility by enabling companies to achieve a more consistent accounting for changes in the fair value of related assets and liabilities without having to apply complex hedge accounting provisions. Under this Statement, entities may measure at fair value financial assets and liabilities selected on a contract-by-contract basis. They would be required to display those values separately from those measured under different attributes on the face of the statement of financial condition. Furthermore, companies must provide additional information that would help investors and other users of financial statements to more easily understand the effect on earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with earlier application permitted if the Company made this election during its first quarter of fiscal year 2007. If the Company adopted SFAS No. 159 early, it must also adopt SFAS No. 157 simultaneously. The Company did not elect to adopt this Statement early and is currently evaluating the provisions of the Statement to determine the impact, if any, on certain of its financial assets and liabilities.

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Item 4. Controls and Procedures

(a) The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2007.

(b) There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. **Legal Proceedings**

None.

Item1A. **Risk Factors**

Not applicable.

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

The following table summarizes the repurchase activity of the Company's common stock during the Company's third quarter ended September 30, 2007.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2007 to July 31, 2007	10,496	29.86	10,496	54,556
August 1, 2007 to August 31, 2007	52,200	29.62	52,200	352,356
September 1, 2007 to September 30, 2007	6,100	30.03	6,100	346,256
Total	68,796	29.69	68,796	

(1) The Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time.

Item 3. **Defaults Upon Senior Securities**

Not applicable.

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

Not applicable.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

10.20 Written Description of 2007 Executive Incentive Compensation Annual Plan - President and Chief Executive Officer

11. Statement re computation of per share earnings (set forth in "Note 4: Earnings Per Share" of the Notes to Condensed Consolidated Financial Statements (unaudited))

31(i).1	Certification of the Principal Executive Officer pursuant to Rule 13a -14(a) of the Exchange Act
31(i).2	Certification of the Principal Financial Officer pursuant to Rule 13a - 14(a) of the Exchange Act
32.1	CEO certification pursuant to 18 U.S.C. Section 1350
32.2	CFO certification pursuant to 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Guaranty Federal Bancshares, Inc.

Signature and Title	**Date**
/s/ Shaun A. Burke Shaun A. Burke President and Chief Executive Officer (Principal Executive Officer and Duly Authorized Officer)	November 14, 2007
/s/ Carter Peters Carter Peters Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 14, 2007